

*IR in medium-sized firms: Is it possible to break the ice?
An empirical investigation*

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Purpose – This work addresses the issue of IR (Integrated Reporting) implementation and diffusion within small and medium-sized enterprises (SMEs) and investigates why and how SMEs can perform the journey towards integrated reporting.

Design/methodology/approach – An empirical research has been performed based on a case study relative to an Italian mid-sized enterprise that was part of the pivotal companies included among a working group aimed to producing a guidance designed at helping SMEs to implement an integrated report.

Findings – Findings point out the positive impact and the importance of some enabling conditions such as: the direct involvement of the top management and entrepreneurial team, the involvement of external consultants in the IR process, and the adoption of a ‘step by step’ approach whose roadmap is spanned throughout several years.

Originality/Value – Among the emerging literature focused on IR, both theoretical arguments and empirical research are almost entirely absent concerning SMEs. In order to enrich a still under-investigated topic, this work attempts to provide insights and discuss the reasons that can lead an SME to adopt IR and the possible way to reach this goal.

Practical Implications – The work contributes to enrich both the managerial debate on both the benefits and critical issues relative to the diffusion of IR among SMEs, in a research stream that is currently underestimated.

Keywords – Medium-sized enterprises, Integrated reporting, Integrated report, Case-study ntegrated Reporting; Intellectual Capital; Stakeholder Engagement; Performative Approach; Case Studies Method.

Paper type – Extended Abstract.

1. *SMEs and Integrated Reporting*

Despite acknowledging the SMEs' relevance within the socio-economic context worldwide (Dobbs & Hamilton, 2007; Eurostat, 2015) studies on implementations of Integrated Reporting (IIRC, 2013) in this context are rare (James, 2013a; James, 2013b; Del Baldo, 2015; Del Baldo, 2017b; Camodeca & Almici, 2017). Conversely, a growing number of contributions have been addressing large organisations (Adams & Simnett, 2011; Wild & Van Staden, 2013; Lai *et al.*, 2013; De Villiers *et al.*, 2014; Van Bommel, 2014; Tweedie & Martinov-Bennie, 2015; Setia *et al.*, 2015; Dumay *et al.*, 2015; Ruiz-Lozano & Tirado-Valencia, 2016; Vaz *et al.*, 2016; Velte & Stawinoga, 2016; Ruiz-Lozano & Tirado-Valencia, 2016; Macias & Farfan-Lievano, 2017; Lai *et al.*, 2017; Silvestri *et al.*, 2017; Demartini & Trucco 2017; Cerbone & Maroun, 2017). Among prior research a structured review analysis revealed that of 56 published papers on IR none addressed private-SMEs (Dumay *et al.*, 2016). Therefore, the motivations at the base of IR implementation and/or non implementation in SMEs – the choice being voluntary rather than mandatory – are still unknown. Moreover, it should be pointed out that this practice is still uncommon worldwide, but especially in Italy, where there are a few listed large companies subjected to the EU Directive 2014/95 on Communication of non-financial information (assimilated by the Italian Legislative Decree 254/2016), while the majority of large companies and especially SMEs did not decided to voluntary face the challenges that the integrated report implies.

Only recently the relevance of IR for SMEs has been recognized by practitioners at an international (CIMA, 2015) and national level (ODCEC Milan, 2016). Similarly, policymakers (e.g. the World SMEs Forum) have provided first recommendations to assist SMEs in overcoming hurdles in the IR process. The GRI and the IFAC SMP Committee started to implement a guidance on Integrated Reporting for Small and Medium Entities in November 2015, aimed at disseminating the knowledge of IR in the context of SMEs. More recently, the *Integrated Reporting Implementation Guideline* for SMEs drafted by the Italian Network Business Reporting is currently under the IIRC technical approval process, before being released (NIBR, 2018 forthcoming).

Drawing from these premises the work addresses the issue of IR implementation and diffusion within SMEs. In order to contribute at nurturing a still under-investigated topic, it attempts to provide insights and discuss the reasons that can lead an SME to adopt IR and the possible way to reach this goal. Accordingly, an empirical research has been performed to answer the following research questions: Why did the company move

to IR? How did it perform the IR journey? Which were the main steps towards the integrated report?

2. Methodological Approach

After having introduced the theoretical background, the paper presents and discuss a case study that has been chosen being a best practice within the Italian context (Eccles & Krzus, 2015) and investigates why and how the selected company decided to perform the journey towards integrated reporting, moving from the corporate social responsibility and sustainability report to the integrated report, as well as the main steps and the current state of the integrated reporting process.

The case study (Scapens, 1990; Eisenhardt & Graebner, 2007; Yin, 2014) addressed the experience of Dellas s.p.a, a medium-sized Italian enterprise that is part of the pivotal companies included among the NIBR working group aimed at releasing a guidance capable of helping small and mid-sized entities to adopt an integrated report. The analytical approach based on narrative analysis and qualitative data collection draws on an interpretivist approach (Crane, 1999; Currie *et al.*, 2009; Brown & Dillard, 2014) which is considered appropriate for studying evolving organisational (Higgins *et al.*, 2014) and new reporting practices as per the objective of this explorative research (Stubb & Higgins, 2014; Doni & Gasperini, 2014; Havlováa, 2015; Dumay & Dai, 2016; Camodeca & Almici, 2017). This approach was used searching for an explanation of at least three issues: the reasons for Dellas' move to integrated reporting; the main steps of this transition; the current state of progress. Accordingly, the analysis benefited from in-depth semi-structured interviews addressed to company's interlocutors. In addition data have been supplemented by information derived from informal discussions with the NIBR members (scholars, entrepreneurs, managers, IIRC representatives, chartered accountants, consultants agencies, banks) performed during focus groups, workshops and round tables, as well as by the documental analysis of Dellas reports (Dellas 2016 & 2017; Pasquotti, 2017).

3. Findings

The motivations for starting the IR journey are tied to both internal and external factors. Among the former are the family owners' set of values

that forged the company's cultures since its foundation. It emerges from the case that the willingness of the top (the entrepreneurial and managerial team) was (and is) of fundamental importance to trigger the shift from financial to non-financial reporting. This willingness rests on the top's awareness of the centrality of a set of values (such as responsibility, honesty and transparency) and the understanding of the benefits of IR. Among the latter are external competitive pressure, the need to disclose the intangible assets and better disclose the company's tangible and intangible value (Zambon & Guenther, 2011).

Findings point out the positive impact and the importance of some enabling conditions such as: the direct involvement of the top management and entrepreneurial team (and the key-role played by the CFO who served as a team leader), the involvement of external consultants in the IR process (Greenwood *et al.*, 2002), and the adoption of a 'step by step' approach whose roadmap is spanned throughout several years (Del Baldo, 2017a). Secondly, we acknowledged that the implementation of IR required three fundamental aspects: 1) the 're-definition' and critical revision and assessment of the business model and strategies; 2) the need to create a team that involves the main business functions and 3) the need to set the targets, time and costs for the IR implementation. However, many barriers emerged during the IR journey, due to the difficulties relative to the 'high level of technicalities' of the IR framework (Flower, 2015; Ruiz-Lozano & Tirado-Valencia, 2016; Dumay *et al.*, 2017) that should be necessarily simplified with regard to SMEs (Del Baldo & Girella, 2017). Moreover, the importance of participating in the NIBR working group emerges. These considerations allow us to answer the first research question (RQ1), related to the why of IR. IR is perceived as the bearer of internal and external benefits and the tool that allows Dellas to give the proper visibility to its value creation process and its high level of intangibles.

In reply to second research question (RQ2) – the how of IR implementation – we can argue that IR represents a possible goal for an SME, if conceived as a process to perform in a medium to long-time perspective, in accordance with the complex of contextual variables (Perego *et al.*, 2016) and communication strategy used to disclose the value of the company. In Dellas' experience the IR represents both an evolution of the annual report and the sustainability report and allows to overcome their respective limitations (Eccles & Saltzman, 2011; Jensen & Berg, 2012; Fasan, 2013; Higgins *et al.*, 2014; Silvestri *et al.*, 2017). Moreover, findings highlight that scholars and practitioners, in accordance with managers and entrepreneurs, should work together to ameliorate the IR framework and render it

more suitable for SMEs, as in Dellas' current experience.

4. Conclusion

Drawing from the empirical analysis we first acknowledged that among the leading motivations to start the IR process in SMEs is the will to reinforce stakeholders relationships (particularly with customers, employees and local community) and illustrate the companies' capacity to increase its value in the long-term on the basis of its core-values and monitor non-financial key-value drivers.

Secondly, a relevant challenge in the initial phase of IR implementation is tied to the difficulty in understand and consequently apply the IR Framework (Dumay *et al.*, 2017). To face the lack of an '*ad hoc language*' for SMEs the importance of participating to multi-stakeholders forums emerges, because IR represents a complex and challenging choice. Therefore, findings provide the basis for suggesting that to be effective the 'journey' should be prepared, managed and explained through different steps, which are necessary to drive the evolution of the entrepreneurial and organisational culture of a medium-sized company towards IR. As such, despite the limitations of the empirical analysis, the work contributes to enrich the scientific debate on the diffusion of IR among SMEs, in a research field that has not been adequately investigated and is currently underestimated. Moreover, it helps in supporting the diffusion of the IR framework among SMEs, practitioners and consultants by emphasizing the opportunities deriving from the implementation of the IR process, as well as the criticalities to face in adapting the IR framework to the SMEs' specificities. Therefore, the reflections that have emerged are intended to suggest a contingent-based approach for the improvement of IR in SMEs, considering specific factors affecting medium-sized companies and their stakeholders' expectations and needs.

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