



MODULE 3

CONTENT ELEMENTS OF IR FOR SMEs

Part 3



Organizational Overview & External Environment

This section shall answer the following question: ***What does the organization do and what are the circumstances under which it operates?***

AGENDA

Organizational Overview & External Environment

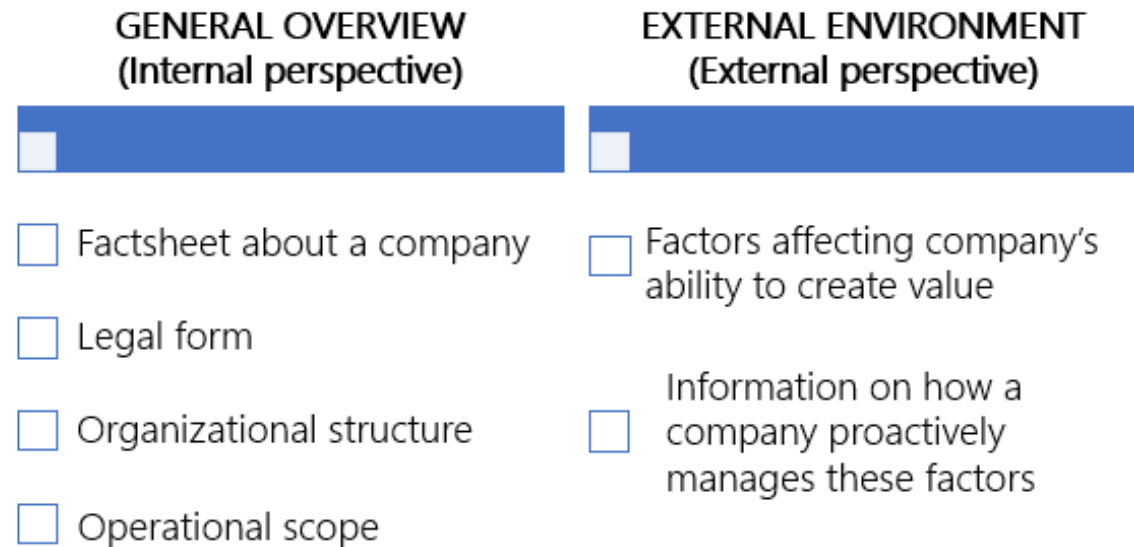
1. What are the elements of organizational overview & external environment section?
2. General overview content in detail
3. How to use PESTEL analysis to describe external environment?
4. External operating context in practice
5. Test questions



1. What are the elements of organizational overview & external environment section?

An integrated report should provide an essential context of business activity to better reflect organization's purpose, mission and vision. SME may:

- present a **general overview** about its activity
- describe its **external environment**.

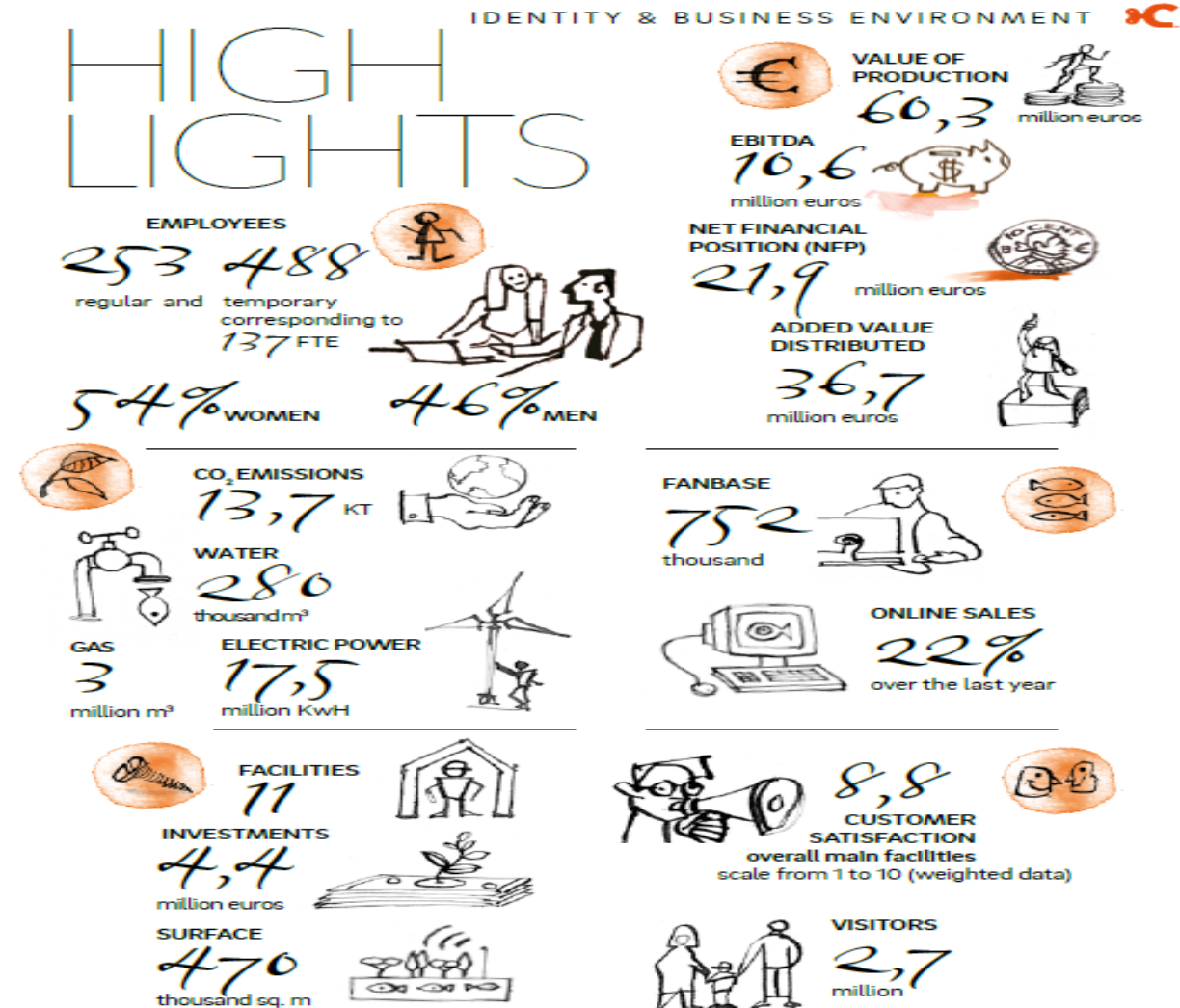


2. General overview content in details

General overview may also cover the following aspects:

- Culture, ethics and values
- Vision and mission
- Ownership
- Principal activities and markets
- Competitive landscape and market positioning
- Position within the value chain.
- Key quantitative information
 - ✓ number of employees,
 - ✓ revenues from sales
 - ✓ countries of operations

Example



2. General overview content in details

General overview may also cover the following aspects:

- Culture, ethics and values
- Vision and mission
- Ownership
- Principal activities and markets
- Competitive landscape and market positioning
- Position within the value chain.
- Key quantitative information
 - ✓ number of employees,
 - ✓ revenues from sales
 - ✓ countries of operations

Example

IDENTITÀ E CONTESTO OPERATIVO 

MISSION

The corporate history of Costa Edutainment twines its roots with the entrepreneurial roots of the Costa family: a value system that has characterized over the time a recognizable and long-lasting way of doing business.

LET'S ENJOY
LEARNING

Costa Edutainment aims to meet the increasing demand of a qualitative use of the spare time, by combining culture, science, education, performance, emotion and amusement in unique and significant experiences.

Costa Edutainment is leader in Italy in managing public and private facilities for recreational, cultural, educational, study and scientific research activities. The leadership of the company finds its roots in the original entrepreneurial spirit tied to the name of the Costa family, which was born in the oil sector and moved into the cruise tourism, establishing itself as one of the most important and quality brands in Italy and in the world and acquiring over the years a transversal know-how in various sectors.

Costa Edutainment is frequently used as an example of a good practice of IR in SMEs.

The picture provides a clear landscape of the main key quantitative information of the organization through a

Costa Edutainment presents its mission in relation with the Costa family values, the owners of the company. The company focuses on the increasing need of people for spare time quality. The unique significant experience is provided by the combination of culture, science, education and emotions.

3. How to use PESTEL analysis to describe external environment?

A company can use the PESTEL model to make an overview of varied macro-environmental factors that affect its business.

P	E	S	T	E	L
<ul style="list-style-type: none">- Government policy- Political stability- Corruption- Foreign trade policy- Tax policy- Labour law- Trade restrictions	<ul style="list-style-type: none">- Economic growth- Exchange rates- Interest rates- Inflation rates- Disposable income- Unemployment rates	<ul style="list-style-type: none">- Population growth rate- Age distribution- Career attitudes- Safety emphasis- Health consciousness- Lifestyle attitudes- Cultural barriers	<ul style="list-style-type: none">- Technology incentives- Level of innovation- Automation- R&D activity- Technological change- Technological awareness	<ul style="list-style-type: none">- Weather- Climate- Environmental policies- Climate change- Pressures from NGO's	<ul style="list-style-type: none">- Discrimination laws- Antitrust laws- Employment laws- Consumer protection laws- Copyright and patent laws- Health and safety laws

Please connect various letters with the descriptions.

P – Political factors are related to how and to what extent a government interferes company's activity

E – Economic factors may have a significant effect on how businesses operate and make decisions.

S – Social factors may affect the demand for a company's goods and how the company operates.

T – Technological factors can determine barriers to entry, influence outsourcing decisions, lead to innovation.

E – Environmental factors are the conditions such as climate change, environmental policies that may affect how companies operate and what products they offer.

L – Legal factors include laws pertaining to employment, health and safety etc., and they may influence the brand value and reputation of a company.

4. External operating context in practice

The Operational Context

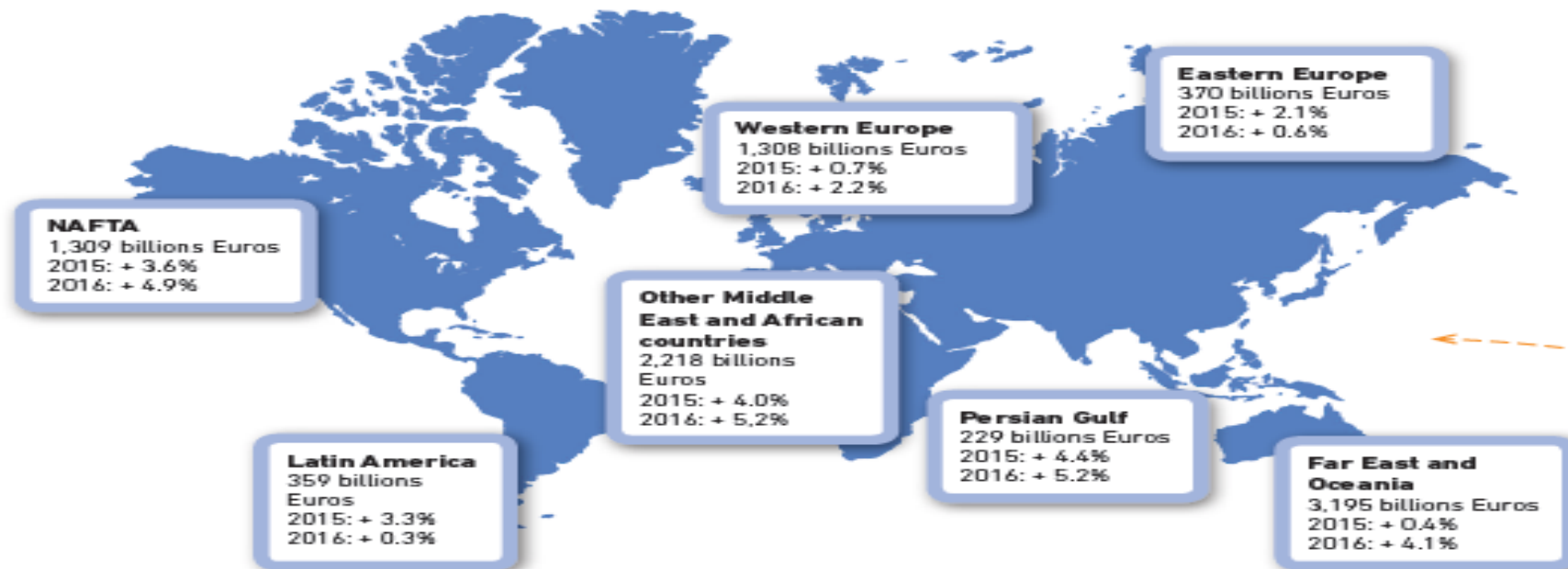
Markets - The market of the solutions and the systems for the handling of roller blinds is strictly connected with the development of the constructions market.

According to the Centre of Economic and Social Research of the Market of Constructions (CRESME), the context where the sector at present operates is characterized by an economic uncertain scenery, a slow growth and constant volatility. In these last years, a high leap in the scale of the amount of fix capital has occurred in the world. It has had its epicentre in the fast developing geographical areas. In the last ye-

ars, 57% of the investments of the sector has been located in the emerging economies or economies in development. If Europe in the last years has shown signals of relaunch in respect to a problematic situation, derived by the international crisis, Italy at present is still a weak link in the economy connected with the constructions sector, as it counts almost 90 thousand organizations less than at the beginning of the crisis.

In the following Figure, the trends of the market of new constructions are illustrated in the different geographical contexts.

Value of the investments in the year 2015 and variations in respect to the previous year



Founded in 1960 in Faenza, Stafer produces and markets systems, solutions and accessories for the movement of roller shutters and awnings. More specifically, its operations revolve around the production of all the components and tools that allow the support, opening and closing of roller shutters, both with manual and automated modes, up to fully automatic mechanisms for some systems. Located within the Emilia-Romagna industrial district of mechanics, this B2B company, despite being an SME with about sixty employees, operates both on domestic and international markets, selling its products through a diversified network of international distributors.

The information presented in the slide are included in the 2016 Integrated Report.

5. Test questions



Q1. What is the main purpose of the Organizational Overview and External Environment Content?

- A. Explaining how the organization operates and what external factors affect business
- B. Providing information about future external activities
- C. Presenting the organization's approach to sustainability development
- D. None of the above.



The main purpose of the Organizational Overview and External Environment Content is to demonstrate to stakeholders in which sector and in which circumstances does the organization works.

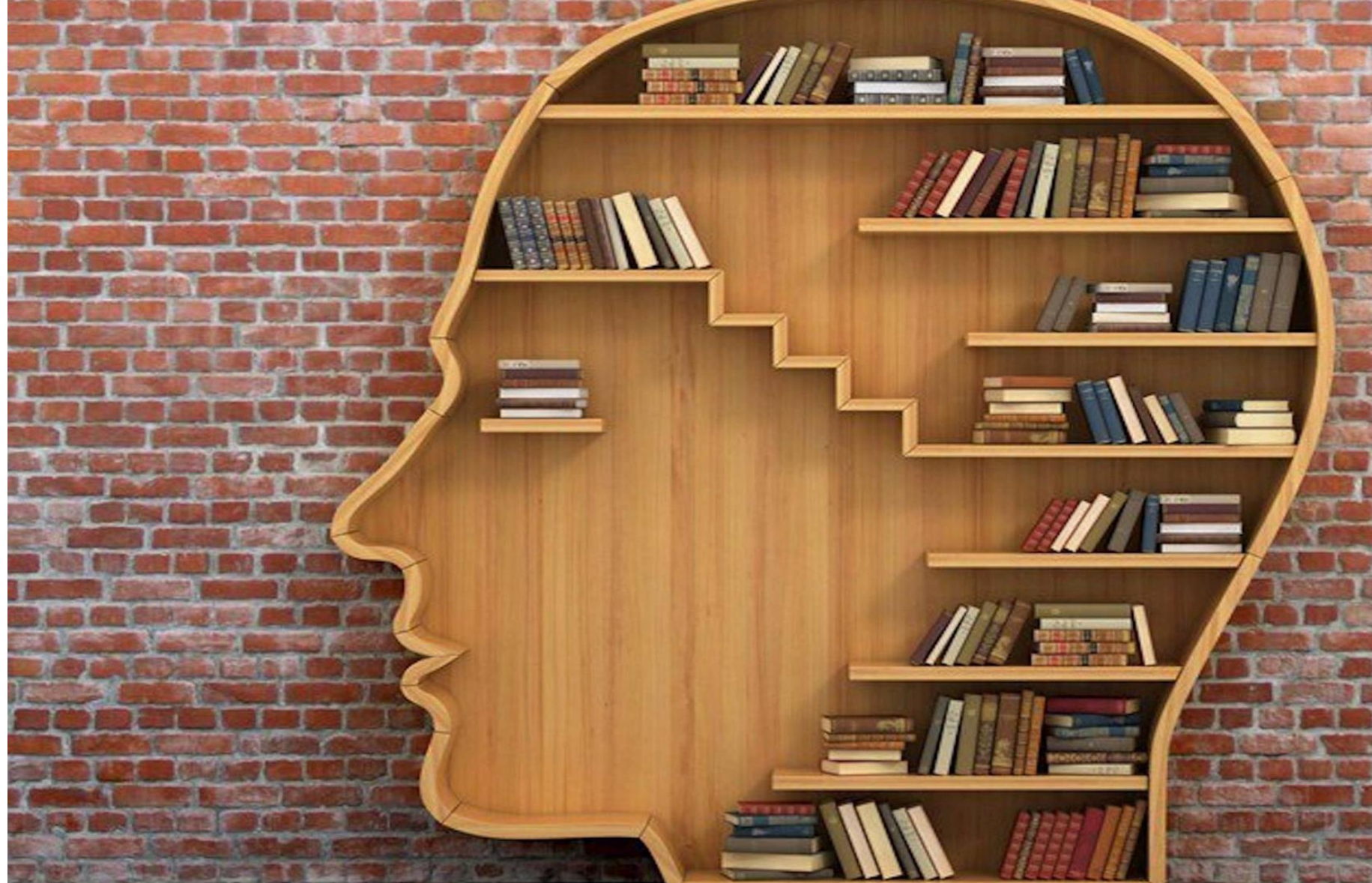
Glossary

External environment – It is a specific section in an integrated report dedicated to describing the legal, commercial, social, environmental and political factors embedded in the external environment that may affect the organization's ability to create value in the short, medium or long term.

General overview – It is a specific section in an integrated report that describes the most important facts about a company, including its mission, vision, values, ownership structure, principal activities and markets, position in the value chain etc.

PESTEL analysis - is a framework that helps organizations to analyze the impact of 'external' factors on their resources, capabilities, and core competencies.

REFERENCES



1. IIRC (2021), International <IR> Framework, available at: <https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf> (accessed on 25 July 2021)
2. Costa Edutainment, Integrated report, <https://www.costaedutainment.it/wp-content/uploads/2020/04/COSTA-EDUTAINMENT-Report-2019-ENG.pdf> (Accessed on 30 November 2021)
3. Stafer, Integrated Report, <http://examples.integratedreporting.org/organisation/430>(Accessed on 30 November 2021)