

BRUNEL HIVE REVIEW

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12th July, Tavistock Square

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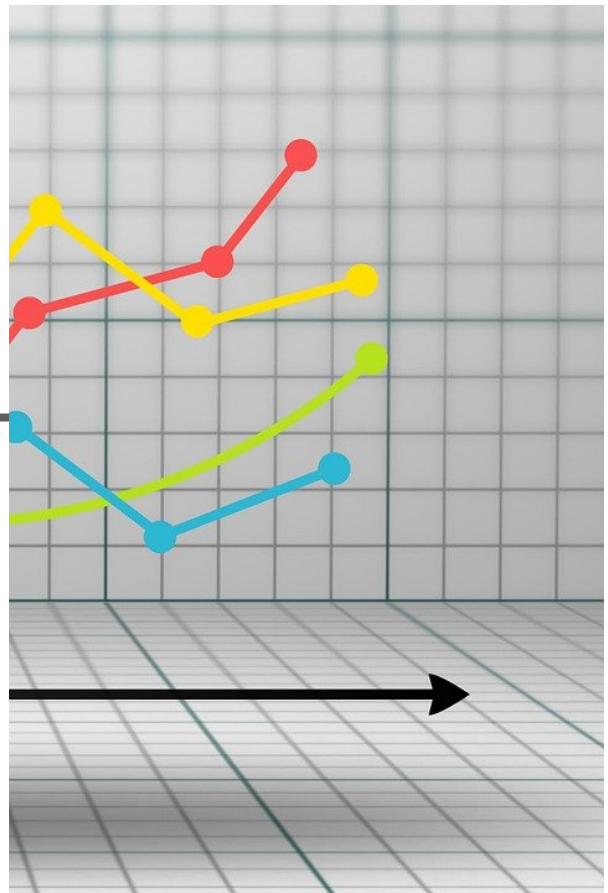
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CONTRIBUTORS



Robin Jarvis

Robin Jarvis has been Professor of Accounting at Brunel since January 2010 and Special Adviser to the European Federation of Accountants and Auditors. Robin is also a member of and past chair (2004 -2009) of the EU Financial Services User Group (An expert forum set up by the European Commission to improve policy making in the field of financial services from a user perspective (consumer and small business)).

Very Social Enterprise



Riccardo Nucci

Riccardo is lecturer in Entrepreneurship at Brunel Business School. He holds a PhD in Management from the University of Bath School of Management. His research focuses on Entrepreneurship and entrepreneurial learning occurring in business failures and by observation. He engages practitioners and nascent entrepreneurs providing mentoring and support to navigate through the journey of business start-up.

Micro Businesses





INTERNATIONAL SUSTAINABILITY STANDARDS BOARD

Created on November 2021, the International Sustainability Standards Board (ISSB) aims to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

INTERVIEW WITH

**Professor
Robin Jarvis**

Is the creation of the International Sustainability Standards Board (ISSB) an important development in the disclosure of climate change issues by companies?

From an investor prospective there is much evidence (e.g. PWC global survey of investors and the PRI) that reducing greenhouse gas emissions is the top ESG priority for businesses. It is worth noting however, this was before the war in Ukraine and the surge in the increase of energy prices.

It is also worthy of note the references to “investors” and “global” which I will discuss later.

The International Financial Reporting Standards (IFRS) Foundations announced the setting up of the International Sustainability Standards Board

(ISSB), at the COP26. The intention that the ISSB will sit along side the IFRS Board. The ISSB's focus seems to be on investors and their risks from climate change issues and therefore the need to disclose these risks.

It is clearly very important that climate change issues are addressed from a "global" perspective. The fragmentation of these standard set up by various jurisdictions would clearly be confusing and inappropriate in a global economy with trading across borders and stock exchanges in various jurisdictions with differing rules etc.

The International Financial Reporting Standards (IFRS) Foundation will create a new board to oversee the implementation of these standards in June 2022. However, it is important to recognise that the IFRS Foundation has already set up a Technical Readiness Working Group that has undertaken preparatory work for the ISSB.

What are the main challenges for the ISSB?

It is true that the IFRS Foundation have over the years a lot of experience in administering standard setting, that is, International Accounting Standards.

However, standards developed to address climate change issues require much wider knowledge and expertise than that for accounting standards. The question is: will the ISSB call on people and institutions who have an important but differing perspective with regard to climate change issues? For example, people representing civil society. Civil society can be understood as the "third sector" of society, distinct from government and business, and including the family and the private sphere of society.

This focus on investors and financial risk is arguably not



wide enough to capture other stake holder's concerns.

Another issue is the significant role accountants will play in the process of reporting climate change issues in respect of companies. Karthik Ramanna, Professor of business and public policy at Oxford University questions the attributes and capabilities of accountants with regard to climate change and the need to address this issue and other ESG issues. As he comments: "accountants and standard setters got in on the act. But accounting has become more serious which means incorporating the features of high quality accounting rules."

The main sustainability disclosure issues will be in the form of Narrative reporting: A significant challenge is the perceived and actual lack of consistency between company's management (narrative) reporting on what a company is doing about climate change including targets, the assumptions and estimates disclosed.

- o In certain industries there will be a need to retire and replace carbon-intensive assets on an accelerated basis. Climate change is likely to impact disclosure with regard to recognition and derecognition of assets and liabilities and the measurement of such assets and liabilities e.g. estimates about the assets useful lives

and residual values are likely to need adjusting. In some cases, this adjustment will be dramatic affecting the company's income and value. Note "estimates" are judgements!

- o Academics have been very critical of the process to date of the approach to standard setting for sustainability. The Professors of Accounting which include editors of the leading publishing research in this field accuse standard setters of a "lack of adequate evidence based justification for their conclusions and a number of the findings from academic research refute assertions in the IFRS Foundations Consultative Paper.". They are concerned at the lack of formal engagements with academics in developing these standards

- o The energy crisis: Some would argue the focus on climate change has been diluted in a number of industries because of the concern on energy prices.

- o It is widely recognised that it will take time to develop these standards ...and this delay may be critical in the timely reduction carbon emissions to meet global targets.

The Europe Union appears to be well advanced more than any other jurisdiction in the development of regulation on

companies regarding climate change issues in the process of financial reporting. What issues have they addressed?

The evidence seems to suggest that the EU is more advance than other jurisdictions in the process of regulating companies in relation to climate change issues.

The EU focus recognises the importance on climate change issues not with emphasis on investors but for EU citizens.

In terms of benefits of introducing new rules on climate change high on the agenda is "Healthier environment for present and future generations and more transparency enabling informed choice."

With reference to EU/EC actions:

On 23 February 2022 the EC adopted a proposal for a Directive on corporate sustainability due diligence. The aim of the Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance.

EU has set up a new EFRAG sustainability reporting body responsible for developing draft standards to be

published in mid October 2022.

The EU will inevitably adopt the standards set by the ISSB but will, I suspect, will go through the scrutiny of EFRAG before being endorsed by the EU similarly to the procedure for IFRS in the EU.

What is happening in the UK?

The Financial Reporting Council are primarily responsible for overseeing Companies Reporting and Assurance on climate change in the UK.

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The TCFD has set out recommendations for disclosure.

FCA have Listing Rules and under these rules UK incorporated and overseas commercial companies with a premium listing are required to state in their annual financial report whether they have made disclosures consistent with the recommendations of the Taskforce on Climate related Financial Disclosure (TCFD) or explain if they have not done so.

These disclosures will be mandatory across the UK economy by 2025, with listed



companies expected to be required to disclose for years beginning on/after 1 January 2021

The TCFD focuses on investors with little mention of other stakeholders

Inevitably the UK will endorse ISSB standards when they are introduced

How effective will be the assurance (Audit) process to ensure companies do not exaggerate or misrepresent the benefits of their activities from an environmental perspective (Commonly referred to as green washing?)

The process of assurance (auditing) on company disclosures on climate change issues is probably the most worrying aspect of company disclosures and ensuring that companies do not misrepresent the benefits of their activities (greenwashing).

Primarily the problem is the auditing of narrative disclosures which are problematic vis-à-vis the audit of quantitative information. Also, much of the disclosures will be anticipating and setting targets for the future e.g. target emission levels.

The International Auditing and Assurance Board will be responsible globally for developing standards for

auditing climate related issues disclosed by companies.

However, there seems to be a consensus that creating these standards will take time.

One also questions have they have the right personnel on the Board to produce meaningful workable standards

But the audit of climate change issues and particularly carbon emission is going to be big business to the large audit firms. EY, for example, plan to spend £100 million and recruit 1,300 staff over the next three years in Britain to meet the growing demand from companies cutting their carbon emissions.

There is of course much criticism of the current standards of auditing and what is perceived in the future.

Sir John Kingman's report (2018) refers to the audit not being fit for purpose and calls for an end of the FRC as the audit regulator.

Natasha Landell-Mills head of stewardship at Sarasin and Partners said that "You will get sustainability reports that are now being audited but they're being audited to a very low standard."

Michael Urban, deputy head of sustainability research at Lombard Odier, said even with

better rules the complexity of sustainability data would still make auditing tough.

The focus of setting standards for companies and the subsequent disclose by companies on climate change issues will be on listed companies. However, these companies represent, in economic metrics, less than half of the enterprises in the UK. What are the arguments for and against extending these standards to non-listed companies particularly those defined as SMEs?

At present in most jurisdictions SMEs are not required to report as they are not included in the scope of the appropriate regulation. They can however, disclose voluntarily. There are various frameworks for reporting that SMEs may follow e.g. Global Reporting Initiative (GRI)

Similarly, there is no requirement for assurance on these voluntary reports.

However, SMEs may be required to produce sustainability information to satisfy the reporting obligations of providers of finance and to large customers in their value chain.

In terms of the future there is much opposition for SMEs to report climate change issues due to costs. However, it is clear that SMEs could be a



significant source of carbon emissions!

What are the issues associated with Supply Chains and reporting on climate change issues by companies?

Supply chains present probably the biggest problems for controlling carbon emissions and other climate related issues.

The UN Global Compact participants rank supply chain practices as the biggest challenges to improving their performance.

Environmental impact: The supply chain accounts for more than 90% of most consumer goods companies' environmental impact, according to McKinsey & Company.

Clearly, the regulators must intervene in this market situation to address the complex issue of sustainability and supply chains. ■



(VERY) SMALL BUSINESSES

Recent data published by the Government show that the vast majority of companies in the UK are one-man-bands. The phenomenon is growing rapidly as many professionals choose to start businesses without wanting to hire employees. While solopreneurs are often seen as entrepreneurs, there are key differences between the two categories.

Riccardo Nucci

According to recent data published by the Department for Business, Energy & Industrial Strategy, about 6 million businesses operate in the UK. Specifically, 5.9 million businesses employ less than 50 people. If we break the figures down further, we will find that out of the 5.9 million, more than 4.5 million are companies employing only one person: the founder.

The persons are colloquially known as solopreneurs: entrepreneurs who run their businesses alone. While larger

organisations and multinationals are generally acknowledged for employing people and creating wealth, also micro businesses contribute to economies.

The term is generally used as synonym for the word “entrepreneur”. Yet, there are distinct differences. Also, as an increasing number of professionals choose to start a business without plans to add new staff, the term will likely become more popular.

Growth ambitions. Many, but not all, entrepreneurs build their businesses with at least a small hope that a much larger company, like Google, will come along and offer millions of dollars for it once it grows.

At that point, he could easily move on to the next great venture. Differently, solopreneurs tend to work at one thing consistently focusing on their initial and sole business.

Social networks. Entrepreneurs are about building their network and promoting their businesses to investors and customers. In turns, solopreneurs tend to focus more on getting their works done.

Delegation. Many entrepreneurs wait for the day they can build a team thereby taking more managerial roles. They are comfortable in leading people to reach their vision and may also start working with freelance

workers and virtual assistants leaving the team behind doing the work. On the other hand, solopreneurs tend not have any intention of hiring additional staff. Even if a new person joins the business, it may be hard for the solopreneur to let go of tasks.

In essence, while we know by research that entrepreneurs work harder and longer hours compared to employees, a solopreneur is a worker by his very nature. Entrepreneurs are focused on growth have no difficulty in delegating, even if they have to find alternative strategies to bring additional workers on. In turns, when work needs to be done, solopreneurs roll up their sleeves and start working. For this reason, this new generation of freelance workers and sole proprietors have emerged, with professionals content to run a one-man shop with no intention of bringing another person on. ■

Sources: Department for Business, Energy & Industrial Strategy: [Business Population Estimates for the UK](#). Belt et al. (2015) "One Person Enterprise and Business Growth.





Centre for Artificial Intelligence

AI Futures Symposium

12th July 2022 10am – 4pm
Woburn House, Tavistock Square,
London, WC1H 9HQ



A formidable line up of AI leaders will share their knowledge and first-hand experiences of transforming private, public and third sector organisations through AI.

Confirmed speakers include:

- **Lord Tim Clement-Jones**, co-Chair, All Party Parliamentary Group on AI will deliver the keynote speech
- **Chi Onwurah**, Shadow Minister for Science, Research & Innovation
- **Professor Andrew Jones**, Vice-Chancellor and President, Brunel University London
- **Caroline Gorski**, Group Director - R2 Data Labs, Rolls Royce plc
- **Professor Ashley Braganza**, Deputy Dean and co-Director Centre for AI, Brunel University London
- **Kayvan Zadeh**, Global Director Product Management - Services Solutions, Tetra Pak Ltd
- **Amy Peters**, Senior Manager, Government Affairs and Policy, Johnson & Johnson
- **Ed Cannon**, Principal Data Scientist at Expedia Group
- **Hanane Boujemi**, Tech Policy Expert
- **Yates Buckley**, Technical Partner, Unit 9

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<http://tiny.cc/028quz>

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What are the core themes?

AI Policies, Strategies and Practices. The speakers will cover identifying and exploiting the benefits of AI, developing implementable AI strategies, funding and budgeting decisions, regulations and risk management policies and other challenges boardrooms must address. You will hear about practical, evidence-based applications of AI at scale.

Why attend?

- AI is transforming entire industries and will affect your organisation... find out what you can do!
- Adapt AI tools and technologies to fit your organisation's context.
- Understand the cultural and structural issues that AI initiatives create.
- Network with peers from industry, academia and policy makers.
- Learn how to design AI initiatives that are people, ethics, environment and society friendly.
- Develop an action plan for your own organisation.

BOOK ONLINE

<http://tiny.cc/028quz>



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Brunel Hive is the growth and engagement platform at Brunel Business School. Our mission is to engineer the accelerated growth of West London businesses, and indeed businesses across London. As part of this mission, we facilitate the internationalisation of London's businesses in rapidly emerging economies across Asia, Africa, and the Middle East. Brunel is a university for a changing world.

With Engaged Scholarship at the core of our long-term strategy, our key objective is to be a leader in knowledge exchange in London. Brunel Hive has had an exciting year, and we look forward to working with both small and large businesses to explore new markets, technologies and opportunities globally. Engage with us. A world of opportunity awaits.



BRUNEL HIVE REVIEW

We make practical contributions on various business-related topics.

We welcome research shorts, case studies, interviews, information and opinion pieces.

Would you like your work and experience to be featured in the Review? Please submit your contribution at:

Brunel Hive Review is the main communication channel of Brunel Hive. We aim to connect Brunel academic expertise with local and international businesses.

Our mission is to become a leading forum for university-industry-society discussion, addressing critical policy, strategic and operational issues. The Brunel Hive Review features in-depth interviews with leading global entrepreneurs, business leaders, academic experts, and policy-makers. The Review makes strong, practical contributions to ongoing debates and approaches in knowledge exchange, executive learning, student entrepreneurship and business practice and research.

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