

The Term “Business Model” in Financial Reporting: Does It Need a Proper Definition?*

Marco Sorrentino¹, Margherita Smarra²

¹Department of Law and Economic Sciences, Pegaso Telematic University, Naples, Italy

²Department of Economics, Management and Institutions, University of Naples Federico II, Naples, Italy

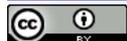
Email: marco.sorrentino@unipegaso.it, margherita.smarra@unina.it

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Abstract

In the last five years, the vocabulary of financial reporting has been enriched by a new specific term: “business model”. However, as the expression is rather equivocal, it is not still possible to find an unanimously shared meaning of the term in the literature. Because of the relatively recent application of the term “business model” in financial reporting, the investigation of its proper meaning is still an uninflated topic of research. Specific purpose of this paper is trying to contribute in finding a proper definition of this term when used in financial reporting (if any). In this sense, after having reviewed the main literature on “business model” definition we have analyzed the parts of the comment letters on the IASB’s Discussion Paper 2013/1—titled “Review of the Conceptual Framework for Financial Reporting”—which deal with “business model” definition. In particular, the questions whose answers have been specifically investigated are the following: 1) Should the IASB define “business model”? Why or why not? 2) If you think that “business model” should be defined, how would you define it? However, considering the contrasting definitions found both in the literature and in the comment letters, it is not still possible to get a widely accepted meaning of the term “business model” in financial reporting. For these reasons, at this stage of research, the authors completely agree with the thought of Singleton-Green that asserts, “Defining or agreeing a definition of the term “business model” will not advance our understanding of the financial reporting issues”.

Keywords

Business Model, Financial Reporting, IASB

*Although this study is the joint result of the discussion among the authors, Sections 1, 2 and 4 have been developed by Marco Sorrentino and Section 3 has been developed by Margherita Smarra.

1. Introduction

In the last five years, the vocabulary of financial reporting has been enriched by a new specific term: “business model”. Starting in 2009, different authoritative organizations have explicitly referred to this term as a part of financial reporting regulation [1].

On 12 November 2009, the IASB¹ officially employs for the first time the term “business model” in its own accounting standard (IFRS 9) and states that: “(...) an entity shall classify financial assets as subsequently measured at either amortised cost or fair value on the basis of both: a) The entity’s business model for managing the financial assets and b) The contractual cash flow characteristics of the financial asset” [2].

One year later, the Financial Reporting Council [3]² issued a new version of the UK Governance Code in which the directors are required to “include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the *business model*)”.

In the last 2010, IASB published amendments to IAS 12 and spoke again of “business model”: “This presumption is rebutted if the investment property is depreciable and is held within a *business model* whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale” [4].

In November 2011, the Australian Securities & Investments Commission³, in its Regulatory Guide 228, requires companies to draw up a prospectus in which explaining: “(...) the main components of the issuer’s *business model* and how they relate to each other, the key assumptions underlying the model and the associated risks” [5].

Regardless of the different ways to use the concept of “business model” by the different organizations above, one thing is sure: nowadays the term “business model” is still an undefined term in financial reporting [6].

As a consequence of it, in 2013 the International Accounting Standards Board (IASB) issued a Discussion Paper on “Review of the Conceptual Framework for Financial Reporting”, in which there are, inter alia, specific questions about the meaning of the term “business model” [7].

On this regards, specific purpose of this paper is trying to contribute in finding a proper definition of the term “business model” in financial reporting (if any). In this sense, Section 2 presents a literature review that highlights the disparate views on the definition and scope of the term “business model” according to management and accounting doctrine. Section 3 critically analyzes the parts of the comment letters on the IASB’s Discussion Paper 2013/1 that deal with “business model” definition. Section 4 sets out conclusions and suggests possible areas for further research.

2. Literature Review

The term “business model” is one of the most investigated concepts in the strategy and organizational theory literature [8]-[10]. Since the mid-1990s, the widespread use of the term has dramatically increased as a direct consequence of three different factors, namely: 1) the advent of the Internet [11] [12]; 2) rapid growth in emerging markets [13]-[15] and 3) the expanding industries and organizations dependent on postindustrial technologies [16].

However, as the expression is rather equivocal, it is not still possible to find an unanimously shared meaning of the term in the literature. Since 1957, when the term “business model” appeared for the first time in an academic paper⁴, numerous and different definitions have been provided by the prevalent managerial literature. The following list summarizes some of the most effective ones, in a chronological order:

- ✓ According to [17] the business model is “an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues”;
- ✓ Reference [11] more generically states that the business model represents “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” and then [10] conceptualizes a firm’s business model as a “system of interdependent activities that transcends the

¹Nowadays, the International Accounting Standards Board (IASB) is the EU standard-setting body.

²The Financial Reporting Council (FRC) is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

³The Australian Securities & Investments Commission (ASIC) is Australia’s corporate, markets and financial services regulator.

⁴The title of the paper is “On the Construction of a Multi-Stage, Multi-Person Business Game” and it was written in [18].

- focal firm and spans its boundaries”;
- ✓ Reference [19] describes the business model as “the heuristic logic that connects technical potential with the realization of economic value”;
 - ✓ Reference [20] thinks of business model as “stories that explain how enterprises work. A good business model answers Peter Drucker’s age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?”;
 - ✓ Reference [21] provides a definition of business model in the following terms: “(...) the business model outlines how a company generates revenues with reference to the structure of its value chain and its interaction with the industry value system”;
 - ✓ Reference [22] defines a business model as a “concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”;
 - ✓ According to [23] the business model captures the key features of a business to inform a judgement (by investors, for example) on whether the business is likely to achieve financial and other objectives. It should answer a series of questions essential to any business—who are the customers, what do they value, how can that value be delivered to the customer at an appropriate cost and how does the business deploy its assets?;
 - ✓ According to [24], business models “consist of four interlocking elements, that, taken together, create and deliver value”, namely: 1) customer value proposition; 2) profit formula; 3) key resources, and 4) key processes;
 - ✓ Reference [25] states that “A business model is (...) a reflection of the firm’s realized strategy”;
 - ✓ Reference [26] believes that “A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value”;
 - ✓ According to [27] “(...) a business model is the method of doing business by which a company can sustain itself—that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain”;
 - ✓ Reference [28] argues that “A business model describes the value logic of an organization in terms of how it creates and captures customer value”;
 - ✓ According to [29] “business model is defined by three main elements: the value proposition, value creation and delivery and value capture. Value creation is at the heart of any business model; (...). While the value proposition is typically concerned with the product and service offering to generate economic return, in a sustainable business, the value proposition would provide measurable ecological and/or social value in concert with economic value”.

Regarding its application, the best doctrine [30] agrees that the concept of “business model” has been generally employed in trying to clarify above all three phenomena: 1) e-business and the use of information technology in organizations; 2) strategic issues, such as value creation, competitive advantage, and firm performance; and 3) innovation and technology management.

However, the last years have been characterized by a significant debate also in accounting literature about the relevance of the concept of “business model” in financial reporting.

In this sense, [31] state that “intent-based accounting and business model based accounting are sufficiently similar that they can be treated as the same, at least in terms of analysing their properties in the context of the qualitative characteristics of relevance and comparability and the objective of financial reporting”.

Reference [32] agrees with the conclusion in the [31] that there are similarities between business model and intent, and in an explicit response to the paper states that “basing the accounting on how management intends to use, dispose or settle an item or arrangement does provide more comparable and relevant financial reporting”.

Reference [33] gives greater importance to the concept of “business model” in financial reporting, asserting that: “Financial reporting should provide a reality check on a firm’s business model and its execution”.

On the contrary, [1] is more sceptical about the role of business models in financial reporting, because of the ambiguity of its proper meaning. In this sense, the author states that “the term “business model” is open to a wide variety of interpretation because there is a lack of agreement about what a business model comprises and that an individual company’s model could be described in many way”. Therefore, he concludes that: “(...) the

ambiguity surrounding what constitutes a business model may be useful, at least in the short term for regulators, but in the longer term a better analysis of whether it leads to stability or instability is needed. My guess is the latter”.

Reference [34] agrees with much of [1]’s opinion, but his view of the role of business models in financial reporting is rather positive. According to the ICAEW member “business model is a simplified version of reality. It tells us how the firm makes money and, perhaps more importantly, how it hopes to make money”.

Reference [35] deals with the role of the concept of “business model” in supporting the required information for the Management Commentary section dedicated to the *nature of the business*. According to [35] the concept of “business model” is implied by the aspects required in the abovementioned section (*i.e.* sectors where the company operates; main products services processes and distribution channels; structures of the business and how it creates value) and its use in financial reporting is instrumental to support the choice of measurement options.

In his study, [36] highlights some of the perceived key themes and identify other bases for grouping/organizing the literature based on business models in financial reporting. Reference [36] takes a clear position on the distinction between the notions of the business model and strategy, sustaining that “(...) the term “strategy” is a dynamic and forward-looking notion, a sort of directional roadmap for future courses of action, whereas, “business model” is a more static notion, reflecting the conceptualisation of the company’s underlying core business logic”.

Last, but not least, it is extremely interesting to highlight the analysis made by the European Financial Reporting Advisory Group (EFRAG) and some European standard setters⁵ in the Research Paper titled “The Role of the Business Model in Financial Statements” [6], published in December 2013. In this study, EFRAG and the other standard setters reviewed doctrinal papers on the topic in an attempt to gain a better understanding of the term “business model” and unsurprisingly found that also in the accounting field academics have not developed a widely accepted meaning of the term. However, although the Research Paper notes discordances in providing a universal definition, it recognizes the manner in which cash flow is generated and value is created as the most important characteristic to identify the concept of “business model”.

Although it is possible to notice considerable variation in business model definitions, several recurrent features can be found.

First, the majority of the analyzed definitions drew an explicit link between the business model and the organization’s capability to create value (make money) and drive financial performance.

At the same time, most of them underline the organization’s inputs—the resources and capabilities (or capitals) on which it relies—as a key component of the business model.

Another important feature considered to be within the business model scope by the aforementioned definitions are actions or activities—the very mechanics of the business. These elements improve the quality or uniqueness of the organization’s offerings [37].

On the contrary, the main literature [35] agrees in identifying what a business model “is not”: “First, the business model does not involve a linear mechanism for value creation from suppliers to the firm to its customers. Value creation through business models involves a more complex, interconnected set of exchange relationships and activities among multiple players. Second, the business model is not the same as product market strategy (*i.e.*, it does not refer to firm positioning in product markets based on differentiation or cost leadership in certain activities) or corporate strategy (*i.e.*, it does not describe or prescribe the areas of business in which a firm becomes active). Third, the business model cannot be reduced to issues that concern the internal organization of firms (e.g., control mechanisms, incentive systems); activity systems, even though centered on a focal firm, typically span firm boundaries. However, the business model can be a source of competitive advantage” [30].

3. The IASB’s Discussion Paper on “A Review of the Conceptual Framework for Financial Reporting”

On 18 July 2013, the International Accounting Standards Board (IASB) issued a Discussion Paper on “Review

⁵The French Autorité des Normes Comptables (ANC) and the UK Financial Reporting Council (FRC).

The following standard setters in Europe also support the issue of this Research Paper: 1) Belgium, CNC/CBN—Commission des Normes Comptables/Commissie voor Boekhoudkundige Normen; 2) Cyprus, ICPAC—The Institute of Certified Public Accountants of Cyprus; 3) Denmark, FSR—Danske revisorer; 4) Germany, DRSC (ASCG)—Accounting Standards Committee of Germany; 5) Italy, OIC—Organismo Italiano di Contabilità; 6) Luxembourg, CNC—Commission des normes comptables; 7) Malta, MIA—The Malta Institute of Accountants; 8) Netherlands, RJ—Raad voor de Jaarverslaggeving; 10) Norway, NRS—Norsk RegnskapsStiftelse; 11) Poland, KSR—Polish Accounting Standards Committee; 12) Slovenia, Slovenski Institut za Revizijo; 13) Sweden, Rådet för fi nansiell rapportering.

of the Conceptual Framework for Financial Reporting” [7], in which there are, inter alia, the following specific questions about the meaning of the term “business model”:

- 1) Should the IASB define “business model”? Why or why not?
- 2) If you think that “business model” should be defined, how would you define it?

At the end of comment period (14 January 2014)⁶, the IASB received 243 submissions to the Discussion Paper. Of the 243 total comment letters received, 121 (49.79%) of the respondents provided an explicit response to the first question: “Should the IASB define “business model”. Why or why not?” whose regional profile has shown below (Figure 1)⁷.

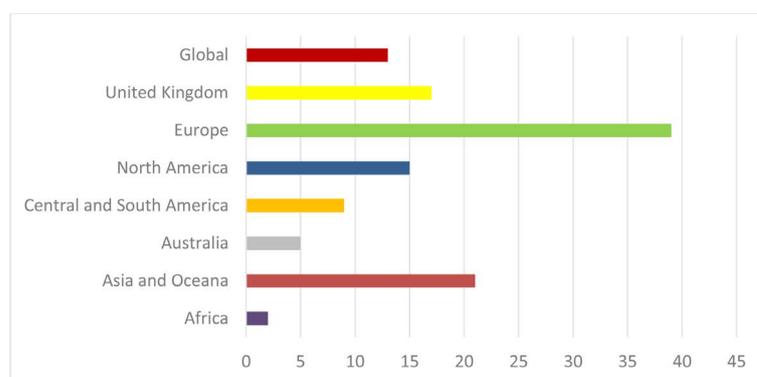


Figure 1. Regional profile of the respondents provided an explicit response to the first question.

The responses received can be generally categorized into the following three categories [38]:

- a) Some respondents think that the IASB should define, or provide further clarification on, the business model concept in the Conceptual Framework.
- b) Some respondents think that the IASB should consider developing a separate framework for co-operatives because they have a distinct business model.
- c) Some respondents did not think that the IASB needed to define or provide additional guidance on the business model concept.

Following Table 1 provides a summarized breakdown of the responses received:

Table 1. Response rate on the question: *Should the IASB define “business model”? Why or why not?*

Question	Response rate		
	A	B	C
Should the IASB define “business model”.	75	13	33
Why or why not?	62%	10.7%	27.3%
	121 (100%)		

The more effective responses that support the utility for a “business model” definition are the following:

“We agree that the use of the notion of the business model can be helpful in ensuring that the accounting model best reflects the most likely way in which the asset or liability will affect the cash flows of the entity” [Business Europe].

“Yes, the IASB should define “business model”. If the IASB agree with the view that different business models should be taken into consideration when developing or revising standards then it will be necessary to define the concept otherwise the IASB could find themselves considering a different definition of business model for each standard, which may in itself lead to conflicting standards” [Co-operatives UK].

“However, we believe it may be necessary to define the concept of business model to facilitate its universal application in all areas of financial reporting, and not just for financial instruments, whose classification clear-

⁶However, the last comment letter was received on 6 June 2014.

⁷Global stands for international organizations and associations.

ly depends on the business model” [Group of Latin-American Accounting Standard Setters—GLASS].

“Business model plays a role in recognition, measurement, presentation and disclosure. As such it cannot be ignored and should be defined in the Conceptual Framework” [RSM International].

“Standardized models would allow for others to view the financials from managements approach, and would make identifying resources, financial stability, and comparability to an industry more transparent” [Student of Master in Accounting of Science in Accounting-The Indiana University Kelley School of Business Indianapolis].

Apart from Co-operatives UK, all the other co-operatives support the idea that the IASB should consider developing a separate framework for them. According to all of these respondents⁸: “(...) the business model of co-operatives shows significant differences as compared with those of investor oriented corporations”.

Despite of an overwhelming majority of responses in support of the introduction of the definition of “business model”, 33 respondents voiced their opposition, which is less than 14% of the total.

Those dissenting responders commonly raised the following two reasons: “a) The concept is well understood; b) The business model concept would be too difficult to define. In addition, there appears not to be a standard definition in academic literature and the concept cannot be understood separately from an understanding of business strategy” [31].

In particular, some respondents cited the following reasons for their support:

“We do not think that the term ‘business model’ needs to be defined in the framework. Trying to define it would introduce unnecessary problems, partly because many companies have multiple business models for their various activities. The framework would be unlikely to suffer from the absence of a definition” [The Institute of Chartered Accountants in England and Wales (ICAEW)].

“However, we do not believe that a definition of the ‘business model’ in the CF is needed because the business model is entity specific. IFRS9 ‘Financial Instruments: Recognition and Measurement’ introduced the concept for financial instruments primarily to address measurement issues between the banking and trading books in the banking industry. A conglomerate can have several business models for its diverse activities. Any definition would of necessity have to be high level which would limit its usefulness” [Investment Management Association (IMA)].

“The business model is inherent to every organization, so its definition would not meet the characteristics of each business and could lead the IASB incur in harmful errors in the standards and to highlighted information from the financial statements. The business model should not be defined for the stated reasons” [Brasilia University].

“ACAG does not believe that the IASB should define ‘business model’. This term is already well understood” [Australasian Council of Auditors-General].

“We do not think a definition of the term ‘business model’ is necessary, rather a general description of how the business model is relevant to financial reporting would be sufficient” [ICAS].

“However a rigid definition of ‘business model’ in the revised Conceptual Framework may prove difficult to achieve, and indeed may conflict with local statutory definitions, and we are not convinced it is necessary to go that far” [British American Tobacco].

“The business model concept is clear enough and should not be defined by the IASB in the Conceptual Framework. It should be used in the applicable IFRSs” [Hydro-Québec].

“However, we do not think it is necessary, or possible, for the IASB to define ‘business model’. As previously suggested, a reference to management’s intentions should be sufficient” [Maersk Group].

“Defining a business model, however, is more difficult as there appears to be no standard definition in academic literature. The concept also cannot be understood in isolation from an understanding of business strategy. On balance we therefore consider it best to avoid seeking to develop a single definition of a nebulous concept” [Quoted Companies Alliance].

Of the 243 total comment letters received by the IASB, just 37 (15.23%) of the respondents provided a response to the following question: “If you think that ‘business model’ should be defined, how would you define it?” whose regional profile has shown in **Figure 2**.

⁸International Organization of Industrial, Artisanal and Service Producers’ Cooperatives (CICOPA); Confcooperative-Confederazione Cooperative Italiane; Confcooperative Federsolidarietà; Confcooperative Federlavoro e Servizi, Confederación Nacional de Cooperativas de Trabajo (CNCT); Canadian Worker Cooperative Federation; Japan Workers’ Co-operative Union; US Federation of Worker Cooperatives; Cooperatives Europe.

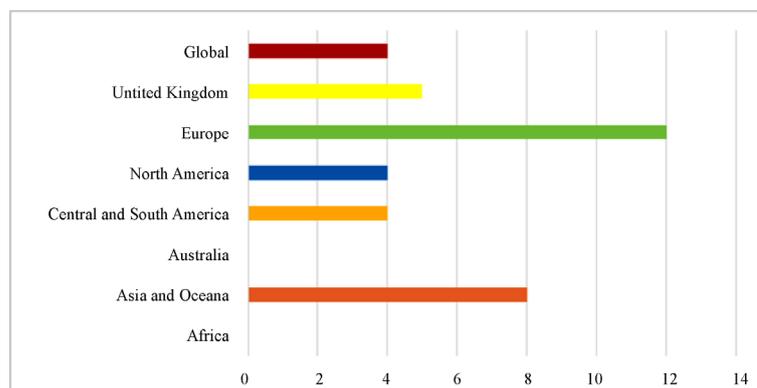


Figure 2. Regional Profile of the respondents provided a response to the second question.

The responses received can generally be categorized into the following three categories:

- Some respondents give a specific opinion of how the business model should be defined.
- Some respondents just suggest the elements that should be considered in order to give a correct definition of the term business model.
- Some suggestions were similar to, or based on, definition of term “business model” given by the International Integrated Reporting Council’s Draft of the International Framework.

Following **Table 2** provides a summarized breakdown of the responses received.

Table 2. Response rate on the question: *If you think that “business model” should be defined, how would you define it?*

Question	Response rate		
	A	B	C
If you think that “business model” should be defined, how would you define it?	19	13	5
	51%	35%	14%
	37 (100%)		

Source: researcher compilation.

The Definitions of the Term “Business Model” in the Comment Letters on IASB DP 2013/1

The following tables (**Tables 3-5**) show the different definitions of the term “business model” issued by the comment letters that are classified according to the three categories above.

Table 3. Respondents that give a specific opinion of how the business model should be defined.

Respondent	Definition
VMEBF	The business model describes the basic principle of how an entity generates or preserves value (e.g. in terms of cash flows) .
Autorité des Normes Comptables	The business model is the way the entity generates its cash flows and creates value .
Banco Bradesco	A business model that we would define is the way the company collects the cash flow from assets/liabilities .
Business Europe	We think that the term “business model” describes how an entity preserves or increases value and generates cash flows .
Canadian Bankers Association	With regards to defining the term “business model”, we believe that a business model is how an entity creates value and generates cash flows .
Canadian Accounting Standards Board	The business model is a choice made by management on how to manage the entity’s assets and operations .

Continued

Corporate Reporting Users Forum (CRUF) (UK)	In essence it is the <i>raison d'être</i> of the entity, encapsulating the purpose for which the company is currently configured and the means by which the company intends to generate returns on equity in excess of the cost of equity on a sustainable long-term basis.
Deloitte Touche Tohmatsu Limited	The business model helps to explain the business and the way in which it operates and adds value.
Deutsche Bank AG London	How an entity conducts its activities (the “business model”).
EFRAG	The assumed meaning focuses on the value creation process of an entity, i.e. how the entity generates cash flows. In case of non-financial institutions, it represents the end-to-end value creation process or processes of an entity within the business and geographical markets it operates.
French Banking Federation	The business model is a concept use to describe broadly how the entity will realize its future cash flows, on the asset and on the liability side.
German Banking Industry Committee & International Banking Federation-IBfed	The business model should describe how the entity creates, delivers and captures value, reflecting how the business is managed. In the case of financial services firms, the business model will include a broader consideration of the relationship between assets and liabilities and how these are used to create value.
Malaysian Accounting Standards Board-MASB	In other word, the impact and implication of how an entity conducts its business activities should be before deciding the proper accounting treatment so as to reflect the economic substance of particular transaction
National Audit Office	How an entity is organised/achieves its measures of success and incorporates considerations of its motivations
Professor Ho Yew Kee, Head Department of Accounting National University of Singapore	A possible definition of Business model is the commercial practices or actions undertaken by the reporting entity to fulfil its business objectives in the short, medium and long run.
Shell International B.V	There is a requirement under UK law for an entity to describe its business model and, in its draft guidance, the Financial Reporting Council states that this “ should set out how it generates or preserves value, and how it captures that value ”. We believe the objective of financial reporting makes it imperative that the business model concept, similar to how it is expressed above, and its role in financial reporting should be incorporated into the Framework
Syngenta International AG	We would define the business model as the way in which the reporting entity uses its inputs, processes and outputs to generate economic benefit inflows and outflows in the markets and activities in which it has chosen to participate
The Japanese Institute of Certified Public Accountants	We believe that the business model concept provides insights into how the entity’s business activities are managed and helps users of financial statements to assess the resources of the entity, claims against the entity, and how the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.

Table 4. Respondents that suggest the elements that should be considered in order to give a correct definition of the term business model.

Respondent	Definition
Accounting Standards Board of Japan-ASBJ	<i>We believe that it would be very helpful if the Conceptual Framework explained whether, and if so how, recognition, measurement, and presentation and disclosures should differ depending on how cash flow is to be generated and how value is to be created. Accordingly, regardless of whether the term business model is used in the Conceptual Framework, we recommend that the revised Conceptual Framework include relevant discussions using the notions stated in the previous paragraph.</i>
Asian-Oceanian Standard-Setters Group-AOSSG	<i>Yet there is a mixed view as to whether the concept can be practically defined in the Conceptual Framework. The IASB could consider: 1) describing the concept of the business model as “how an entity conducts its business activities”, 2) explaining how such a notion would enhance the achievement of the qualitative characteristics of useful financial information; and 3) incorporating the notion in relevant chapters of the Conceptual Framework, most notably, the Measurement chapter (refer our comments in paragraph 43 above). Some AOSSG members think the role of the business model concept should, at least in part, be determined or heavily influenced by other concepts—for example, by an identified ideal concept of wealth, in relation to measurement. Arguably, an entity’s operating capability, which represents the entity’s ability to carry out its activities at the scale determined by its then-existing resources, is the ideal concept of wealth that should be adopted in financial statements, on the basis that it provides the most useful information for helping users to predict an entity’s future cash flows. These members believe that applying that concept of wealth would provide insights into the consequences of the entity’s business model.</i>

Continued

A voluntary group of academics of Brazilian universities	<i>However, if such a consensual formal definition is not reached, an explanation of the concepts that are embodied on the expression business model should suffice (such as well presented on paragraphs 9.25 through 9.28 on the Discussion Paper).</i>
BNP Paribas	<i>Beyond the concept, the business model is observable through the documented management strategy, risk management, organisation, procedures and processes that reflect the way management use the entity's resources to generated cash flows and create value.</i>
Colin Haslam, Professor of Accounting and Finance Business and Management School Queen Mary University of London	<i>The IASB should not try to precisely define "business models" but provide a loose broad conceptualisation of business models that is grounded in accounting. Broadly conceptualized a business model contains focal firms that share similar stakeholder relations and information genotype. Rather than reporting "to" stakeholders a business model framework, grounded in accounting, would encourage disclosures "about" relevant stakeholder relations and how these are materially impacting upon reporting entities disclosed financials.</i>
Co-operatives UK	<i>In defining business models, standards setters should consider who are the key stakeholders/owners/beneficiaries of a type of entity, and how their interests are aligned. Since standards have, to date, been drawn up by reference to the "investor driven" model, the IASB should first identify the sectors/models that do not naturally fit this model. It should then positively consult with representatives of these other sectors. This could be by having a formal sub-committee as part of the structures of the IASB or via consultation on a project basis with representatives of the various sectors. Co-operatives UK would be happy to assist in co-ordinating consultation with the various types of co-operatives that form part of the sector. To ignore those organisations that are not solely established to generate a return for their investors brings the risk that the accounting standards become increasingly divorced from the many and varied users of financial accounts..</i>
European Banking Federation	<i>The business model should describe how the entity creates, delivers and captures value, reflecting how the business is managed. For financial services firms the business model will include a broader consideration of the relationship between assets and liabilities, and how these are used to create value.</i>
Financial Reporting Council (FRC) UK	<i>It is not necessary for the Conceptual Framework to define the term "business model"; but we suggest that it provide a general description of it as discussed in paragraph 2.42 above. (2.42). We suggest that it would be appropriate for the Conceptual Framework to provide a general description of the business model, rather than a specific definition. This should emphasise that the business model focuses on the means by which an entity creates value.</i>
Hong Kong Institute of Certified Public Accountants	<i>Some constituents believe the term "intended use" rather than "business model" to be more self-explanatory and resulting in a more robust application to specific assets and liabilities. The term "intended use" is also better able to be used as a guiding principle when there is only one or a very few similar transactions. We would therefore prefer greater use of this term at the standard level, particularly in respect of classification and measurement and would urge caution on the use of the term "business model" in this regard. Guidance on the meaning of "intended use" could refer to the role of a business model in identifying the "intended use" of an asset or liability i.e. when an entity has an established pattern of past practice. In any event, whether "business model" or "intended use" is adopted, we consider it important that the IASB should develop guidance to ensure its consistent application. We therefore urge the IASB to develop a proper rationale as part of the revised Conceptual Framework and demonstrate how it can be applied in recognition, measurement, presentation and disclosure.</i>
Institute of International Finance (IIF)	<i>Definition of the business-model concept is especially important in light of other disclosure mandates that firms encounter. While the business-model concept could contribute to the overall quality of financial reporting and related disclosures if appropriately defined, the present proposal may actually detract from the ability to present and disclose decision useful information to investors in the context of the actual economic business models that firms have (as opposed to accounting constructs). A business model definition should include, pursuant to Enhanced Disclosure Task Force (EDTF) recommendations (five to eight) on Risk governance and risk management strategies/business model, "a clear and explicit account of how value is created by firms". We believe that a firm should be able to translate that concept into its financial reporting. Business models should be articulated in such a way as to be clearly understood by users and therefore need to be translated consistently in accounting, regulatory and financial reporting as a whole. Certainly a narrow "business-model" concept used essentially in a technical sense relating only to accounting for financial instruments and not to the actual conduct of business would not help overall understanding and clarity. Therefore, attention needs to be given to making the concept more reflective of actual economic business models. If this is not possible, then, consideration should be given to using another term for accounting purposes, such as "measurement model", if the accounting definition of the concept remains at odds with the more intuitive concept of "economic business models" used in broader disclosures.</i>
Organismo Italiano di Contabilità (OIC) [Italian Accounting Organisation]	<i>To identify the most appropriate definition of this concept, the IASB could leverage on the most recent developments of the academic research which has been trying to define this concept in a variety of ways.</i>

Continued

Professor Richard C. Jones, PhD., CPA	<p><i>Rather than attempting to define the term “business model” and failing miserably by the way, I suggest that, in defining it, the Board consider: 1) The nature of the business entity, i.e. for-profit, not-for-profit, rate-regulated, etc. 2) The primary way in which an entity generates and expends its resources, 3) The major industry or industries in which an entity classifies itself; and 4) Management’s expectations about the manner by which the entity will grow its earned equity. In a different context, I guess the factors considered in developing criteria for determining a foreign subsidiary’s functional currency, in accordance with IAS 21, address similar issues, i.e. what is the foreign subsidiary’s main products and services, how does it spend its resources in support of those products and services, how are its activities funded or financed, etc.</i></p>
Securities and Exchange Board of India-SEBI	<p><i>The scope of the term “Business Model” should be defined and should consider “Substance over Form” approach for the definition.</i></p>

Table 5. Respondents that agree with the definition of term “business model” given by the International Integrated Reporting Council’s Draft of the International Framework.

Respondent	Definition
Consejo Mexicano de Normas de Información Financiera (CINIF)	
Group of Latin-American Accounting Standard Setters (GLASS) Malaysian Institute of Certified Public Accountants: RSM International	<p><i>According to the International Integrated Reporting Council’s Draft of the International Framework a business model is “the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term” [37].</i></p>
Student of Master in Accounting of Science in Accounting, The Indiana University Kelley School of Business Indianapolis	

4. Conclusions

In this paper, after having reviewed the main literature on “business model” definition, we have analyzed the possible meaning of the term in financial reporting, by the investigation of the comment letters on the Discussion Paper “Review of the Conceptual Framework for Financial Reporting”, issued by the International Accounting Standards Board in July 2013. In particular, the analysis has concerned the part of the letters that deals with the definition of the term “business model” in financial reporting.

On this regards, we found that most of the definitions given by the respondents substantially agree in identifying the term “business model” with the basic concept expressed by the main literature of *cash-flows generation and value creation*. At the same time, we have honestly to underline that the response rate to the question that required a proper definition of the term “business model” in financial reporting (*If you think that “business model” should be defined, how would you define it?*) is so low to have to be considered immaterial. Out of 243 comment letters, less than 10% give an explicit explanation of the concept (19 of category A + 5 of category B).

Some of the main reasons for this could be the following:

- 1) The concept of the term “business model” is already well understood.
- 2) The “business model” is too difficult to define.
- 3) The concept of “business model” is not relevant in financial reporting.

Based on the low response rate to the specific questions about the term “business model” in financial reporting and, at the same time, considering the contrasting aforementioned reasons (“...is already well understood” vs“... is too difficult to define”), according to us, it is not still possible (or maybe necessary) to get a widely accepted meaning of the term in financial reporting.

Indeed, at this stage of research, we completely agree with the thought of [34] that on this topic argues, “It does not matter that there is no agreed definition of the term “business model”. The salient point is that firms do different things and do them differently. There is a relatively new practice of referring to such matters using the language of “business models”, but this is simply a reflection of verbal fashion. The substance of the matter is that financial reporting does and should reflect the fact that firms do different things and do them differently. Defining, or agreeing a definition of, the term “business model” will not advance our understanding of the financial reporting issues” [34].

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