



Business Model in Accounting: An Overview

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Abstract

Despite the interest in business model (BM), the academic debate in the accounting field seems still in the early stage. We investigate the use of BM in accounting through a literature review and discuss the findings considering management and banking research. Specific streams and areas of improvement are identified.

Introduction

Within the accounting field, there has been lately an increasing interest from standard setters, regulators and professional bodies in the business model (BM). Many bodies support the introduction of a section on the BM in the annual report (CIMA, 2010; BIS, 2011; EFRAG, 2013); for instance, the UK Corporate Governance mandates disclosure on BM in the annual report. Additionally, the European Financial Reporting Advisory Group undertook a joint project with national standard setters leading to a Bulletin '*The Role of the BM in Financial Reporting*' and the Research Paper '*The Role of the BM in Financial Statements*' and revealing

strong support for the BM playing a role in financial reporting. Furthermore, the EU Directive on disclosure of non-financial and diversity information (2014/95/EU) requires that large public interest entities provide disclosure concerning the BM in the management report from 2017.

The BM has started to play a significant role also as a rationale for accounting valuation and measurement purposes. Indeed, the IASB introduced the BM approach to classification and measurement of financial assets in the scope of the *International Financial Reporting*

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Standard 9 (IFRS 9), applied in the European Union since January 1, 2018. Such intervention is inspired by the need for reducing the complexity in accounting for financial instruments and to the development of an even more principle-based accounting standard. The underlying assumption to this approach is that the BM is the primary determinant of the actual management of financial assets and of their use for cash flows' generation purposes.

Against this background, eminent scholars have problematized the role of the notion of BM and its implication for research, but the literature on the topic is still in its infancy (Beattie and Smith, 2013; Bini et al., 2016) and there is a lack of a comprehensive framework.

This paper aims at contributing to filling in this gap by investigating how the notion of BM has been used in the scope of accounting research. To this purpose, we present a literature review of accounting papers dealing with the BM and discuss them in the light of contributions brought by research in the management and banking field.

Our findings show that in accounting research the BM notion has been used mainly as a determinant of accounting choices concerning valuation and measurement of assets, and as an object of reporting. While the first perspective is adopted mainly by research in the field of financial reporting, the second is the focus of research within the non-financial reporting field. Additionally, the findings suggest that empirical studies dealing with the link between BM and accounting choices would benefit from stronger methodological underpinnings. Overall, our findings could trigger future studies investigating the usefulness of adopting a BM approach in the scope of financial reporting and further research on the link between the BM as a reporting framework and financial reporting.

The present paper proceeds as follows. The next Section synthetizes the methodological approach used to carry out the literature review. The third Section presents the results. In the fourth Section, we discuss the findings in the light of some contributions from management literature and from research in the banking field and conclude.

Approach

The methodological approach adopted in this study is similar to other recent reviews in the intellectual capital and accounting literature (Massaro et al., 2016; Cuozzo et al., 2017). We resorted to the section of Business, Management and Accounting of the Scopus database (SciVerse Scopus) restricting the search to the keywords "BM – accounting" and "BM – financial reporting" in the scope of the article title, the abstract, and keywords. Additionally, the search has no time orientation, given our interest in highlighting the development of research over time. The first list is of 156 articles. We went through all the abstracts of articles selected and performed a meaning-oriented content analysis to understand whether the focus of the papers is consistent with our research objectives. After the exclusion of papers whose topic is not consistent with our research objectives, the final dataset consists of 51 papers.

The *Journal of Management and Governance*, the *Journal of Intellectual Capital*, and *Accounting Forum* are in the first place in the academic debate, followed by *Accounting and Business Research*

Key Insights

Our results show that the BM notion has been used mainly in the scope of two research streams and papers can be grouped into: (i) papers focusing on BM as a determinant of classification and measurement of items in the balance sheet in the scope of financial reporting; and (ii) papers focusing on the disclosure on the BM. Overall, 39% of the papers concerned financial reporting-related issues, whereas 61% of the papers discuss issues within the field of non-financial reporting.

With reference to research developed in the scope of financial reporting, it especially considers the BM as a determinant of classification and measurement of items in the balance sheet.

Specifically, this stream develops as a response to the introduction of the BM by the IASB and implicitly assumes that the BM is the primary determinant of the management of financial assets and of their use

to generate cash flows. Opposing the BM approach Leisenring et al. (2012) maintain that the introduction of the BM concept by the standard setter is not significant and unnecessary due to its (supposed) identity with the notion of 'management's intent'. In their view, it is unfeasible for a firm to have a BM inconsistent with the managerial intention and the difference between these two concepts would only be due to the fact that BM could refer to the entity level, while management's intent could refer to the single item. Additionally, they both refer to the rationale underpinning management behaviour, which would be profit-seeking, and accordingly the managerial intent and the action undertaken will be aimed at achieving profits. Directly replying to them, Brougham (2012) asserts a significant difference between the two notions. The difference is explained by the level at which the BM is assessed and by the broader scope of the BM, whose underpinning rationale could be not only profit-seeking. In this perspective, the BM approach would enhance the relevance of financial information to users based on the idea that reporting should communicate to users if the BM has actually worked and since firms usually engage in different transactions, for different purposes and in distinct ways (Singleton-Green, 2014).

Two empirical papers explore whether the BM actually explains firms' accounting choices and provide contrasting evidence on the BM argument. Lassini et al. (2016) cluster a sample of 103 European listed companies based on different dimensions of the BM, using variables of (i) ownership, (ii) size, (iii) supply chain relation, (iv) internationalization, (v) R&D commitment, (vi) economic performance, (vii) operative growth performance, (viii) structural growth, (ix) financial profile, (x) liquidity profile. Examining accounting choices by companies in different clusters, their results show no significant associations between BMs and accounting choices. In contrast, Pinto et al. (2015) find that the BM is a predominant factor in explaining accounting choice for measuring investment properties in publicly traded real estate management companies in Brazil.

With reference to research focusing on the disclosure on BM, these studies have mainly developed within the field of non-financial reporting - although exceptions exist as the paper by Bagnoli and Redigolo (2016) and the one by Mechelli et al. (2017) - with either a focus on

integrated reporting or restricting the scope to intellectual capital and sustainability.

Beattie and Smith (2013) study the BM concept from the perspective of intellectual capital, based on the idea that the BM is the higher-level concept that should 'drive the IC disclosure' (Beattie and Smith, 2013, p. 252). Indeed, both the notions of intellectual capital and of BM relate to the transformation of resources (capital) into value, but the BM notion seems key to explain how the intellectual resource is used in combination with others to engage in value creation activities. In their view, while the BM constitutes the holistic macro-level view, inspired by the managerial theory of the firm through a top-down approach, financial accounting is a bottom-up and transaction-based micro-level process. Interestingly, the interviews to sophisticated users as financial analysts (Nielsen and Bukh, 2011) remark difficulties in capturing the essence of the whole BM and understand better the specifics of each strategy.

Among empirical papers dealing with disclosure on BM (see also Melloni et al., 2016), Bini et al. (2016, 2018) provide a considerable methodological contribution to analyse BM disclosure building on the guide provided by Osterwalder et al. (2005). Accordingly, they use the four pillars constituting a BM (namely (i) product, (ii) customer interface, (iii) infrastructure management, and (iv) financial aspects) as relevant dimensions for coding text units. Specifically, Bini et al. (2016) evaluate BM disclosure presented in the Strategic Report in the perspective of the contribution of intellectual capital to company competitive advantage, and Bini et al. (2018) analyse the BM to capture the firm commitment to sustainability, which should be reflected in the BM (Atkins et al., 2017). Their content analysis of BM disclosure allows shedding light on the business model disclosures companies to detect their approach to sustainability and highlight areas whose approach to sustainability should be enhanced.

The paper by Nielsen and Roslender (2015) is the first attempting to connect these two streams of research. Indeed, they identify a critical tension between the perspective adopted by the BM as a framework and the perspective of financial accounting. In their view, the BM is concerned with value creation, delivery and

capture, whereas the focus of financial reporting is the capture of shareholder value. From this angle, the BM should be the starting point for an 'enhanced approach to financial reporting' (p. 263) as it has the potential to provide a framework for understanding the value proposition of a firm (Osterwalder and Pigneur, 2010) explaining the flows through which the process of value creation develops (Nielsen et al., 2009). Specifically, Nielsen and Roslender (2015) acknowledge the need for understanding how financial reporting can be combined with the business model notion, without seeking to incorporate the latter in the first.

Discussion and Conclusions

This paper investigates how the notion of BM has been used in the scope of accounting research. Overall, the findings of the literature review show that in accounting research the BM notion has been used primarily (i) as a determinant of accounting choices concerning valuation and measurement of assets, and (ii) as an object of reporting. While the first perspective is mainly adopted by research in the field of financial reporting, the second is the focus of research within non-financial reporting.

These two views are only partially overlapping and relevant differences exist.

First, studies within the area of financial reporting discuss the BM as a criterion for accounting valuation; from this angle, the BM influences the accounting numbers reported by firms. Studies that deal with the BM as an object of reporting, and specifically those developed within the field of integrated reporting, look at the BM as a superior framework that determines the presentation, the narratives and the numbers included in the report.

Second, when dealing with issues concerning valuation and measurement of assets, research considers the BM as referring to an aggregate level (Brougham, 2012) but this level is not necessarily the level of the firm and potentially it could even coincide with the level of the single item. In contrast, a shared assumption of studies dealing with the BM as an object of reporting is that the level at which the BM is defined and observed is always superior to the one of the single item and it

corresponds to the organization. In particular, the BM of the entire organization is central within the Framework for Integrated Reporting (Girella et al., 2018).

Third, financial reporting refers to the BM as identified based on historical data to provide information that is verifiable and reliable. In contrast, research dealing with the BM as an object of reporting emphasizes a forward-looking perspective (Nielsen and Roslender, 2015) and the extent to which the BM will be sustainable in the future.

The analysis shows that scholars mobilizing the notion of BM from the perspective of integrated reporting draw on the contributions brought by management literature to enhance their theoretical underpinnings and move forward the debate (Beattie and Smith, 2013). Additionally, they exploit the management literature to build their methodological bases (see Bini et al., 2016, 2018). Differently, studies in the financial reporting field use various methodologies to identify BMs. On the one hand, this implies that comparing their findings can be arduous; on the other hand, it could be difficult agreeing on what they consider as the BM.

In this respect, accounting literature could benefit from the contribution of research in other fields, as the banking one, which has extensively investigated the impact of BM on banks' performances, developing methodologies to identify the BM. A first approach adopted in the scope of banking literature implicitly assumes that the BM of an organization can vary over time and exploits indicators of the BM's characteristics combined through cluster analysis (Ayadi et al., 2015; Roengpitya et al., 2014). An alternative approach assumes that the organization's BM does not vary over time and that it is an underlying, latent strategy, whose outcomes are the observed variables. In line with these assumptions, this approach draws on factor analysis to identify BMs (Mergaerts and Vander Vennet, 2016). In our view, such contributions may support accounting research interested in classifying BM based on financial statements' data to develop qualitative analyses as well as research aiming to encompass the BM as an explicit variable in regression models, without leaving it included in fixed effects.

Based on our analysis, future research could answer the call launched by Singleton-Green (2014) and investigate

the relevance of financial information that reflects the BM by exploiting either qualitative and quantitative and considering a wide range of users. Furthermore, the European public interest entities can represent a challenging setting, as they apply the BM approach as mandated by IFRS 9 and they have to comply with the EU Directive on disclosure of non-financial and diversity information (2014/95/EU).

This paper has some limitations, mostly deriving from the use of a single database and from the exclusion of the papers published after March 2018. Nevertheless, its findings can support the development of further research in an area that, from an accounting perspective, has been thus far under researched.

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