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Business Model Disclosures in Corporate Reports

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Abstract

Purpose: In this paper, we investigate the development, the current state, and the potential of business model disclosures to illustrate where, why and how organizations might want to disclose their business models to their stakeholders. The description of the business model may be relevant to stakeholders if it helps them to comprehend the company 'story' and increase understanding of other provided data (i.e. financial statements, risk exposure, sustainability of operations). It can also aid stakeholders in the assessment of sustainability of business models and the whole company. To realize these goals, business model descriptions should fulfil requirements of users suggested by various guidelines.

Design/Methodology/Approach: First, we review and analyse literature on business model disclosure and some of its antecedents, including voluntary disclosure of intellectual capital. We also discuss business model reporting incentives from the viewpoint of shareholders, stakeholders and legitimacy theory. Second, we compare and discuss reporting guidelines on *strategic reports, intellectual capital reports*, and *integrated reports* through the lens of their requirements for business model disclosure and the consequences of their use for corporate report users. Third, we present, analyse and compare examples of good corporate practices in business model reporting.

Findings: In the examined reporting guidelines, we find similarities, e.g. mostly structural but also qualitative attributes, in their presented information: materiality, completeness, connectivity, future orientation and conciseness. We also identify important differences between their frameworks concerning the target audience of the reports, business model definitions and business model disclosure requirements. Discontinuation of intellectual capital reporting conforming to DATI guidelines provides important warnings for the proponents of voluntary disclosure – especially for International Integrated Reporting Council guidelines. Still, because relatively few studies have examined the preparation and use of business model disclosures, we suggest areas for further research.

Originality/Value: This paper is the first that investigates, analyses, and compares the three most common reporting frameworks that contain business model reporting and disclosures.

Keywords: business model, disclosure guidelines, intellectual capital reports, strategic reports, integrated reports

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Introduction

Financial information has long been integral to corporate reporting. Globalization, however, has led to more complex business structures in a setting where companies must comply with a wider range of reporting standards and increasingly demanding reporting environments surrounding capital markets. Reporting deficiencies of traditional corporate annual reporting (Eccles and Krzus, 2010; FRC, 2011; ACCA, 2012), most likely in combination with increased fines and more lawsuits, stronger pressure from stakeholders resulting in reputational hits, and fuller disclosure by competitors, seem to have motivated companies worldwide to develop and improve the information in their periodic reports to investors and other stakeholders.

Today, to respond to new stakeholder demands, companies are moving beyond not only the financial figures but also regulatory compliance (FRC, 2009, 2011; IIRC, 2011a and b; Cohen, Holder-Webb, Nath and Wood, 2012; ACCA, 2013). In an Ernst and Young survey of global financial executives (Wollmert, 2014), nine out of ten believed that they, within the next three years, were going to have focus more on 'non-financial reporting themes around strategy, sustainability and risk management, since this is information that will give them an edge over their competitors when attracting investors' (Wollmert, 2014, p. 2). In the report, Wollmert (2014) refers to this as connected reporting: 'Connected reporting is an approach to develop an organization's current reporting to bridge the gap between the different information requirements of internal and external audiences'. Chief financial officers see connected reporting as a tool worth utilizing because it will 'support investor confidence and provide firms with the better ability to link external drivers with strategy and forecasts' (ibid).

One of the contemporary responses is the argument that reporting should revolve around a firm's business model (Bukh, 2003; Nielsen and Roslender, 2015), because essentially all competitive advantage is based on business models (Morris, 2014). Although business models lack a unified definition (Jensen, 2014), there are currently multiple frameworks from which to analyse and describe (Fielt, 2014), develop (Lund and Nielsen, 2014) and improve them (Schüle *et al.*, 2016). Business models can be theorized at varying levels of abstraction (Lambert, 2015; Nielsen *et al.*, 2017). According to Tweedie *et al.* (2017), these levels of abstraction make it difficult to analyse business model taxonomies (Groth and Nielsen, 2015; Lüttgens and Diener, 2016) in standard frameworks because the value-creating components of a given business model will vary across models (Sachsenhofer, 2016).

Responding to changes in corporate reporting where business models are an intricate part of increasing visibility for stakeholders (Haslam *et al.*, 2015), this paper focuses on business models and whether, as well as why, how, when and where to disclose information about them to various stakeholders. We have selected the three most influential frameworks, namely reporting guidelines on a) intellectual capital, b) strategy and c) an integration of financial performance, strategy, governance and context. A recent framework of the IIRC expresses the need to look more closely at business models (IIRC, 2013). Moreover, some accounting research has shown that certain non-financial variables, many of them related to strategy and business models, affect stock prices and, thus, relate to value creation (Rimmel *et al.*, 2009, Baboukardos & Rimmel, 2016).

An increasing number of accounting regulators (e.g. FRC, 2014; EU 2014; SASB, 2016) attest to the narrative power of the business model concept, stressing the role of forward-looking information and its relevance to financial reporting. This paper, therefore, describes the development and current state of business model disclosure and outlines further research opportunities.

The paper proceeds as follows. Section Two reviews research on corporate reporting of aspects of their business models. This research focuses largely, although not exclusively, on the context of business model reporting from different theoretical and empirical areas within the accounting domain. Section Three highlights how companies have made business model disclosures within *intellectual capital reports,* in *annual reports*, and especially in *strategic reports,* and *integrated reports.*[1] Section Four examines the requirements for business

[1] An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.' (IIRC, 2013c)

model disclose in the guidelines for preparing *strategic reports, intellectual capital reports*, and *integrated reports*. The paper concludes with a discussion of recent developments, particularly within integrated reporting and in disclosure demands. Finally, suggestions are made for future research opportunities when studying business model disclosures.

Antecedents of Business Model Disclosure Research

Hopwood argued some 20 years ago that annual reports have been transformed from 'minimalist legal documents to flamboyant documents exhibiting creative use of text and visual images' (Hopwood, 1996, p. 55). Simultaneously, the Jenkins Report (AICPA, 1994) presented business model disclosures as part of a broader business reporting solution (see Nielsen and Roslender, 2015). Since then, the use of narrative reporting has grown even faster. In fact, the narrative parts of annual reports (and other nonfinancial disclosures including corporate social responsibility reports) have evolved faster than the traditional financial statements; accountant users have more of a challenge figuring out what is most important.

In the areas of disclosure and reporting, different terms and concepts can have the same but also different meaning. For example, in this paper, we use narrative reporting and voluntary reporting rather interchangeably. Yet, in European research traditions, narrative reporting refers to the descriptive or textual form of reporting in contrast to financial or numerical information (Beattie 2014, p. 112). In North American research traditions, however, voluntary reporting is the opposite of mandatory reporting (Beattie 2014, p. 112). Today, there are still no universal standards how to distinguish between reporting and disclosure, which is the reason why semantics differ to quite some extent. Given the limited scope and purpose of this paper, we, therefore, make no distinction between, or elaborate on, the similarities and differences between these two word-pairs.

Similarly, in this paper, we use the terms 'disclosure' and 'reporting' somewhat interchangeably, although Dumay (2016) differentiates them as follows: *disclosure is* 'the revelation of information that was previously secret or unknown' while *reporting* is a 'detailed periodic account of a company's activities, financial condition, and prospects that is made available to shareholders and investors.' (p. 178). Furthermore, disclosure can be seen as more strategic information from the company while reporting is more operational (see also Nielsen *et al.*, 2017).

Studies of narrative reporting are significant antecedents to narrower studies of business model disclosure because narrative reporting has had two main objectives, namely 1) to provide context and meaning to quantitative (financial) disclosure, and 2) to enable the communication of factors and resources that cannot easily be quantified and valuated, such as intellectual capital, social and environmental performance, strategy and the business model (IASB, 2010).

Narrative reporting and voluntary disclosure research dates back to the 1970s and 1980s; however, some antecedents including readability of annual reports were published even earlier (see for instance, Soper and Dolphin, 1964; Smith and Smith, 1971). The main research in narrative reporting covers social and environmental disclosure, intellectual capital reporting, and readability of communication with stockholders, impression management and disclosure choices.

We can explain the recent emergence and diffusion of narrative reporting and voluntary disclosure, including information on business models, through several theoretical lenses. According to *shareholder theory*, *principal–agent theory*, and *transaction-cost economics (TCE) theory*, voluntary disclosure decreases the principal or investor's information risks, which reduces uncertainty agency costs (Hossain *et al.*, 1995; Healy and Palepu, 2001). In turn, reduced uncertainty and agency costs lead to lower cost of capital, an increased share price, and increased liquidity (Verrecchia, 2001; Richardson and Welker, 2001; Lundholm and Van Winkle, 2006). Revealing additional information may signal to potential investors about entity capabilities and strengths, resulting in more accurate company valuations (Deeds, DeCarolis, and Coombs, 1997).

Legitimacy theory, on the other hand, argues that companies disclose information to appear legitimate in the eyes of society (Deegan, 2002, 2006). Legitimacy is 'a condition or status which exists when an entity's value system is congruent with the value system of the larger social system which the entity is the part' (Lindblom 1994, p. 2). Thus, voluntary disclosure then facilitates monitoring of a corporation by a broader range of stakeholders and allows societal control. Companies tend to disclose more information if they are threatened with costs arising from non-legitimacy, such as product boycotts or difficulties in hiring talented people (Hogner 1982; Patten 1992; Deegan 2002).

Stakeholder theory then argues that voluntary disclosure aims to satisfy a broader group of information users, not only shareholders but also customers, employees, governmental agencies, and local societies (Gray, Meek and Roberts, 1995). Voluntary disclosure facilitates a company's ongoing success as it allows it to get support from diverse interested parties. This theory highlights the significance of balancing the interests of various stakeholders (Donaldson and Preston 1995). However, attaining an information needs equilibrium may appear difficult, as revealing too much information may be costly and lead to the loss of a competitive advantage, which in turn might be harmful to shareholders (Darrough and Stoughton, 1990; Elliott and Jacobson 1994; Hanley and Hoberg, 2010).

Thus, different theoretical lenses have focused on particular characteristics and often a particular receiver of more voluntary disclosure/narrative reporting. We have categorized these theories into three groups. The first two groups have the same main receiver of disclosure, namely the shareholder. In the first group, we have the theories that, from a mostly rational/financial viewpoint, calculate for reduced risks, reduced costs, and reduced uncertainties. The second group illustrates more positive aspects of the firm (certain potentials, capabilities and strengths) in order to achieve the opposite (a higher value and thus a higher share price). The third group, however, is more interested in societal issues and demands of a larger group of stakeholders. Here, we are talking in terms of legitimacy and 'value creation' for a larger group than only for shareholders.

In recent years, the increased focus on the value creation story follows a witnessed trend within accounting in general and reporting in particular that has been called a 'narrative turn', where 'large-scale linguistic studies have entered the mainstream positivist North American literature supported by computerized natural language processing' (Beattie, 2014, p. 111). 'The value creation story' is what Holland (2005) as well as the UK Financial Reporting Review Panel (FRRP, now called the Conduct Committee), see as being the central core of voluntary disclosure. Hence, a good annual report should then contain 'a single story"' showing 'how the money is made" and this in "a consistent, clear and uncluttered manner' (FRC, 2012b). Financial analysts (fund managers) should be able to understand this value creation story and gain confidence so that these stories can contribute to the valuation of the company. To gain confidence, the account users apply objective and subjective evidence to test company stories and to check promises.

The process of effective business model persuasion should help testing hypotheses on which the business model holds. Business model persuasion is in many cases a difficult task, as one manager interviewed by Holland stated:

There is some resistance in the financial markets to our story. They see this as a bit of black art. They are sceptical of the alliance between the creative element of our market end people and the technical knowledge of the chemists. Will we find the new kind of Chanel or new fragrance for the year 2005? (Holland, 2005, p. 257)

Some companies also tend to withhold information about new business models (Holland, 2005). In many cases, they are not sure whether the business model will succeed. Moreover, companies decide to keep contingency reserves as more information is needed by stakeholders at some turning points. This includes if the unexpected bad news is arising from unanticipated events, or if the information is needed for extra financing issues or in cases of attempts of a hostile takeover.

Business Model Disclosures

In most countries, corporations do not have the obligation to disclose their business models. The United Kingdom is one of the few countries with a mandatory disclosure requirement, as Companies Act (see Section 3.2) requires corporations to present business models in their *Strategic Report*. However, companies describe their business models, using various types of corporate communications: in strategic reports within annual reports, in intellectual capital reports, in Integrated Reporting, in corporate social responsibility (CSR) reports, in CEO letters, in initial public offerings (IPO) prospectuses and on corporate websites. In the next section, we will focus on the first three forms of communication (*intellectual capital reports, strategic reports,* and *integrated reports*) as they are most widely discussed within academia and also by accounting professional bodies.

Business Model Disclosure in Intellectual Capital Reports

During the past twenty years, the concept of intellectual capital (IC) has become a much-discussed topic among company managers, accounting practitioners, and management researchers. In the corporate world, IC refers to the knowledge, skills and experience of a company's employees as well as a company's R&D activities, routines, procedures, systems, intellectual property, and external relationships (Meritum, 2002; Kaufmann and Schneider, 2004; Ricardis, 2006). It is the unique combination of these different elements that determines a company's profitability and competitive advantage (Wallman, 1996, 1997; Guthrie and Petty, 2000; Lev, 2001; Beattie and Pratt, 2002; Boedker *et al.*, 2008).

In the mid-1990s, some companies in Scandinavia started to publish IC reports as supplements to their corporate annual reports (Bukh *et al.*, 2001; Johanson *et al.*, 2001a, b; Mouritsen *et al.*, 2001; Bukh and Johanson, 2003; Bukh *et al.*, 2005). The Swedish insurance company, Skandia, established itself as the leader of this IC disclosure movement when it published its 1998 prototype IC statement in early 1999 (Rimmel, 2003). Denmark was the first country to create a guideline, prepared by the Danish Agency for Trade and Industry, for reporting IC by companies (DATI, 2001). The Danish Ministry of Science, Technology and Innovation supported a joint project in which accounting researchers and companies created new guidelines for reporting IC by companies (DMSTI, 2003b). The DATI guidelines do not use the concept of the business model explicitly. However, it uses the concept of a business excellence model that 'shows the relation between strategic management decisions, allocation of resources, the implementing of manufacturing processes, the degree of satisfaction of employees, customers and society.' (DATI, 2001, p. 51). Both the business model and business excellence model seem to be quite close in meaning.

Bukh (2003) called for more research into how company management 'perceive the company's business model and communication on strategy and value creation'. At the same time, since measuring and reporting performance promotes accountability, some Danish public agencies and companies begun voluntarily to prepare IC statements both for internal management purposes and for external reporting purposes (Mouritsen *et al.*, 2004, 2005; Nielsen and Bukh, 2011). In the area of the intellectual capital, voluntary disclosure embraces mainly type, amount and use of the various intellectual capital categories and their impact on company performance and prospects. The disclosure of a business model is the newest notion in narrative IC reporting.

In recent years, there has been a decline in governmental and company interest in IC guidelines. However, a number of companies preparing intellectual capital statements have incorporated some parts of these into annual reports and CSR reports (Nielsen *et al.*, 2016). It is also observable that new strategic frameworks and models for such reporting are gradually emerging and gaining momentum, e.g. the *Sustainability Reporting Guidelines* (GRI, 2011), and the *Integrated Reporting* framework (IIRC, 2011a). These new frameworks require business model disclosures as they aim to improve the reporting of value creation to stakeholders, as did the Danish IC Statements Guidelines issued more than a decade ago.

A growing interest in business model disclosure, especially through the lens of the integrated reporting framework, has revitalized interest in intellectual capital (see Section 3.3). In this framework, IC is one of the six types of capital in the integrated reporting framework, and how a combination of all capital types is used to 'create value' is at the core of this new way of intellectual capital disclosure and performance evaluation (Abeysekera, 2013). Beattie and Smith (2013) believe that the business model concept will be able to offer a powerful overarching concept within which to refocus the intellectual capital reporting debate. They point out that the business model concept is holistic, multi-level, boundary-spanning and dynamic in comparison to the fragmented and static measurement and reporting of intellectual capital elements.

Business Model Disclosure in Annual Reports

The term *business model* started to be used by influential financial reporting regulators, annual report preparers associations and consulting companies as they mentioned the term in some of their documents. For example, the term *business model* appeared twice in the International Accounting Standards Board (IASB) Discussion Paper on Management Commentary issued in Autumn 2005 in association with a description of the 'nature of the business (pp. 38 and 77), but without definition. The authors of the Exposure Draft of Practice Statement Management Commentary (2009, p. 13) replaced 'business model' with '*by the entity's structure and its economic model*'[2] and in the final version of the Practice Statement (2010, p. 12) with '*the entity's structure and how it creates value*', which at that time was a short descriptive definition of the concept "business model".

In 2009, the Accounting Standards Board (ASB, 2009) concluded that the latest financial crisis (starting in 2008) drew shareholder attention to the importance of companies articulating business models in a clear and understandable way. The ASB also stated that business models cannot be conveyed by the numbers alone. Hence, the narrative part of the report should be used to 'tell the story of what a company does to generate cash' (ASB, 2009, p. 10).

The Institute of Chartered Accountants in England and Wales (ICAEW) indicated that business model reporting may appear challenging (ICAEW, 2009). The report underlined that problems could result from the choice of the amount of presented information ranging from high-level descriptions through qualitative explanations of what makes the business successful to representations of the impact of change. Moreover, ICAEW signified that increased detail in business model descriptions could lead to a rise of associated proprietary costs.

[2] Economic model disclosure was required by the ASB Reporting Statement Operating and Financial Review (2006).

In 2010, despite the concerns of ICAEW, the Financial Reporting Council (FRC) implemented a requirement in the UK Corporate Governance Code to include an explanation of corporate business models in annual reports (FRC, 2010). This requirement is today mandatory for companies listed under UK Stock Exchange rules. '*The directors should 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) and the strategy for delivering the objectives of the company*' (FRC, 2010, C.1.2). Furthermore, the Department for Business Innovation and Skills (BIS) developed narrative reporting regulations in the form of a strategic report, which was amended into the UK Companies Act and became effective on September 30th, 2013.

Neither the UK Corporate Governance Code nor the Companies Act provides much guidance on how to present the business model. FRC suggested the use of the Accounting Standard Board's Reporting Statement: Operating and Financial Review (ASB 2006). Later, in 2014, FRC issued a '*Guidance on Strategic Report*' (FRC 2014). This new guidance clarifies how companies should present the business model in their annual reports – essentially in the part called '*Strategic Report*'.

Accordingly, the *Strategic Report* should have three main objectives, which determine its content:

(a) to provide insight into the entity's business model and its main strategy and objectives;
(b) to describe the principal risks the entity faces and how they might affect its future prospects;
(c) to provide an analysis of the entity's past performance. (FRC, 2014, p. 10).

Further, the *Guidance on Strategic Report* suggests that the description of the entity's business model in the annual report should include a description of the value generation and preservation over the longer term. Important aspects that should be included in the Strategic Report are how the company captures value and how the business model of the entity differs from its competitors.

The FRC (2014) stresses that companies often create value through their activities at several different parts of their business process. In such situations, the description of the business model should not cover all processes but focus on those parts that are most important to the generation, preservation and capture of value. The FRC (2014) indicates close interrelation between the concepts of business model and the strategy, both in theory and practical applications.

When providing such information, the *strategic report* should enable shareholders to evaluate how directors have performed their obligation to foster the success of the company. The Guidance states that the description of the business model should provide shareholders with a *broad understanding* of the business model, hence, this description should be neither overly detailed nor complicated.

So far, there are only a few papers presenting empirical research on the business model disclosure in annual reports. For example, Giunta, Bambagiotti-Alberti and Verrucchi (2014) investigated voluntary business model disclosures of Italian companies from STAR[3] and Blue Chip[4] segments of the Italian Stock Exchange. They analysed four main elements (which they called areas of the business model: value proposition, processes, offering, and relations). They found differences between those two segments, as STAR companies revealed more information on their value proposition, while Blue Chip companies reported more information on the relations element of their business models.

Further, by applying a content analysis of business model presentations in annual reports from 60 high-tech companies listed on the London Stock Exchange (FTSE-Techmark), Michalak (2015) found that the business model disclosure in researched companies in most cases is concise (two pages long on average) and focuses on presentation of: the value creation process, markets, resources and the business activities. Furthermore, the visualization methods used in annual reports facilitate a better understanding of the business models. Melloni *et al.* (2016) analysed 54 business model disclosures in the integrated reports included in the IIRC database. They found that the dominant elements of the business model disclosure are outcomes and less information is disclosed on inputs, business activities and outputs. Most presented information appeared to be non-forward looking and non-quantitative. They also observed the dominance of a positive tone in business model disclosure. They concluded that companies seem to adopt impression management strategies in business model disclosures in their Integrated Reports. Robertson and Samy (2015), who analysed FTSE 100 integrated reports and conducted a series of interviews with senior management on integrated reporting diffusion, suggested mandatory strategic reports may pave the way for the real diffusion of voluntary integrated reports in the United Kingdom.

In the area of business model disclosure in Strategic Reports, we can identify some good practices. An example of such practices in the UK is British Land[5] (http://www.britishland.com/investors/reports/reports-archive/2015).

The description of the British Land business model is concise, as in many other strategic reports since it is two pages long. It clearly presents the value creation logic/flow by stating:

We create (1) … by focusing on (2) … which ensures (3) … and delivers (4) … creating value (5).

(1) Value proposition basis – places people prefer;

(2) Main resources and capabilities – right places, customer orientation, capital efficiency, expert people;

(3) Main sources of sustainable competitive advantage – enduring demand from occupiers and investors in property, optimal capital structure;

(4) Financial performance measured by three main key performance indicators (KPIs) – growth in net assets, income from dividends, total accounting return;

(5) Outcomes/positive impact in three main areas – economic, social and environment – clearly stating the stakeholders influenced by British Land Business model.

[3] At the Milan Stock Exchange (Borsa Italiana) the STAR (Segment for High Requirement Shares) market is within the MTA and includes companies capitalised from 40 million to 100 million euros that are already listed and traded in more-traditional sectors.
[4] A blue chip is a stock in a corporation with a national reputation for quality, reliability, and the ability to operate profitably in good and bad times.

[5] http://www.britishland.com/investors/reports/reports-archive/2015

We consider the business model in the annual report of British Land as good practice for five reasons. First, it visually presents the value-creation story in a concise way, providing shareholders with a broad understanding of the business model. Second, it states what makes the company different from its competitors (places that people prefer) delivered by a bundle of key resources and competencies. Third, it works as a roadmap for the other parts of the strategic reports, as it is linked to them (directs to pages with more detailed information). Fourth, it presents efficiency of the business model using three financial KPIs. Fifth, it shows how value is created from an economic, social and environmental perspective, highlighting the positive influence on various stakeholders: investors, customers (occupiers, people who work, shop or live in their buildings), suppliers, local communities, and employees.

The British Land strategic report presents most of the elements required by FRC guidelines, especially markets and the way that the entity engages with those markets including a detailed description of services and buildings portfolio. However, the *strategic report* lacks a presentation of the structure of the entity and its key business processes.

Business Model Disclosure in Integrated Reports

The information provided by global companies listed on Stock Exchanges seems to have increased enormously during the last decade, which we can see in the extensive reports published. However, the IIRC criticizes this kind of reporting by stating *'the connections need to be made clear and the clutter needs to be removed'* (IIRC, 2011a, p. 4). The IIRC's (2011a) intention is to create, in cooperation with a network of corporations, investors and academics, a framework for integrated reporting that meets the needs of the 21st-century stakeholders and to reduce information asymmetry.

The development of integrated reporting is an ongoing process, where most countries' requirements on reporting are funded on a voluntary basis. South Africa is the leader in integrated reporting, the first country to implement mandatory requirements of integrated reports for listed companies.

Integrated reporting aims to generate information about an organization's strategy, governance, performance and how it generates value in its economic, social and environmental context (IIRC, 2011a). According to the IIRC (2011b), integrated reporting should be the primary source for communicating with shareholders as well as stakeholders, and make all other reports redundant. Definitions have emerged in the advancement of integrated reporting, defining it as*'a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability'* (IoDSA, 2009, p. 54). As stated by the IIRC, the aim of integrated reporting is to support value creation and to keep the value sustained within a company.

The IIRC's definition of "business model" within its integrated reporting framework is:

An organization's business model is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term, designed (IIRC, 2013c, p. 25).

The IIRC framework highlights a company's business model as being the essence of an organization that is reflecting the value creation process of six different types of capital, namely financial, manufactured, intellectual, human, social/relationship, and natural capital. The inputs of these six types of capital are converted through the organization's business activities into outputs (e.g. products, services, waste), which have effects on the capital as outcomes.

The IIRC framework outlines four building blocks of the business model: *inputs, business activities, outputs* and *outcomes*. According to the IIRC (2013b), the differentiation between outputs and outcomes is a special characteristic of the business model description, as outputs refers to key products or services that an organization produces. Interacting components of a business model should create a company's value chain. All businesses are dependent on one or more resources that generate inputs to a company's business model (IIRC, 2013b). Integrated reports should focus on the significant inputs that are important for a business model and affect a company's value creation in the short, medium and long term (IIRC, 2013b).

According to the IIRC framework, a business model also clarifies a company's business activities, which include the planning, designing and manufacturing of products, or the exchange of knowledge in the provision of services. Furthermore, a business model explains how a company, through its business activities, differentiates itself in the market, how the possible need for innovation is managed and how a business model is designed to handle any market changes.

The IIRC Framework aims to enable clear and concise communication of value creation. Integrated reporting should facilitate investors in evaluating how a combination of the six types of capital that an organization uses are creating value.

A common misperception is that the IIRC framework is about trying to monetize everything. Integrated reporting is not about monetization, but trying to ensure that investors have the information they need to assess the ability of an organization to create value over time. Therefore, the business model plays a central role in the IIRC framework. In integrated reporting, connectivity[6] rests on three aspects: establishing the big picture, connecting time horizons, and developing a consistent message. Fragmented disclosures should be tied together in order to show a holistic picture about how an organization creates value over time by utilizing these different capital. Furthermore, an integrated report should describe an organization's value creation from the past to the future. Connectivity is incurred as a consistent message from an organization's inside to the outside world.

The IIRC has provided instructions how companies should identify the business model's main components. The integrated report ought to contain simple charts or visual images that illustrate the business model and its essential components. Graphs should feature clear explanations regarding relevance of the components to the organization. The integrated report should provide the reader with insight into the company's primary stakeholder relations (IIRC, 2013b). As a consequence, the IIRC Framework has suggested many disclosure items regarding business models.

[6] 'An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organisation's ability to create value over time' (IIRC 2013).

With the IIRC framework in place, the reporting practice is currently developing, and a number of companies today work on the layout and form of disclosing their business model, as, for instance, the Japanese company Lawson[7].

In an 'at-a-glance' format, Lawson addresses a great deal of key information regarding their business model in a double-page spread. In addition, the section flows nicely, illustrating how five capitals as inputs for return-on-investment (ROI)-based capital allocation are parts of the value-creation process of the Lawson business model with the strategy of customer orientation in focus. The business model transforms the five inputs into five outputs: (1) investment determined according to capital discipline to meet the expectations of the equity market, (2) leveraging the full supply chain to develop products that meet local community needs, (3) nurturing human resources who are 'self-motivated and innovative' to satisfy local community needs appropriately, (4) cultivation of innovation based on prompt perception of changes in local communities, and (5) contributing to communities as social infrastructure with careful consideration of society and the environment. The outcomes of this process will generate the value provision for Lawson's multiple stakeholders. Lawson illustrates how companies can communicate a complex business in a concise and accessible way.

Comparison of Business Model Disclosures in Various Reporting Frameworks

The strategic report (as part of the annual report), the intellectual capital report, and the integrated report frameworks both have similarities and unique characteristics concerning business model disclosure. Below, in table 1 we compare the three reporting frameworks according to the main objective, the users of the report, structure of the report, qualitative attributes of presented information, business model definition, business model elements and business model description requirements.

[7] http://lawson.jp/en/ir/library/pdf/annual_report/ar_2015_e.pdf

	Intellectual Capital Report guidelines	Strategic Report guidelines	Integrated Report guidelines
Main objective	Communicate parts of the company's knowledge management to world at large, show resources and attract new employees, customers and suppliers.	Provide information necessary for shareholders to assess the entity's performance, business model and strategy for making resource allocation decisions and assessing director stewardship.	Explain to providers of financial capital how organization creates value over time.
Users	Those who want to read the statement give the external intellectual capital statement a perspective, including: *analysts, employees and customers.*	*Shareholders* and other user needs may be met on condition that information is material to shareholders**.**	Providers of financial capital and other stakeholders interested in an organization's ability to create value including *employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers*.
Structure of report – content elements	1. The establishment of the need for knowledge management 2. Set of initiatives to improve knowledge management 3. Set of indicators to define measures 4. Following up initiatives	1. Strategic management including strategy and business model 2. Business environment 3. Business performance	1. Organizational overview and external environment 2. Governance 3. Business model 4. Risks and opportunities 5. Strategy and resource allocation 6. Performance 7. Outlook 8. Basis of presentation
Qualitative attributes of information	Materiality Completeness Substance Gross Measurements Neutrality Comparability	Material Fair, balanced and understandable Comprehensive but concise Forward-looking oriented Entity-specific Explaining linkages between pieces of information presented within the strategic report and in the annual report	Strategic focus and future orientation Connectivity of information Stakeholder relationships orientation Materiality Conciseness Reliability and completeness Consistency and comparability
Business model definition	Not explicitly stated Business excellence model - A model enabling management to ensure the achievement of the company's strategic goals. The model shows the relation between strategic management decisions, allocation of resources, the implementing of manufacturing processes, the degree of satisfaction of employees, customers and society.	The basis on which the company generates or preserves value over the longer term	System of transforming inputs, through its business activities, into outputs and outcomes that aims at fulfilling the organization's strategic purposes and creates value over the short, medium and long term.
Business model elements	Not explicitly stated	Not explicitly stated	Inputs Business activities Outputs Outcomes

Table 1: Comparison of business model disclosure frameworks

	Intellectual Capital Report guidelines	Strategic Report guidelines	Integrated Report guidelines
Business model description requirements	**Central questions:** *What happens?* *What is done?* *What is created?* **BM Description Elements:** *The knowledge narrative:* communicates company's intention to increase value users receive from company's goods or services. *A set of mgmt. challenges:* deals with the issue of either developing knowledge resources internally or outsourcing them externally. *A set of initiatives:* Deals with actions that are required in order to tackle management challenges. *A set of indicators:* Deals with actions taken on the initiatives and the successes with the management challenges. **Other requirements** Three evaluation criteria – effects, activities and resources – were added to clarify companies' responses to the three questions posed about a company's knowledge management.	**Central questions:** *What the entity does and why it does it.* *What makes it different from, or the basis on which it competes with, its peers?* **BM Description Elements:** The entity's *structure*, *The markets* in which the entity operates, *The way in which the entity engages with those markets* including: which part of the value chain it operates in, its main products, services, customers its distribution methods, *The business process* **Other requirements** The BM description should provide shareholders with a broad understanding of the nature of the relationships, resources and other inputs necessary for the success of the business.	**Central question:** *What is the organization's BM?* **BM Description Elements:** *Inputs* **-** how key inputs relate to capitals, or that provide a source of differentiation and help understand robustness and resilience of the BM *Business activities* – those that enable to differentiate in the market, to generate revenue after initial point of sales, innovation and BM adaptation *Outputs* – key products and services including by-products, waste and emissions *Outcomes* – internal and external, positive and negative **Other requirements** Identification of critical stakeholders and other (e.g. raw material) dependencies and important factors affecting the external environment Connection to information covered by other content elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues).

Table 1: Comparison of business model disclosure frameworks *(continued)*

The first main difference among the three frameworks is indicated by the users of the report. The intellectual capital reporting framework lists analysts, customers, suppliers, and employees as its target audience. Contrastingly, the strategic report guidelines specify shareholders as its target audience. In turn, the integrated report guidelines indicate the widest target audience – all stakeholders interested in an organization's ability to create value over time. The IIRC enumerates eight classes of stakeholders: employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers. The stakeholder orientation approach in the case of the IIRC is strengthened by one of a qualitative feature of information (stakeholder relationships orientation). Listing so many stakeholders creates a significant challenge to prepare integrated reports, since different groups of users may have conflicting information needs.

There also exist substantial differences in business model definitions among the analysed guidelines. The intellectual capital framework lacks an explicit definition of the business model. However, it presents a business excellence model that has traits both common to and distinctive from other business models. The FRC definition focuses on value generation and preservation, while the IIRC focal points are value generation and transformation of inputs through the firm's business activities into outputs and outcomes. The third main area of dissimilarities are business model disclosure requirements. The IC framework requires listing management challenges and knowledge resources. The FRC framework demands a general description of what the entity does and how it differs from peers in the context of its markets, products, and value chain. The IIRC requires disclosure of inputs, business activities, outputs and outcomes of the six types of capital, which is unique to this guideline.

We observe similarities among the frameworks in the structures of the reports. All three require disclosure of the context (environment in which the entity operates), the process of value creation and performance measures, including financial and non-financial indicators. In the FRC and IIRC guidelines, performance should include economic, environmental, and social outcomes. Other common traits are some qualitative features of information provided in reports. All three guidelines demand materiality and completeness/comprehensiveness of reported information. Moreover, both FRC and IIRC guidelines require connectivity, future (forward-looking) orientation and conciseness of the presented information. Connectivity of information means that the various elements of disclosed information should be clearly linked to each other. For example, the IC report guidelines make connections among challenges, knowledge resources, initiatives, and indicators; the strategic and integrated reports connect environment, business model, strategy, performance and risks. Comparability is a quality of information required by DATI and IIRC guidelines. In contrast, the FRC calls for entity-specific representation of business models.

Commonalities of the frameworks lead us to conclude that especially the most recent ones – the IIRC framework and FRC guidelines – converge on many elements. Hence, guideline preparers appear to agree on many of the requirements they set down for holistic corporate reporting. Business model disclosure plays a central role in such reporting. Contrastingly, the differences in the main disclosure requirements of the guidelines – 'what makes the company different from, or the basis on which it competes with, its peers' (FRC Guidelines, 2014) and the description of inputs, business activities, outputs and outcomes may lead to quite distinct business model reporting in strategic reports and integrated reports. How companies (especially in the UK) try to accommodate both frameworks is worth further study. We see several possibilities. First, as Robertson and Samy (2015) suggest, mandatory strategic reporting might facilitate diffusion of voluntary integrated reports in the United Kingdom. Second, companies might try to reconcile both by presenting the description inputs, business activities, outputs and outcomes suitable for both frameworks. Third, and perhaps least probable, companies might present business models differently in both reports. The possible relations between these two frameworks depend on the development and popularity of integrated reporting.

Concluding Discussion and Thoughts on Future Research

Throughout the last decade, expectations for companies to provide clear information about their way of doing business have increased. More than ever, external stakeholders, including the media and public bodies, are demanding answers to how company business models relate to their value creation, their corporate social, environmental, and human responsibility, their business context, and their financial figures (ACCA, 2013; FRC, 2009, 2011; IIRC, 2011a, b, 2013a, b, c). Demands for corporate reporting have also changed in structure and content in order to address issues related to company business models (Cohen, Holder-Webb, Nath and Wood, 2012).

The idea to disclose non-financial information, supplementing the financial information, has proliferated during the first decade of the twenty-first century (IIRC, 2011b). The informativeness of financial information has been criticized (Kaplan and Norton, 1996; Low and Siesfeld, 1998) as a AICPA 1994, lagging indicator, neither providing a realistic picture of the company nor predicting its future performance. While financial information has been criticized by management, non-financial information was positively perceived by them, providing insights of the company's business model and future performance (Kaplan and Norton, 1996; Beattie and Smith, 2013).

One of the biggest challenges of external corporate reporting is to convey a complete picture of the company to investors so that they can accurately evaluate the business (Holland, 1998). The business model is central to the framework for Integrated Reporting, since a clear articulation of the business model can help users to identify redundant information (Beattie and Smith, 2013). However, according to Tweedie *et al.* (2017), the use of business models in Integrated Reporting is problematic, due to inconsistencies in the perspectives taken by the IIRC. The core of business model reporting should clarify the company's resources, strengths, dynamic performance, business environment and organizational capacity for change (Beattie and Smith, 2013), and one way of achieving this is to use the notions of business model taxonomies (Lambert, 2015) that are explicated in Taran *et al.* (2016).

Further, we discussed how companies tend to keep information secret, including information on business models (Holland, 2005). We partially linked this secrecy to a company's desire to avoid negative media attention around unanticipated events. In almost all countries, no laws for disclosure of business models exist. South Africa is a pioneer in integrated reporting and the only nation so far with mandatory requirements for such reports. The adopters of Integrated Reporting ought to present the interaction between financial and non-financial aspects of the six types of capital in order to make the information understandable and clear in their communication with stakeholders. Companies should link stakeholder information needs with information systems and data collection processes, making integrated reporting an evolving mechanism. Moreover, the IIRC can study and share the successes and setbacks of South Africa's integrated reporting (ACCA, 2012).

Throughout the past decades, different reporting frameworks have emerged that have both similarities with each other and unique characteristics concerning business model disclosure. For instance, between the the intellectual capital guidelines, guidelines on strategic reporting and the recent Integrated Reporting framework, we observed major similarities in the structures of the reporting frameworks. All three frameworks require a presentation of context (environment in which the entity operates) and the process of value creation and performance measures, including financial and non-financial indicators. Other common traits are qualitative features of information: materiality, completeness (shared by all the guidelines), connectivity, future (forward-looking) orientation and conciseness (required by FRC and IIRC frameworks).

Because of the relative novelty of business model disclosures in corporate reports and other media, this phenomenon is utterly underexplored and open for many future research avenues, as noted by Tweedie *et al.* (2017). Probably the most intriguing research question is how users of strategic reports and integrated reports actually use the information about business models for the decision-making process. Is such information used for valuation, risk identification or other purposes? How do users of strategic reports and integrated reports cope with processing graphical presentations of business models? How do preparers cope with the trade-offs between materiality, completeness, and conciseness of business model presentations? Are there any differences in internal and external presentations of business models? Other possible, vital research questions can be quite general or very specific, e.g.: How are business models presented both in mandatory (UK, South Africa) reports and in voluntary disclosures (this can be approached by including different countries but also different types of media)? Do companies in the UK present the business models in the same manner in strategic reports and mandatory report? Are IIRC and FRC guidelines perceived by preparers and uses as complementary or substitutive frameworks? What explains observed practices in business model reporting?

Examples to include in such studies could be processes of sharing best practices, organizational mimicry or fads and fashions, and firm-specific characteristics – size, sector, and financial results. Are business model presentations readable and relevant for various groups of stakeholders and if yes, how and for what purpose? When and why do companies keep information about their 'real' business model information secret? Is business model disclosure used for gaining legitimacy or for impression management? How is the feature of 'connectivity' attained in business model presentations in strategic reports and/or integrated reports and how does our latest knowledge about business model configurations on a taxonomy level assist these analyses?

Finally, whereas this paper has focused on public disclosure of business models, in line with Nielsen *et al*. (2017), private disclosure of business models and the factors affecting the guardianship of information about business models also seems to be an interesting avenue for future research as well.

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