



BUSINESS MODEL

BACKGROUND PAPER FOR <IR>

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The Technical Task Force of the International Integrated Reporting Council (IIRC) established a Technical Collaboration Group (TCG) to prepare this Background Paper for <IR>. The TCG was coordinated by the lead organizations with input from participants from a range of disciplines and countries. This paper reflects the collective views of TCG participants, not necessarily those of their organizations or the IIRC.

The IIRC considered interim findings from the TCG when preparing the Prototype Framework released in November 2012, and is further considering this paper in developing a Consultation Draft of the International Integrated Reporting (<IR>) Framework. This paper provides background information that will assist stakeholders when responding to the Consultation Draft.

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Business Model Background Paper for <IR>

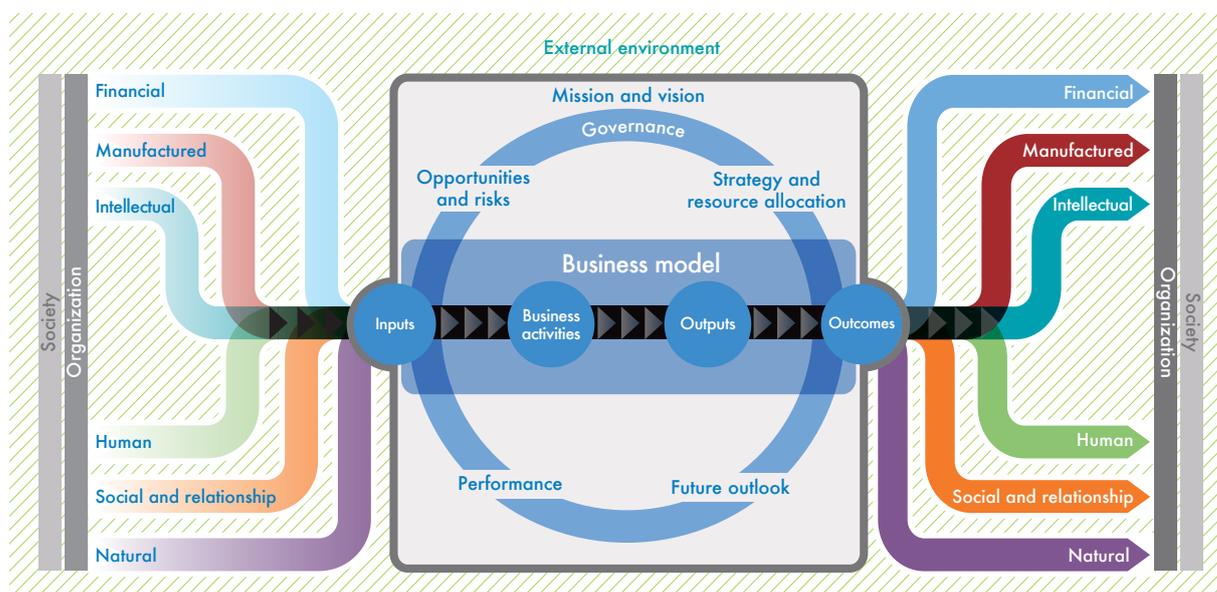
Executive summary

At the heart of an organization is its chosen business model. Current business model reporting is inconsistent, both in terms of uptake and scope. Uptake appears to be influenced by the presence of regional legislation, corporate governance codes and listing requirements. Scoping inconsistencies are linked to mixed interpretations of what, exactly, constitutes a business model.

This Background Paper for <IR> explores and reconciles divergent approaches in business model reporting with the aim of reaching a common, widely-accepted definition of the business model for use in Integrated Reporting (<IR>). Specific implications for the development of the International <IR> Framework are as summarized below.

- A distinction is made between business model disclosures and other information such as:
 - external factors or context
 - capitals
 - governance
 - strategy and resource allocation
 - opportunities and risks
 - performance
 - future outlook

These elements are highly interconnected as shown below:



- The term business model is defined herein as “the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term.”
- Consideration of inputs, outputs and outcomes will help to clarify the organization’s positive and negative impacts on *financial, manufactured, human, intellectual, natural and social and relationship capital*. Such considerations will also encourage the organization to take a broader view of the concept of value creation.
- A distinction is made between *outputs* and *outcomes*. Outputs are the key products or services that an organization produces, as well as the waste or other by-products that create or erode value. Outcomes are the internal and external consequences for the capitals as a result of an organization’s business activities and outputs.
- Assessing desired outcomes against actual performance and strategic objectives may prompt changes to the business model.

1. Introduction

1. The term *business model* was used extensively in the IIRC's September 2011 Discussion Paper, "Towards Integrated Reporting – Communicating Value in the 21st Century"¹, where it was identified as one of two "central themes for the future direction of reporting".² The Discussion Paper noted that although there "is no single, generally accepted definition of the term 'business model' ... it is often seen as the process by which an organization seeks to create and sustain value."

2. In the Prototype of the International <IR> Framework (Prototype Framework) released in November 2012,³ the business model was discussed as a "fundamental concept" and reporting on the business model was identified as a "Content Element" that should be included in any integrated report. This is consistent with one of the aims of Integrated Reporting <IR>, as noted in the Discussion Paper, to facilitate a "meaningful assessment of the long-term viability of the organization's business model and strategy".

3. The emphasis on the business model as a reportable element reflects the view that one of the key starting points for an investor's analysis should be an organization's business model and how it relates to the organization's strategy, governance, performance and prospects.

4. The IIRC's summary of Discussion Paper responses⁴ shows that a majority of respondents agreed that the business model is an appropriate central theme for <IR> but requested that a common definition be developed. Respondents were also interested in better understanding the connection between the business model and the concepts of multiple capitals and value creation as used in the Discussion Paper.⁵

1A About this Paper

5. Corporate reports have typically dealt with business model disclosures in various ways, such as with high-level descriptions of strategy and performance or a general organizational overview. A clearer definition and related guidance can help bring greater consistency to organizations' approaches to reporting and the information used to support their discussions.

6. Accordingly, the purpose of this Background Paper for <IR> is to propose a definition of the business model and develop guidance for disclosure purposes for inclusion in the International <IR> Framework (the Framework). The interim findings of this project were developed into content that was adopted by the IIRC in the Prototype Framework. This Background Paper for <IR> reflects further thinking for consideration in developing the forthcoming Consultation Draft of the Framework.

1B Methodology

7. The content of this Background Paper for <IR> is primarily the result of a review of literature and current business model reporting practices. This review was supplemented by informal consultation with Pilot Programme Business Network⁶ members and investors.

2. Research

2A Literature review

8. A review of business model literature established a starting point for the development of related guidance for the Framework. As shown in Appendix A, a range of professional and academic articles, websites and blogs were identified that highlighted the diverse ways the term is used. Interestingly, the term "business model" first gained prominence during the rise of e-commerce in the 1990s. Subsequently, the term was widely used to describe the innovative ways of "doing business" with the rise of the Internet and as information became cheaper to share, store and process.

¹ <http://www.theiirc.org/resources-2/framework-development/discussion-paper/>

² The other central theme was the ability to create and sustain value in the short, medium and long term – see page 10 and Question 5 on page 11 of the Discussion Paper.

³ <http://www.theiirc.org/resources-2/framework-development/prototype-of-the-international-ir-framework/>

⁴ <http://theiirc.org/wp-content/uploads/2012/06/Discussion-Paper-Summary1.pdf>

⁵ <http://www.theiirc.org/resources-2/background-papers>

⁶ <http://www.theiirc.org/companies-and-investors/pilot-programme-business-network/>

9. The term has also gained attention in reporting for its link to accounting standards and financial statement preparation.⁷ Business model thinking provides an interesting paradigm for developing financial reporting standards. For example, a business model approach to the accounting for financial instruments determines that a debt security has to be measured at market value when it is held for trading purposes, but is reported at historic cost if it is intended to be held to maturity.

10. The literature review highlights the disparate views on the nature and scope of the business model. This variation may be a function of the many perspectives and disciplines; for example, some articles focused on information technology aspects while others focused on venture companies, or the role of business model thinking in informing financial reporting standards.

11. Despite considerable variation in business model definitions, several recurrent themes can be identified. As Figure 1 shows, nearly two-thirds of the articles drew an explicit link between the business model and an organization's *ability to make money* and drive financial performance. More than half viewed the organization's *inputs* – the resources and capabilities (or capitals) on which it relies – as a key component of the business model. The majority of references also considered *actions* or *activities* – the very mechanics of the business – to be within the business model scope. These activities contribute to the quality or uniqueness of the organization's offerings. Just over half of the references considered the business model as also including how *an organization creates value, outcomes or impacts* for its customers and other stakeholders.

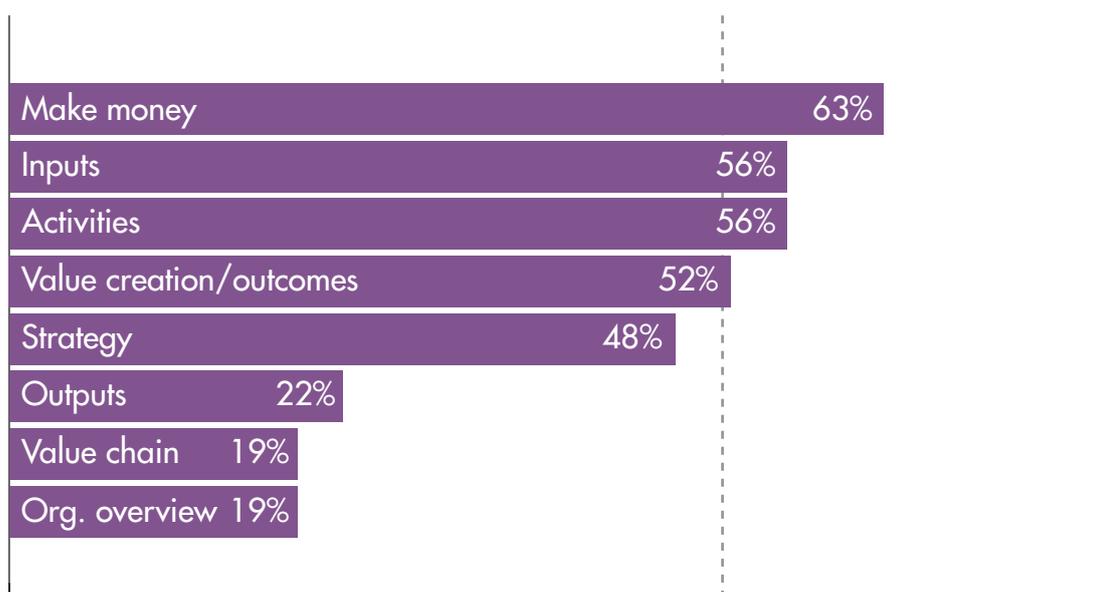


Figure 1. Business model components according to an external literature review. Percentages represent the proportion of researched articles that refer to the relevant component.

⁷ ICAEW (2010) *Business Models in Accounting, The Theory of the Firm and Financial Reporting* <http://www.icaew.com/en/technical/financial-reporting/information-for-better-markets/ifbm-reports/business-models-in-accounting-the-theory-of-the-firm-and-financial-reporting>

2B Current practice

12. The findings of the literature review were supplemented with practical lessons from current practice. A review of over 500 business model disclosures globally, including feedback from a global network of reporting practitioners, reinforced the diversity of disclosure practices.

13. The uptake of business model reporting appears to have been influenced by regulation, legislation, corporate governance codes, or listing rules, as in the United Kingdom. The term is less prevalent in some capital markets such as Australia, Canada, Hong Kong and the United States, where it has not been incorporated in regulation, legislation or codes of corporate governance to the same extent.

14. In reviewing the global examples of business model reporting, it became apparent that they could be broadly allocated into five categories, as set out in Figure 2.

Approach	Description
Organizational overview	What the entity does, how it is structured or where it operates
Business strategy	Key aspects of the organization's strategy
Value chain	Place in the value chain and dependencies on key inputs
Financial performance	How the business model drives profitability or revenue generation
Value creation	How the organization's inputs, activities and relationships lead to value and desired outcomes

Figure 2. Common approaches to business model reporting based on a survey of current practices

15. The review of reporting practices also revealed certain presentation features that diminished disclosure quality. Some of the more pervasive features are listed in Figure 3. The use of boilerplate language and a lack of clear structure, for example, appeared to be significant challenges. Accordingly, the Framework should try to discourage these features.

Feature	Description
Boilerplate	Features highly generic or non-specific language
Free form	Discusses inputs and outputs but does not formally label them as such Distributes relevant disclosures across the report; reader must discern link to business model
Insular	Overly focused on what the organization does and occasionally on their end customers, distribution channels, or outputs Does not link to how the organization makes money, where it sits in the value chain and dependencies on key inputs, external resources and relationships
Silos	Business model disclosure often sits in isolation from other aspects of reporting
Static	Depicts the business model as fixed rather than a dynamic, evolutionary concept

Figure 3. Features that diminished disclosure quality

16. The review of practice also highlighted a growing separation between the reporting of the business model and a narrative on strategy, suggesting that they are both seen as important, but separate elements of business reporting. This perspective was supported by some parts of the literature; for example, Applegate (see reference 14 in the Appendix) describes the business model not as the organization’s strategy, but rather as a vehicle for defining and executing the strategy.

2C Implications for the Framework

17. These findings translated into concrete conclusions to be considered in developing the Framework, as set out in Figure 4 and further explained below.

Conclusions	Implication for the Framework
Variance in business model definitions	Reconcile divergent definitions by emphasizing common features, namely, inputs, activities, value creation and financial performance (e.g., revenue generation, cash flow)
Business model and strategy are separate yet related concepts	Highlight the connection between business model and strategy but exclude strategy from the scope of business model disclosure guidance
Outcomes of product and service offerings are key considerations	Ensure the Framework includes both outputs and outcomes
Capitals are a key feature of a business model	Capitals serve as inputs into the business model and are also related to outcomes

Figure 4. Conclusions and implication for the Framework

18. Divergent approaches need to be reconciled by forming a common, widely-accepted definition of key elements that need to be considered when determining what constitutes a business model. These key elements could usefully encompass inputs, activities, outputs and outcomes. A link to financial performance, in terms of cost, revenue generation and cash flows, represents the value added that accrues to the organization and investors.

19. The Framework draws a distinction between outputs and outcomes, but recognizes that both are important in presenting a complete picture of a business model. Outputs represent the key products and services that an organization produces. These outputs can then have a range of outcomes, both internally to the organization and externally among a wider set of stakeholders. For example, in the case of a car manufacturer, the output is the car; the outcomes to a consumer may be mobility, safety, reliability, comfort and status. Outcomes that flow beyond the customer include environmental impacts arising from emissions.

20. Incorporating the key elements of inputs, activities, outputs and outcomes will facilitate report preparers to make the connection to the capitals. This, in turn, will encompass the broader concepts of value creation identified in the Framework, as well as a more complete definition of business model than is traditionally the case.

21. Linking strategy and business model disclosures is important, but they should be distinct disclosure elements. Building upon an assessment of opportunities, risks and the market environment, an organization’s strategy will determine the appropriate mix of products and services (outputs) to achieve the desired outcomes that will generate the greatest benefits to customers and other stakeholders. The aim of the business model is then to deliver on this strategy, and consequently the outputs and desired outcomes, both of which may be expressed quantitatively in terms of targeted key performance indicators. It is also important to avoid describing the business model as merely an organizational overview and description of the business.

22. A description of the actual outputs and outcomes achieved is therefore fundamental to a proper understanding of the effectiveness of an organization's business model. Disclosure on the achievement of outcomes (ideally presented relative to prior periods), market expectations, strategic goals or other benchmarks can be considered part of the "Performance" Content Element of the Framework. Performance analysis may identify changes necessary to the business model to better achieve the current strategy. Alternatively, this analysis may highlight changes to *strategic objectives* that affect the current business model.

23. The capitals identified in the Prototype Framework are, in one form or another, the key input components of the business model. The organization and its stakeholders require information about the performance of its business activities and the resultant outputs and outcomes.

24. From a practical perspective, the Framework could encourage structure and use of simple diagrams and common, identifiable terminology for the purposes of reporting on business models in integrated reports. The review of current reporting practices revealed several positive features that might assist in this regard. For instance, some of the more insightful business model discussions included one or more of the following characteristics:

- A diagram highlighting key elements of the business model, supported by a clear explanation
- Explicit "sign-posting" of business model concepts through the use of common, identifiable terminology and headings
- Connection to other aspects of reporting, including organizational overview, strategy, opportunities and risks, and key performance indicators.

25. With respect to the Framework's Content Elements, a distinction between an organization's context, overview and activities is needed. These can be defined as:

Context A description of the key external factors associated with the organization's operating environment including, for example, economic conditions, consumer demand, competitive landscape, technological change and societal norms

Overview A factual account of the organization including, for example, its mission and vision, key business lines, regional presence and workforce size

Activities A description of the organization's actions to convert inputs into outputs and outcomes

This distinction, which was only partially apparent in the 2011 Discussion Paper, was made clear in the Prototype Framework.

26. The remainder of this Background Paper for <IR> further develops the key ideas discussed above.

3. Definition

27. The considerable variation in business model definitions and approaches to disclosure requires the development of a clear, universally-applicable business model definition. The proposed definition below aims to bridge varied interpretations by highlighting commonalities, while ensuring a sufficiently broad and inclusive approach for application across industries and sectors.

Business model: The organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term.⁸

⁸ The Prototype Framework's definition of business model encompassed inputs, activities and outputs on the basis of this project's interim findings. The inclusion of outcomes stems from subsequent considerations and is a substantial point of difference from the Prototype Framework.

4. Positioning the business model

28. It is important to establish where the business model sits within the broader narrative. Based on the literature study and review of current reporting practices, it would be appropriate for the Framework to make a distinction between business model disclosures and other information such as:

- external factors or context
- capitals
- governance
- strategy and resource allocation
- opportunities and risks
- performance
- future outlook.

29. It should be recognized, however, that these elements are highly interconnected, as demonstrated in Figure 5, which proposes a graphical interpretation of the concepts above that can be used to determine the key disclosure elements of the Framework. The diagram shows an all-encompassing system, extending beyond the confines of the organization and its business model. The organization sits within an operating context defined by external factors. Encompassing the whole organization are its mission and vision, which set out the organization's purpose in clear, concise terms.

30. Those charged with governance of the organization are responsible for creating appropriate oversight structures, within which organizational components are in dynamic flux, each interacting with the others at regular intervals. Continuous monitoring and careful analysis of external factors in the context of the organization's mission and vision identifies the key opportunities and risks relevant to the organization. The organization's strategy identifies how it intends to maximize opportunities and mitigate or manage risks. It sets out long term strategic objectives and strategies to achieve them. Shorter term resource allocation plans drive implementation of the strategy.

31. At the heart of the organization is its business model, which draws on capitals as inputs and, through business activities, converts them to outputs (products, services, by-products and waste). Both the organization's activities and outputs lead to outcomes in terms of effects on the capitals. Some of the capitals that the organization uses and affects belong to the organization. Others belong to stakeholders more broadly (identified as "society" in Figure 5).

32. The organization needs information about its performance, which involves measurement and monitoring systems, to provide information for decision-making. The system is not static; regular review of each component and its interactions with the other components in the context of the organization's future outlook leads to revision and refinement to improve all components.

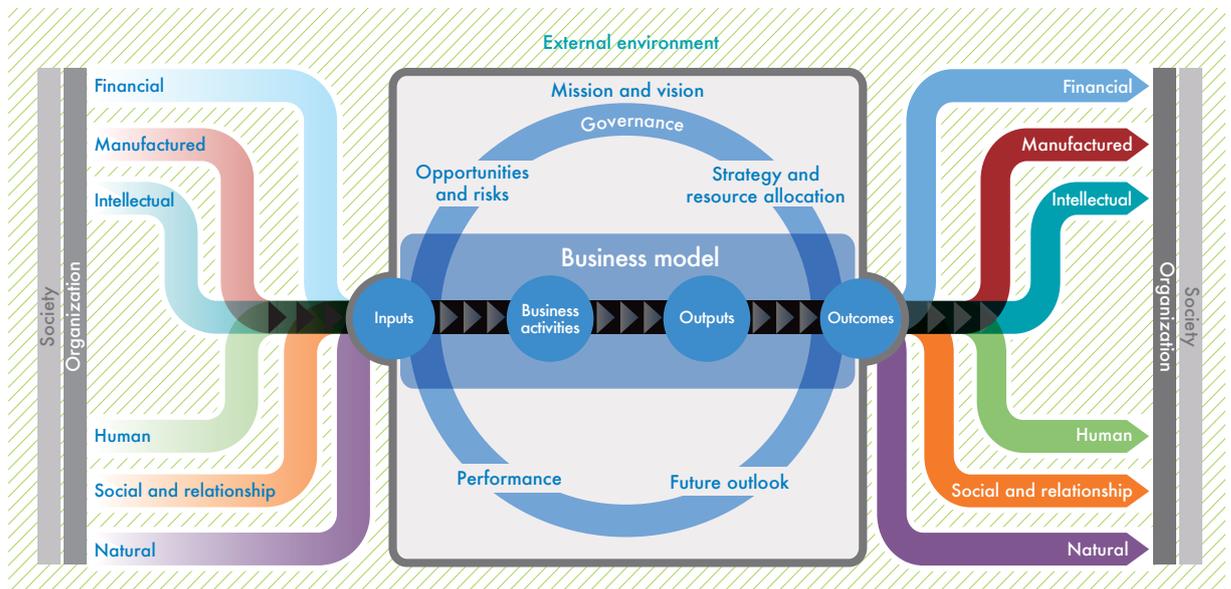


Figure 5. Position of business model relative to other system elements

5. Relationship to the capitals

33. Every organization requires one or more of the capitals as inputs to its business model. These capitals are then consumed or transformed by activities that produce a range of outputs. The extent to which these outputs create or destroy value depends on the outcomes they generate and the perspective taken. For instance, manufacturing a product that appeals to customers will create demand and generate revenue; whether that demand is profitable depends on the market price that product can command and the cost structure implicit in the supply chain. In the longer term, factors such as customer satisfaction, innovation, organizational reputation, ethical practices and environmental impact are likely to affect brand loyalty and the organization's value-creating potential. These factors are also likely to have a direct impact on the dynamics of demand, market price and cost of supply through brand loyalty and supply chain availability.

34. A key consideration in <IR> is the potential trade-off between the short and longer term impacts on the capitals. A second consideration is the trade-off between the positive and negative impacts on those capitals. For instance, some may regard an organization's depletion of non-renewable resources as value-eroding; others may maintain that the financial return, coupled with environmental impact mitigation activities, more than offset this erosion. An effective integrated report should disclose such trade-offs and consider how the position is likely to develop over the longer term.

35. The organization's interaction with internal and external capitals is expressed in Figure 6. The six capitals represent potential inputs to the business model, with each being either a direct input (e.g., labour, raw materials or cash used in transactions) or indirect input (e.g., transportation infrastructure, regulatory parameters or education of the workforce). In some cases, the organization does not bear a direct charge for its use of the capitals. This is often the case in the organization's use of common societal assets, such as road networks, and environmental assets. The combination of costs borne by the organization and those borne by broader stakeholders (labelled "society" in Figure 6) are represented by the gear marked "sharing of costs".

36. At the core of the business model are activities that, through the consumption and/or transformation of inputs into outputs, aim to generate valuable outcomes. These business activities are represented by the central gear in Figure 6.

37. Business activities can also have a direct effect on the outcomes of the business model, independent of the outputs. For instance, ethical manufacturing procedures may have a positive outcome in terms of corporate reputation. This is represented by the dashed line.

38. Outputs are typically recognized to be the products and services that are intended to generate revenue for the organization. However, there are potentially other outputs that need to be considered, such as waste and other by-products, which may need to be discussed within the business model disclosure.

39. As with inputs, outcomes can be either internal or external to the organization. Employee morale and corporate reputation are examples of internal outcomes. Customer value and environmental consequences are examples of outcomes flowing to society (including customers, without whom no business can continue to create value). From an input point of view, the capitals either belong to the organization or to broader stakeholders (society or the common good). Similarly, the benefit of value created by the organization represents a sharing of value between society and the organization (the third gear in Figure 6).

40. Assessing targeted or desired outcomes against strategic objectives and actual performance may lead to changes to the business activities and potentially the strategy of the organization. Additionally, consideration of the whole value chain rather than just what is currently owned or directly controlled by the organization may highlight that current performance and strategy cannot be sustained over time without a change in the business model, because value creation is a cycle in which the stock of capitals at the end of a period become the capitals available for use by the business model in the following period (as represented by the dotted line).

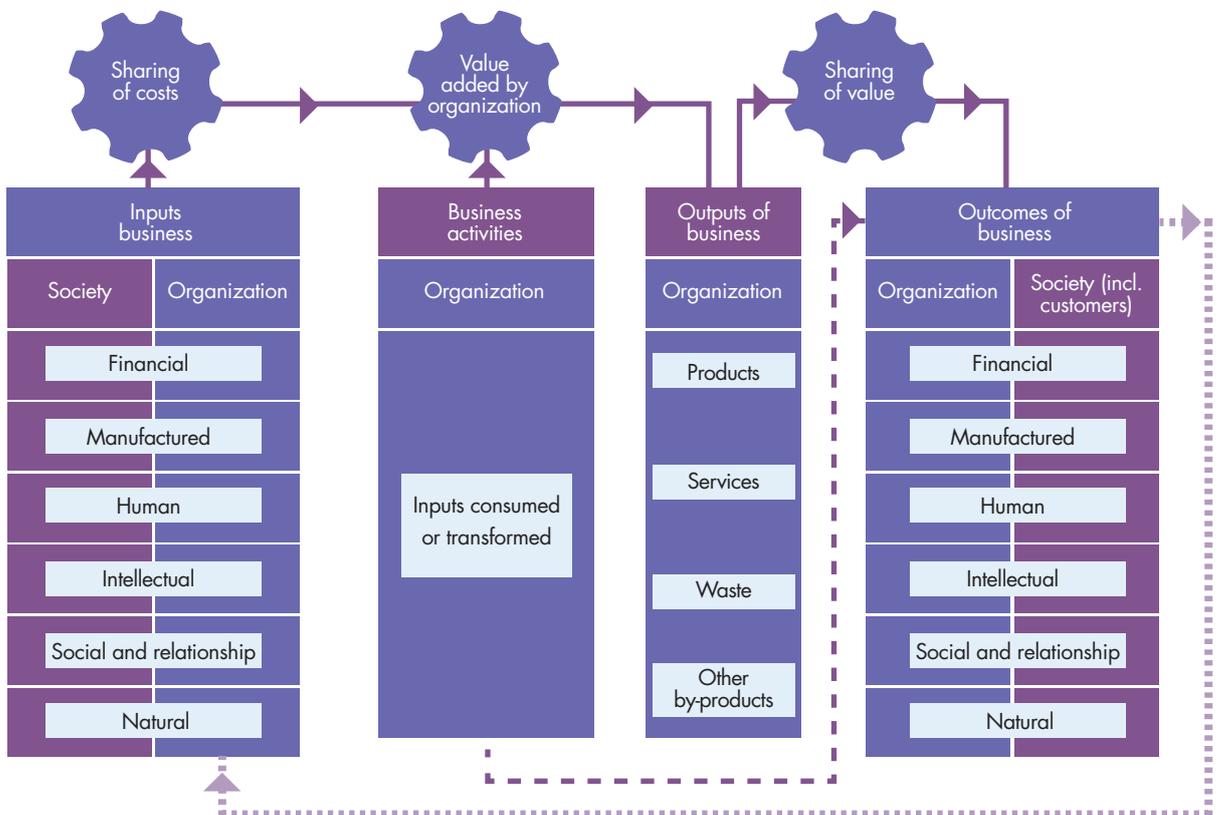


Figure 6. Interaction of business model with internal and external capitals

6. Reporting

41. As demonstrated in Figure 5, the business model exists at the core of an organization and represents the fundamentals of the entity's activities, operating within an overarching organizational architecture.

42. Business model reporting should therefore be a central part in facilitating a better understanding of the organizational aspects such as:

- What are the impacts of key external factors upon the organization?
- What does the organization do to create value for customers and other stakeholders, and thereby for providers of financial capital?
- What are the organization's desired outcomes?
- What does the organization rely on in terms of the capitals?
- What is the organization's positioning in the value chain and the markets in which it operates?

43. Figure 7 provides practical guidance as to how business model disclosures can be organized. The topics within this disclosure map are not intended to be fixed. Indeed, their exact placement may vary from organization to organization. Of greater importance is that the discussion presents material topics in a manner appropriate to the organization's circumstances and flow of capitals.

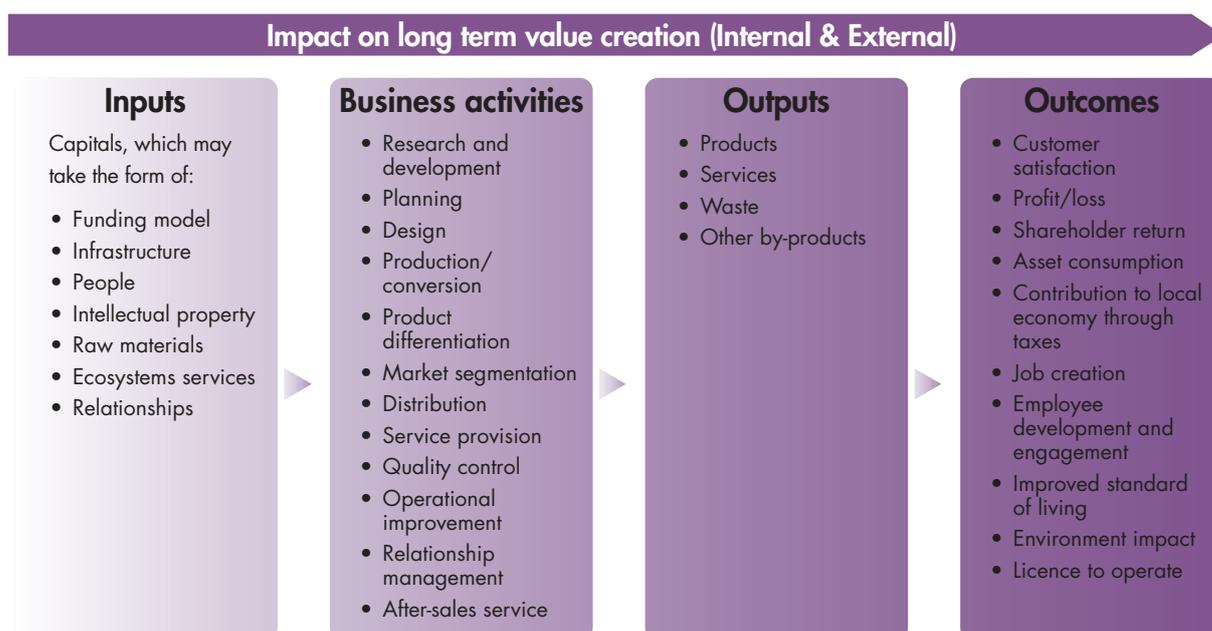


Figure 7. Business model disclosure map

6A Reporting on inputs

44. The organization should identify key inputs, and to the extent that they are material to understanding the robustness and resilience of the business model, how they relate to the capitals on which the organization depends, or that provide a source of differentiation. The discussion should include a concise, meaningful account of how these inputs link to opportunities and risks, strategy and performance.

- All organizations require a certain degree of funding to provide, for example, working capital, vendor financing or long term project financing. Where material, this information helps develop a full understanding of the business model. To enhance report users' understanding of its use of **financial capital**, the organization should provide an overview of its funding model.
- In terms of **manufactured capital**, the organization should explain how facilities, equipment and other infrastructural components lend operational efficiency and effectiveness in the form of productivity, cost containment, enhanced safety and environmental stewardship. Organizations should also explain their reliance on external infrastructure, which may be in the form of public assets or third-party resources. Whether these are paid for directly or indirectly through taxes, the continued existence of this external infrastructure can be essential to the long term success of the business model.
- Although employees can be an organization's greatest asset, disclosures often overlook their contribution to long term success. Some business models require a workforce that is not only highly engaged, but also equipped with specialized knowledge and skills. The importance of **human capital** to an organization should be reflected in a discussion of the key skills and experience of staff and the ways in which the required levels are maintained, such as through training and development programmes.
- Brands, patents, copyrights, proprietary knowledge and other forms of intellectual property may be the lifeblood of an organization. Since many forms of

Capitals defined

Financial capital. The pool of funds that is:

- available to an organization for use in the production of goods or the provision of services
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Manufactured capital. Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- buildings
- equipment
- infrastructure (such as roads, ports, bridges and waste and water treatment plants).

Manufactured capital is often created by one or more other organizations, but also includes assets manufactured by the reporting organization when they are retained for its own use.

Human capital. People's competencies, capabilities and experience, and their motivations to innovate, including their:

- alignment with and support of an organization's governance framework and risk management approach, and ethical values such as recognition of human rights
- ability to understand, develop and implement an organization's strategy
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

Intellectual capital. Organizational, knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights and licences
- "organizational capital" such as tacit knowledge, systems, procedures and protocols
- intangibles associated with the brand and reputation that an organization has developed.

Natural capital. All renewable and non-renewable environmental stocks that provide goods and services that support the current and future prosperity of an organization. An organization's activities affect,

intellectual capital, including “knowledge” and “organizational” intangibles, are not captured on the balance sheet, it is important to explain their capacity to create value.

- Many organizations rely on raw materials to ensure production continuity. Planetary limits can render a business vulnerable to resource changes, some of which may be sudden and irreversible. Ecosystem services, or processes that occur within the natural ecosystem, can also present material risks or opportunities. Such services include water purification, nutrient cycling, pollination and carbon sequestration. Depending on the industry, these services may feature prominently in the business model. A discussion of natural capital should, therefore, describe the key natural resources and ecosystem services upon which the organization relies. Where critical supplies or ecosystem services are expected to improve or erode, the organization should explain its general course of action. Finally, for organizations expecting to undertake significant environmental remediation efforts, those activities should also be explained.
- Most business models require a network of relationships to succeed. For some, supply chain management can be one of the most important aspects of the business model. Other business models can be predicated on joint technology development, albeit with separate downstream exploitation. **Social and relationship capital** considerations include the network of partnerships and stakeholder relationships upon which the organization relies, as well as programmes designed to develop and enhance these interactions.

positively or negatively, on natural capital. It includes:

- air, water, land, forests and minerals
- biodiversity and ecosystem health.

Social and relationship capital. The institutions and relationships established within and between each community, group of stakeholders and other networks (and an ability to share information) to enhance individual and collective well-being. Social and relationship capital includes:

- shared norms, and common values and behaviours
- key relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with customers, suppliers, business partners, and other external stakeholders
- an organization’s social licence to operate.

45. Organizations should not attempt to provide an exhaustive list of all capitals used. Rather, focus should be on those capitals that have a material bearing on the organization's ability to create value in the short, medium and long term. This focus should not be restricted to capitals owned or directly controlled by the organization but rather should, with appropriate explanations, consider the entire value chain.

46. Planetary constraints have the potential to impact the quality or availability of inputs. Organizations should identify and explain critical vulnerabilities in the business model attributable to those constraints.

6B Reporting on business activities

47. At the heart of the business model is the conversion of inputs into outputs through business activities. These activities may include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services.

48. Where material, the organization should discuss the contribution to long term business model success of initiatives that influence the effectiveness and efficiency of business activities, such as process improvement, employee training and relationships management.

49. A description of business activities should also include how the organization differentiates itself in the marketplace through product differentiation, market segmentation, delivery channels and marketing. The description should also explain the extent to which the business model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges).

50. Encouraging a culture of innovation can often be a key business activity, in terms of generating new products and services that anticipate customer demand, introducing efficiencies and better use of technology, substituting inputs to minimize adverse social or environmental impacts and finding alternative uses for outputs. The capacity of the business model to adapt to changes (e.g., in the quality and availability of inputs) can impact the organization's longer-term viability. The business model's responsiveness to change should also be discussed.

6C Reporting on outputs

51. Organizations should identify their key products and services. There are, potentially, other outputs, such as waste and other by-products, that may also need to be discussed within the business model disclosure depending on their materiality.

6D Reporting on outcomes

52. Organizations should explain the key outcomes that arise from their business activities, outputs and effect on the capitals. Outcomes can either be internal or external to the organization and ordinarily require consideration of the entire value chain, rather than that owned or controlled simply by the organization.

6E Enhancing effectiveness and readability

53. Features that can enhance the effectiveness and readability of the description of the business model include:

- Explicit identification of the key elements of the business model within the discussion
- A simple diagram highlighting key elements of the business model, supported by a clear explanation of the relevance of those elements to the organization
- Narrative that addresses all material matters and is logical given the organization's circumstances
- Identification of critical stakeholder and other dependencies, key value drivers and important external factors, including factors over which it has control
- Positioning of the organization within the entire value chain
- Connection to other aspects of reporting, including strategy, opportunities and risks, key performance indicators and financial considerations like cost containment and revenues.

6F Organizations with multiple business models

54. Some organizations employ more than one business model reflecting, for example, different market segments in which the business operates.

55. Unbundling the organization to its material constituent operations and associated business models is important to an effective explanation of how the organization operates. This requires a distinct consideration of each material business model as well as commentary on the extent of connectivity between the business models, such as the existence of synergistic benefits.

56. Some organizations consist of multiple, diverse business divisions or segments managed by a central corporate division acting in an investment management capacity. The decisions faced by providers of financial capital in these cases are likely to focus on the investment management business model rather than the business models of the individual segments. In such cases the integrated report should similarly focus on the business model of the corporate centre.

57. Integrated reports for organizations with multiple businesses often need to balance disclosure with the need to reduce complexity. The Prototype Framework's Guiding Principle of Materiality and Conciseness is very relevant here. Aligning external reporting with internal reporting by considering the top level of information that is regularly reported to those charged with governance is nearly always appropriate, even for the most complex of organizations.

Appendix

Literature review

	Year	Author(s)	Title	Summary of key definitions and points in the paper
1	2012	Black Sun	The business model – the missing link for twenty-first century companies?	There are several approaches to business model reporting, including: Business description - The business model is used to explain how the organization is structured and how it delivers its products or services. Link to strategy - Explains the business model in the context of overall strategy, often using the two terms interchangeably How money is made - The model for selling products underpins the business model description. Value creation - Usually presented as a value chain, this approach illustrates how an organization adds value during its operational process.
2	2012	Business Model Community	Special Issue on Business Models	The business model is the way an organization operates to ensure its sustainability and is related to the value proposition of the firm, the internal and external organization and the firm's resources and competencies.
3	2011	James Leisenring Thomas Linsmeier Katherine Schipper Edward Trott	Business Model (Intent)-Based Accounting	The business model refers to management's use or disposition of assets and holding or transferring/settling obligations, with the understanding that these actions are undertaken with a profit motive.
4	2011	Dr Risto Rajala	Service Business Model Design	An entity's resources/relationships (i.e., capitals) and revenue model are key components of the business model.
5	2010	IASB	IFRS Practice Statement on Management Commentary	Though the term business model is not referenced explicitly, the following related aspects are mentioned: <ul style="list-style-type: none"> • objectives and strategies • resources, risks and relationships • performance measures and indicators • critical financial/non-financial resources and how they are used.
6	2010	ICAEW	The Theory of the Firm and Financial Reporting, Business Models in Accounting	The business model is intended to improve users' understanding of the firm and how it makes money. The business model approach to financial reporting includes three considerations: <ol style="list-style-type: none"> 1. Financial reporting should provide a reality check on a firm's business model and its execution. 2. Where the firm's business model is to transform inputs so as to create new assets or services as outputs, it is expected that historical cost would generally be the most useful basis of measurement. 3. Where the firm's business model is to buy and sell assets in the same market, with the intention of profiting from market price changes, it is expected that fair value would generally be the most useful basis of measurement.

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7	2010	Ken Kaufman	Business Model	The business model is how the business makes money. It is the accumulation of sales, marketing, operations, administration, R&D, finance, strategies and tactics – that determine if the organization makes money or doesn't.
8	2010	Erwin Fiel	A Business Model Definition	A business model describes the value logic of an organization in terms of how it creates and captures customer value.
9	2010	Michael Rappa	Business Model on the Web	The business model is the method by which an organization sustains itself – that is, generates revenue. The business model discussion explains how an organization makes money by indicating its position in the value chain.
10	2009	Florian Lüdeke-Freund	Business Model Concepts in Corporate Sustainably Contexts	<p>A “business model for sustainability” is the blueprint of an organization's <i>business logic</i> which internalizes the business case for sustainability.</p> <p>The paper identifies currently perceived intersections of corporate sustainability and business models.</p>
11	2009	IFAC	International Good Practice Guidance, Evaluating and Improving Governance in Organizations and Evaluating and Improving Costing in Organizations	<ol style="list-style-type: none"> 1. The business model is how an organization takes resource inputs and generates value for stakeholders. It includes an organization's objectives, revenue streams, strategy, operations and other functions. 2. A description of the rationale for, and processes by which, an organization selects the markets in which it will operate (or activities it is required to undertake) and delivers financial and product/service outcomes. It defines where and how the organization acquires and deploys goods, services, finance and human resources to create and sell products and/or deliver services through which it creates the value expected by its owners for its customers or other key stakeholders.
12	2008	Mutaz M. Al-Debei Ramzi El-Haddadeh David Avison	Defining the Business Model in the New World of Digital Business	The business model is an abstract representation of an organization, be it conceptual, textual and/or graphical, of all core interrelated architectural, co-operational and financial arrangements designed and developed by an organization presently and in the future, as well as all core products and/or services the organization offers, or will offer, based on these arrangements that are needed to achieve its strategic goals and objectives.
13	2008	Westerlund et. al.		The business model of a firm spells out how the organization generates revenue by specifying the nature of relationships with other actors as well as the firm's position in its value-creating network.
14	2008	L. Applegate	Sound Business Model and a New Technology: Essential to Product and Process Innovation	The business model defines how an organization interacts with its environment to define a unique strategy, attract the resources and build capabilities required to execute the strategy and create value for all stakeholders.

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15	2007	Bruce Rasmussen	Business Models and the Theory of the Firm	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?
16	2006	IBM Global CEO Study	How to Describe and Improve your Business Model to Compete Better	The business model of an organization is a simplified representation of its business logic. It describes what an organization offers its customers, how it reaches them and relates to them, through which resources, activities and partners it achieves this and, finally, how it earns money. The business model is usually distinguished from the business process model and organization model.
17	2007	Amit and Zott	Exploring the Fit Between Business Strategy and Business Model	A firm's product-market strategy and its business model are distinct constructs that affect the firm's market value. It suggests that competitive advantage can emerge from superior product-market positioning, as well as from the firm's business model.
18	2006	Bruce M. Firestone	Getting the Business Model Right	The business model explains the way the business actually works. It enables systematic predictions about the business. It allows the business to design processes and offerings by first describing, classifying and predicting them.
19	2006	Henry Chesbrough	Open Business Models	A business model performs two important functions: it creates value and captures a portion of that value. It creates value by defining a series of activities from raw materials through to the final consumer that will yield a new product or service with value being added throughout the various activities. The business model captures value by establishing a unique resource, asset or position within that series of activities, where the firm enjoys a competitive advantage.
20	2005	Jim Muehlhausn	The 51 Fatal Business Errors and How to Avoid Them	The business model is what makes a business unique. It is the formula used to outsmart competitors, provide ongoing value to customers and continually grow the business. There are eight essential areas to a business model, including strong margins, competitive advantage and key capitals (intellectual, financial, human and brand).
21	2005	Alexande Osterwalder	What's a Business Model?	The business model is a simplified description of how an organization does business and makes money, without going into the complex details of its strategy, processes, units, rules, hierarchies, workflows and systems.

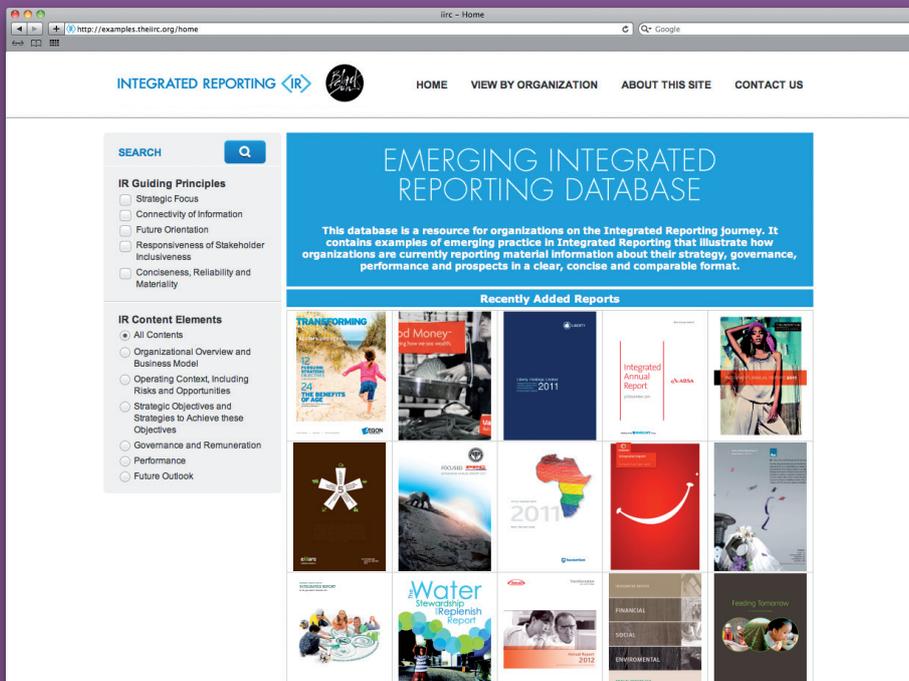
Literature review (continued)

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22	2005	Teen Analyst	Investing Made Easy	A business model is an organization's plan of how it can become profitable and grow. It usually includes its revenues and debts, description of operations and functions of the business. A business model can be very simple or very in-depth and complex. The primary objective of a business model is to explain how the business plans on generating income.
23	2005	James E. Burke	The E-Business Model	The e-business model, like any business model, describes how an organization functions (how it provides a product/service, generates revenue and creates and adapt to new markets and technologies). It includes four elements: the e-business concept, value proposition, sources of revenue, and the required activities, resources, and capabilities. Successful businesses are able to integrate these business model components in a complementary way. The e-business concept describes the business' rationale: its goals and vision and products/offering from which it will earn revenue. A successful concept is based on a market analysis that identifies customers likely to purchase the product and how much they are willing to pay.
24	2005	KPMG (Economist Intelligence Unit)	Rethinking the Business Model	The business model is the mechanism by which a business generates revenue and profits, encompassing value proposition, market segment, revenue-generation model, cost structure and value chain.
25	2003	Michael Morris, Minet Schindehuttb, Jeffrey Allen	The Entrepreneur's Business Model: Toward a Unified Perspective	The business model is 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. At its essence, a well-formulated model must address six key questions: <ol style="list-style-type: none"> 1. How will the firm create value? 2. For whom will the firm create value? 3. What is the firm's internal source of advantage? 4. How will the firm position itself in the marketplace? 5. How will the firm make money? 6. What are the time, scope and size ambitions?
26	2002	Hedman and Kalling	Developing a Business Model for IT Businesses	Organization theory – including transaction cost economics, strategy theory, Porter's framework, the resource-based view and strategy-process perspective – underpin business model theory. Business model reporting includes a description of: <ul style="list-style-type: none"> • industry, customers and competitors • product offering • activities and organization • resources and competencies • factor markets and suppliers.

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27	2002	Chesbrough and Rosenbloom		<p>The business model takes technological characteristics and potentials as inputs and converts them – through customers and markets – into economic outputs. Determining the business model involves:</p> <ul style="list-style-type: none"> • articulating the value proposition (value created for users) • identifying a market segment (users to whom the technology is useful) • specifying revenue generation mechanisms • defining the necessary value chain and the complementary assets needed to support the firm’s position in the value chain • estimating the cost structure and profit potential of producing the offering, given the value proposition and value chain structure • describing the firm’s position in the value network, including identification of potential complementary factors and competitors • formulating the competitive strategy by which the innovating firm will gain and hold advantage over rivals

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