

THE CENTRALITY *of* BUSINESS MODEL *in* THE FUTURE *of* CORPORATE REPORTING

The concept of business model (BM) only gained prominence in business language over the last decade, its diffusion can be said to trace back to the 1990s within the field of information technology. With the development related to the Internet and the rise of the dot.com phenomenon, this concept started to be used by digital businesses to better explain the activities they were undertaking, and consequently, how they were able to continue to attract investors.

By *Laura Girella*



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 Technical Director, Connectivity and Integrated Reporting at the Value Reporting Foundation, and a member of the EFRAG Project Task Force on Risks and Opportunities and Linkages to the Business Model, gives insights into this European project of non-financial risks and opportunities reporting and linkage to the business model.

Since then, more interest in this concept has been demonstrated by scholars and practitioners across different arenas in business and management studies, such as strategy, accounting, finance and, auditing. More recently this notion has also begun to be the subject of lively debate in the non-financial/sustainability reporting field. This trend has led business models to be conceived as a fundamental aspect through which it is possible to better understand the ways in which an organisation can create, capture and communicate value over time. This has become even more manifest during the Covid-19 pandemic.

Considerations by IIRC now Value Reporting Foundation

Despite definitions of Business Model are now spread across different Frameworks and Standards, especially in the sustainability field, a comprehensive view of this notion results to be particularly highlighted in the International <IR> Framework initially released in December 2013 and reviewed in 2021 by the International Integrated Reporting Council (now Value Reporting Foundation), which defines the business model as “an organisation’s system of transforming inputs, through its business

SOURCES:

- Integrated Thinking Principles, 2021, <https://bit.ly/39gH1lb>
- International <IR> Framework, 2021, <https://bit.ly/3kbjGj>
- NIBR Business Model Representation in Integrated Reporting: Best Practices and Guidelines, 2018, <https://bit.ly/3rPyXLr>
- EFRAG Project Task Force Report “Insights on reporting the business model, sustainability and risks and opportunities”, 2021, <https://bit.ly/3vGFrgV>

activities, into outputs and outcomes that aims to fulfill the organization’s strategic purposes and create value over the short, medium and long-term”. Analysing this definition, it appears quite clear that attention has to be directed to aspects such as: the strong correlation of a business model to an organisation, i.e., each organisation has a unique business model; to the process of transformation of inputs into outputs and outcomes (where the former are the products and services created by an organisation and the latter are the consequences - positive and negative - for the capitals as a result of an organization’s business activities and outputs) and; to the view that the business model is the way strategy is executed or realised. To put it differently, business model represents the core, the nucleus around which an organisation system revolves and evolves.

Once that an organisation has identified and discussed its business model, another aspect that emerges as particularly important is the representation of the business model in internal and external reports (annual, reports, integrated reports, sustainability reports, etc.). The underlying logic is one which considers all the resources which participate in the “making” of the organisation. With this in mind, an adequate representation of the business model is a critical element for the company. By sharing it, all business relationships are made clear and all stakeholders become aware of their “role” within that system and of the contribution they provide. Presenting the business model is the most important way to share the company’s “corporate philosophy and structure” to strengthen the relationship with its stakeholders and the resources involved in business activities. In practical terms, this allows the company to align the macro-business objectives with external partners and resources, as well as to coordinate with each other. The capitals of the Framework are made up of stocks whose value can be increased, decreased, or transformed. The business model is

the driver of changes in the capital stocks used and affected by the organization. In other words, the way in which a business model works constitutes one of the major engines for value creation.

Considerations by EFRAG

The comprehensive definition of Business Model as proposed by the International <IR> Framework (2021) as well as the importance of aspects such as strategy, connectivity of information, time horizon and balanced presentation of risks and opportunities are only some of the aspects that have been found as fundamental to reach a good leading practice of a business model according to the work of the EFRAG Project Task Force that has been conducted in 2020 and 2021 and that have resulted in the publication of a dedicated Report in October 2021. The Report identifies and discusses the state of play and the drivers of current reporting practices by presenting 37 examples of good or leading practices extracted from 27 companies, as well as how the application of technological solutions can be of support in the depiction of business model and suggests a path to improvement in the reporting of sustainability risks, opportunities and their linkage to the business model.



Session 1 powered by FS Parker

Business model - what does it need - in terms of content and visuals?
 Dr. Laura Girella (Value Reporting Foundation), Joanna Kenneds (Coca-Cola HBC) and Sallie Pilot (Black Sun) will provide insights into good leading practices of a business model at this year’s Geschäftsberichte-Symposium. Learn about the journey to embrace integrated thinking and modern business principles, including changes to underlying operating models, challenges, and opportunities during the process and how a good business model visualization can increase the holistic understanding of a company.