

Business models, financial reporting and corporate governance

Michael Page • Laura F. Spira

Michael Page is Emeritus Professor of Accounting at the University of Portsmouth and holds visiting academic positions at Brunel University, Royal Holloway University of London and Southampton University. He researches and publishes on the Principles of Accounting and Corporate Governance.

Laura F. Spira is Emeritus Professor of Corporate Governance at Oxford Brookes University. She has published widely in the field of Corporate Governance. Her most recent book is *The Cadbury Committee: a History* (with Judy Slinn) Oxford:OUP.

1 Introduction

This special issue on 'Business Models, Financial Reporting and Corporate Governance' comprises six themed papers spanning the subject matter. The Special Issue was launched at the AIDEA Congress held in Lecce, Italy in 2013 as a part of the track: 'Should financial reporting reflect firms' business models? What accounting can learn from the economic theory of the firm'.

Linking the three components of the theme is innovative because, although there is a substantial literature on each issue, there is not very much written about the connection of business models to Financial Reporting or to Corporate Governance (CG).

The explosion of recent work in Business Models (Zott et al. 2011) has

arisen from the fields of e-business, strategic management and innovation and technology management. As Page and Spira (2016) point out, there has been little research into corporate governance issues and business models and the role of the board in sustaining and developing business models has not been addressed. The idea of business model does not of itself contain items that have not been previously discussed but it provides a new 'unit of analysis' that can provide insights into how businesses create and capture value.

The linkage between Financial Reporting and Business Models has been discussed by a few academic articles, notably Beattie and Smith (2013), but is an area where practice and professional announcements have been running ahead of academic research and a number of regulatory bodies have recommended companies to discuss their business models as a means of informing users of financial statements.

Lassini et al. (2015) investigate whether firms' accounting choices depend on their business models. They use an innovative exploratory technique to cluster the business models of a sample of 103 European listed companies. Their finding of no significant relation is significant for research in the area by raising important questions about whether current financial reporting is capable of capturing important dimensions of the way firms operate in the new economy. At the same time, the work points up the need to develop tools for investigating and classifying business models.

Also adopting the theme of whether the nature of a firm's business models affects its disclosures, Bagnoli and Redigolo (2015) classify the business models of three Italian IPO companies into 'technology-push', 'design-driven' and 'market-pull' with regard to innovation. They use a case study approach based on content analysis of intensive and repeated interviews with senior management to arrive at their conclusions. They conclude that the technology push company is more reticent than the others about

disclosing intellectual capital and think this finding may generalisable.

The paper by Melloni et al. (2015) asks whether companies seek to manipulate the impression formed by readers of their business model disclosures. Impression management has become an established suite of techniques for critical examination of corporate disclosures. Lai et al. find that there is evidence of choice of manner of disclosure to provide a positive impression of events that is consistent with the findings of previous research on impression management. The sample used in the research was companies that chose to present disclosures adopting the recommendations of the International Integrated Reporting Council (IIRC 2013). The IIRC's recommendations have achieved considerable prominence as a means of broadening disclosures that are of interest to a much wider group of users than disclosures arising from the capital-provider focussed approach implemented by the International Accounting Standards Board.

The challenge of representing business models in financial reporting disclosures is demonstrated by Di Carlo et al. (2015) in their study of business models in groups of companies. They highlight the importance of determining business model boundaries: the relationships within groups between business models, operating structures and legal entities can vary in complexity. In their paper, they develop an analytical framework to examine the economic and decision making autonomy/ dependence of business models within groups, applying it to data from two Italian corporate groups for illustration. To date, there has been little research into corporate governance within groups and this framework could usefully be adapted to examine the role of subsidiary boards in sustaining and developing business models. The authors show that business models, legal entities and control are not necessarily co-terminus. The findings have importance for financial reporting: they question the nature of the business entity, which is fundamental in deciding for what to report, and control, which can define what counts as a group of companies.

In their article on five rating agencies' approaches to rating corporate governance, Louizi and Kammoun (2015) find three clusters of characteristics of governance in a plane with axes labelled 'Shareholders' rights and board directors' and 'Interests of different parties'. Three of the agencies also do credit ratings on a 'ratee pays' business model but two specialise in governance ratings using a 'user pays' business model, where the user is reckoned to be an institutional investor or investment analyst. Interestingly, the two specialist agencies do not cluster together. One is distinct from the other four. The other clusters with one of the ratee pays agencies. The other two ratee pays agencies cluster together. The results seem to imply that governance ratings depend systematically on what agency does them. Users of governance ratings need to decide what aspects of governance matter to them and choose an agency accordingly.

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