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# Business Models, Accounting and Reporting–Two Steps Forward, One Step Back?

Jesper C. Sort[1] and Robin Roslender[2]

**Abstract**

In recent time discussion has gone back and forward regarding the topics of business models, accounting and reporting. In this paper we reflect on some of the main issues pertinent to this discussion as a preamble to identifying a promising way forward.

Keywords: Business models, accounting, reporting

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1 -2 Aalborg University Business School

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## Introduction

In an earlier paper Roslender and Nielsen examined the continuing failure of financial accounting and reporting to prioritise an engagement with the business model (BM) literature despite the concept's pivotal role within Integrated Reporting, a development regarded in some quarters to promise a much-needed renaissance in the fortunes of that discipline (Roslender and Nielsen, 2019a; see also Roslender, Nielsen and Bentzen 2019). The main thrust of their observations was that financial accounting and reporting practitioners may regard what is being offered to them entails too radical a step since it is likely to require a wholesale abandonment of the cost and value calculus on which their jurisdiction has been successfully built over several generations. This will come as no surprise to many outside of the financial accounting and reporting community given the conservatism that has traditional been associated with it.

Managerial accounting's engagement with the BM literature continues to be even more limited. This is puzzling given that managerial accounting quite spectacularly rejected the cost and value calculus, and thereby effective subordination to financial accounting and reporting (Johnson and Kaplan, 1987), three decades ago. In their initial advocacy of BM thinking in relation to enhancing financial reporting, Nielsen and Roslender (2015) argue that managerial accounting had already begun to engage with the BM in the context of the strategy map, intellectual capital statement and, more provocatively, EVA. Nielsen and Roslender (2015) readily acknowledged that the greater part of managerial accounting practitioners may not be aware that they had done so, their principal motivation being to encourage interested financial accounting and reporting practitioners to venture into this part of the new management accounting literature. This also spurred the call for a more performative approach in the field of BMs (Nielsen *et al.*, 2018; Roslender and Nielsen, 2019b) Unfortunately, to date this does not appear to have happened, while Integrated Reporting's hot topic status has also dimmed somewhat.

The present paper explores why managerial accounting has, to date, been no more enthused about the BM concept than financial accounting and reporting. It is based on the premises that i) managerial accounting should find it easier to embrace the BM concept that financial accounting and reporting; and ii) there are significant benefits that could accrue to managerial accounting should it be prepared to embrace the BM concept.

## Approach

The era of the new management accounting was between the middle 1980s until the millennium during which time managerial accounting experienced a major rejuvenation. The period saw the emergence of many new techniques with activity-based costing (ABC) the most widely known and influential. Target costing, sometimes viewed as Japan's equivalent of ABC, has also proved to be influential along with value chain analysis, the core element of strategic cost management (SCM) (Shank and Govindarajan, 1993). All three developments exemplify a significant emphasis on cost management, understood as an alternative to more traditional concerns with cost reduction and cost control. At the extreme, cost management is understood to constitute a generic competitive strategy (cf Porter, 1985). Not every new technique became an established constituent of the new management accounting, however. Some were only moderately influential, e.g., throughput accounting, competitor costing and whole-life costing, while others are no longer widely recalled, e,g., attribute costing, backflush costing, break-even time. Several further developments also merit a mention, although not techniques as such. These include benchmarking, beyond budgeting and total quality management.

Strategic management accounting (SMA) was also visible as an aspect of the new management accounting. The term itself, together with a challenging concrete conceptualisation, predates Kaplan's own initial excursions into how managerial accounting might be rejuvenated. Simmonds (1981) coined the term to name what he viewed as a strategic approach to accounting to management that would require management accountants to become familiar with and incorporate ideas from both marketing

management and strategy theory. Subsequently, Bromwich and Bhimani (1989, 1994) explored SMA's overlap with target costing, although never ruling out some alignment with both marketing management and strategy theory. In this way they distinguished themselves from Shank and Govindarajan's contemporaneous SCM development which, while also being externally oriented was ultimately characterised by an emphasis on accounting numbers of some description. Some years later Roslender and Hart returned to a SMA concept more akin to that envisaged by Simmonds, in time placing greater emphasis on customers and branded market offerings before exiting the field (Roslender and Hart, 2002a,b; 2003; 2006; 2010). Thereafter, interest in SMA became more focused on what the concept entails in practice rather than as a practical management accounting approach(es).

SMA differs from both AB(C)M and SCM, eschewing the pursuit of information that would be recognised as accounting numbers. Although customer profitability analysis (CPA), often identified as an exercise in customer accounting, makes extensive use of such information, it would be wrong to view it as an example of SMA. More correctly it is ABC applied to customers. From the outset, Simmonds was persuaded that SMA must make use of a range of different information that will provide the basis for sounder commercial (strategic?) decision-making. This might include information on sales volumes, market shares, cash flows and resource utilisation, as well as costs and prices. Crucially such information should be identified for both a business and its competitors. Bromwich and Bhimani (1989, 1994) were arguably less provocative in this regard, although their attribute costing technique encompassed a range of different information sets. Roslender and Hart (2002a,b; 2003; 2006; 2010) consistently avoided the temptation to translate insights on brands, customers, markets, products, etc., into financial numbers. Instead they commended the use appropriate metrics, not least those that existed in abundance within marketing management. Beyond these numbers or metrics Roslender and Hart (2002a,b; 2003; 2006; 2010) were attracted to the use of a degree of narrative material (customer self-accounts) that would allow customers to articulate what it was about particular products or branded offerings that attracted them. Equally they were unpersuaded by concerns about information overload concluding, like Simmonds before them, that in principle the more information that is made available, the better, albeit on the assumption that only relevant information is reported.

## Key Insights: Performance Management and Reporting

The relatively limited impact of many new management accounting techniques should not be allowed to overshadow the fact that it facilitated managerial accounting to decouple itself from the cost and value calculus, as well as a means to identify itself as a standalone discipline. Many of the new management accounting's constituent developments focused attention on the beneficial consequences of pursuing measurement metrics of a non-financial nature. SMA is an excellent example of what might be possible in this direction, despite its continued failure to greatly impact practice (cf Langfield-Smith, 2008). It is not the case that financial metrics are of no value in accounting to management, rather that they should no longer be regarded as the only measurement metrics that management accountants are reliant on. An example of a PM system deriving KPIs from BMs was recently discussed in Montemari, Chiucchi and Nielsen (2019). More broadly, accounting should not restrict itself to practices that entail counting using financial numbers. In parallel accounting practitioners are now challenged to recognise that there is more to their stock of practices that financial counting.

Arguably the second most widely influential development within the new management accounting is the balanced scorecard (BS). In its initial formulation the BS was identified as a means of reporting the performance of a business using a combination of financial and non-financial metrics, with the latter predominating. This was evident in the structure of the BS, which in its generic formulation combined a financial perspective with customer, internal business process and learning and growth perspectives (Kaplan and Norton; 1992, 1993, 1996). The BS promised a comprehensive

statement of the performance of a business utilising a range of relevant metrics, or key performance indicators (kpis), perhaps extending to 20 in total being used to populate the four perspectives. Subsequently the BS concept was uprated by Kaplan and Norton, becoming commended as a contribution to the development of strategic management theory, and giving rise to the strategy map development some years later (Kaplan and Norton; 2001, 2003, 2004).

Accounting has been ambivalent about the BS development for several reasons. Although a managerial accounting innovation, it is not a technique, a characteristic of the greatest part of the managerial accounting portfolio. From the perspective of financial accounting and reporting, the BS might qualify as a reporting framework but it lacks the attributes usually associated with procedural frameworks. The absence of any agreed format for a BS is similarly problematic, the four box structure providing a guide to what *might* be developed in the name of a BS. Nor is the BS as an exclusive development since its successful implementation is reliant upon securing inputs from other business functions. Finally, there is the issue of the quality of the information content communicated by the numbers themselves. Accounting practitioners perceive that their traditional stocks-in-trade are extremely robust and able to withstand detailed scrutiny. By contrast the many 'softer' numbers suitable to populate an organisation's performance scoreboard often have an air of subjectivity or partiality about them, notwithstanding the observation that there is a strong case for being nearly right as opposed to being absolutely wrong.

Developments building on the BS's performance measurement and reporting aspects have been relatively few in number, however. The most evident work has been evident in the context of the various scoreboard reporting frameworks developed to document the growth of a business's stocks of intellectual capital (IC) assets. The increased importance of such assets from the early 1990s posed a major challenge to the accounting profession. Many had been developed within the organisation, as a consequence of which it was not possible to identify financial valuations that could be incorporated within a balance sheet or amortisation charges that might reported in an income statement. The two most influential IC reporting scoreboards, Edvinsson's (1997) Navigator and Sveiby's (1997) Intangible Asset Monitor closely resemble the BS (Edvinsson, 1997; Sveiby, 1997). A series of less well-known developments can also be identified (see Andriessen, 2004; Starovic and Marr, 2004). A radically different approach was presented in the Intellectual Capital Statement (ICS) (DATI, 2000; Mouritsen *et al.*, 2003; Nielsen, Roslender and Schaper, 2017). Its knowledge management underpinnings resulted in it being predominantly narrative in content. In this way the ICS set out (an episode of) the story of business by means of a knowledge narrative, management challenges and initiatives. The ICS also incorporated a scoreboard element, often overlooked in relation to its narrative attributes.

By the time the Danish Guideline Project, the origin of the ICS, had concluded in late 2002, interest in researching IC reporting had begun to decline, continuing to do so for the following decade. Mainly due to the efforts of a relatively small number of researchers the topic has evidenced a growth in interest in recent times. IC provides a major focus within the International Integrated Reporting Council's Integrated Reporting (IR) development, where it is identified as three of the six "capitals" that serve as both inputs and outcomes of the "value creation" process (IIRC, 2013: 13). It is within this context that IC is explicitly linked with the BM concept, being portrayed by IIRC as any business's visualisation of how it either actually creates, delivers and captures value, or is proposing to do so. In this way it is possible to identify a line of continuity between the emergence of the new management accounting and a possible formulation of what might be designated the new corporate reporting.

The financial accounting and reporting community remains lukewarm about IR despite the observation that it continues to privilege the interests of shareholders via its emphasis on value capture (Roslender *et al.*, 2019). The most likely explanation of this reticence is that embracing IR is likely to require too great a degree of re-learning for practitioners. In our view it seems as though this should not be such a threatening or onerous process for their counterparts within managerial accounting. From the outside, at least,

many practitioners would seem to be more familiar with alternative ways of performance measurement and reporting, and less immersed within the cost and value calculus. Conversely, it may be that the heady days of the new management accounting have been little more than a challenging interlude, with 'normal service' now resumed.

## Discussion and Conclusions

From our perspective, there is a hint of unfinished business in respect of the development of performance measurement and reporting as this is understood here. It may be that Kaplan's affirmation that "what gets measured, gets managed" was sufficient for practitioners to take on board. A more challenging observation, that "what can be measured, (very often) gets managed", is perhaps a step too far. Between these two views a third can be identified, to the effect that "what needs managed, needs measured". In the context of IR, what needs managed is the value creation process, understood as:

> "The process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs." (IIRC, 2013: 33).

Or more correctly, what needs managed is the implementation of the specific BM, or combination of BMs, that a business has embraced to accomplish its strategic objectives. Viewed in this way, IR becomes even more disturbing for financial accounting and reporting practitioners, while simultaneously throwing down a challenge to their counterparts in the managerial accounting discipline.

Accounting practitioners across the discipline are largely comfortable to be told how they should set about taking specific phenomena into account. Within financial accounting and reporting a voluminous compendium of prescriptions has evolved over time, while managerial accounting is heavily populated with numerical techniques. Accounting for the value creation process as characterised above will be a multi-focus task, some elements of which have already been encountered by the accounting profession, largely unsuccessfully. For example, accounting for human capital can be traced back almost six decades to when researchers set about identifying a means to 'put people on the balance sheet' (Flamholtz, Johanson and Roslender, 2020). Environmental and sustainability accounting evidence a similar provenance, although with a much fuller literature that is more assured about how such accountings should *not* be pursued rather than with sound procedures. The remaining pair of 'new' capitals – intellectual capital and social and relationship capital – portend more of the same. Unfortunately, it seems unlikely that extant approaches to accounting for physical capital and manufactured capital can be relied upon to furnish the necessary insights on the value creation process.

For us, some form of scoreboard measurement and reporting framework suggests itself. The four perspective generic BS model is insufficiently detailed to meet the challenge, as acknowledged in Kaplan and Norton's own recognition of the need for extensive customisation. The same objection also holds for IC reporting frameworks. The temptation to construct a framework that provides information on each of a business's six capitals, possibly in relation to their increase, decrease or transformation within specified time periods risks promoting a mechanistic mindset and the emergence of an alternative balance sheet format, albeit devoid of both financial numbers and any 'balance' (although it could be recognised as a 'balanced' visualisation). A simpler, more feasible framework might be constructed around insights on value creation, value delivery and value capture. A framework with this structure might be further informed by a tri-partite division of stakeholders: customers; shareholders; and society.

A more ambitious approach would be that of identifying an individual business's BM constituents and within them the key value drivers of the value creation, delivery and capture process. What this approach would permit is for an individual business to document the success (or otherwise) of its ambition to do business in the form of an outcome 'story' of value creation, delivery and capture. As with the BS, and before it the focus on critical success factors and key performance indicators, it is senior management who are tasked to identify the story they wish to tell. Their management accountants supply the narrative (=the account).

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