A practical guide to the CGMA Business Model Framework

Connecting value generation for the long term
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Introducing the CGMA Business Model Framework

We believe the focus for all organisations should be achieving success over the long term and creating value for all of their stakeholders. To achieve this they need to meet the needs of their customers and other stakeholders, including society as a whole. The critical stakeholder is the long-term investor, but their return is dependent upon meeting customer needs in return for their capital. Our Framework is a practical manifestation of this philosophy.

About this paper

This brief document is designed to be a practical guide and toolkit that helps boards, senior executives and support staff quickly and easily gain an understanding of their organisation’s business model.

In particular, it describes how they can use the CGMA Business Model Framework to prepare for board discussions and decisions. It gives a background to the rigorous and relevant research on which the Framework is based and highlights why management accountants will find it of particular interest and use.

The paper presents the Framework in diagram format and describes how to relate the Framework to your organisations’ activities. Finally, it lists the salient questions at the heart of the tool with a brief explanation as to why these are important.

By answering these questions, you can do more than rapidly define the current business model – you can also redesign the business model to rise to the opportunities and challenges your organisation will face in the future.

Critically, following the methodology described in this document will help you mitigate the risks that businesses commonly face when reshaping the business model.

Research background: rigorous and relevant

Business models have been an integral part of economic and trading behaviour for generations, but the business model as a conceptual framework has only gained particular stimulus since the advent of the internet in the late 20th century. Today, an organisation needs to build a complete picture of its business model before taking action. This understanding is critical in our view to strategic success.

However, we believe that most current Business Model Frameworks are far from comprehensive and do not support the management accountant specifically.

That is why we have created the CGMA Business Model Framework, based on extensive academic work conducted over the last two decades, coupled with a global consultation that took evidence from over 100 leading practitioners in the management accountancy field.

The CGMA Business Model Framework

An organisation needs to build a complete picture of its business model before taking actions. This understanding is critical in our view to strategic success.

Our Business Model Framework shows how board decisions and management actions work together to create value in the context of these wider stakeholders. Customer value is the most important aspect, but a sound understanding of the Framework means understanding wider stakeholder value. The Framework shows how other stakeholders benefit from customer derived value.

Our extensive global research suggests that businesses need to develop greater clarity, understanding and definition around their business model. This Framework helps to do that, as well as deliver an improved understanding of how value is created and shared with stakeholders. This understanding needs to be dynamic and extend from the past into the future.

Rather than a generic model, we have adapted our Framework to focus on wider stakeholder value and the role of the management accountant in generating value. The revised Framework brings together additional considerations, such as the structure, scale and culture of an organisation, with the financial metrics. In combination, this gives the board a tool which shows the connectivity involved in value generation across the organisation.

The tool also shows the flow through to strategy and performance measures that are critical to long-term success.

Defining success

Ultimately, the key to success of using this tool is that the board understands its risk appetite as it relates to the business model. If the board is happy with this risk and understands the connectivity of key decisions and activities and their ability to generate value, then it can be satisfied that it has fulfilled its duties.
Benefits of the CGMA Business Model Framework

The primary benefits of the CGMA Business Model Framework revolve around the organisation’s ability to define, create, deliver and capture value for its key stakeholders as necessary over time (see diagram below).

Using the Framework makes it easy to:

► **Define**: customers, investors and other stakeholders define the value that is important to them. Using the Framework, the organisation can identify all stakeholders, find out their needs and create solutions that meet them – whether financial or social, natural or intellectual.

► **Create**: based on these definitions, organisations can harness key resources and relationships to create the products, services and experiences that their stakeholders want from them.

► **Deliver**: increasingly demanding and sophisticated stakeholders receive value when the outputs of value creation deliver favourable outcomes, such as revenue, security, satisfaction, loyalty etc. To deliver value, organisations need to segment customers and understand the channels via which to serve them.

► **Capture**: in the private sector, value is captured when revenues engineered by the value chain exceed costs. In the public sector, it depends on whether the benefits achieved by a service are greater than the costs of delivery.

Figure 1 shows the key questions organisations should ask at each stage of the value chain.
The relevance of the Framework to the wider environment

We believe these benefits are particularly important today in a global external environment, where multiple external factors are creating risks and opportunities for organisations’ business models. These include:

- the shift of value from the balance sheet to intangible assets such as intellectual property, customer base and brand. These now account for over 80 per cent of total corporate value, compared to less than 20 per cent 40 years ago
- changing investor approaches towards long-term investment
- balancing the need to focus upon the short term while focusing on long-term success
- demonstrating trust through a focus upon open and accountable leadership and values
- business and government working together to win public trust and promote value
- operating in a global, interconnected environment, alongside the risks of a return to nationalism in some countries
- the impact of technology – automation, data, cybercrime and security
- infrastructure availability, such as broadband and transport links
- diversity and often conflicting regulation, including taxation
- skills and talent shortage
- changing societal norms
- addressing the challenges to the natural environment.

These opportunities and risks give rise to a complex environment and can often overlap or conflict with each other. It is for this reason that a business model needs to reflect this ecosystem.
How do you apply the Framework?

The following toolkit helps senior decision-makers and support personnel – both groups possibly including management accountants – to understand the organisation’s current business model. It should help you to avoid taking decisions that only lead to profit in the short term, and potentially to ultimate corporate failure.

We expect it to be particularly interesting and useful for management accountants, as they are uniquely placed to have an integrated overview of the organisation’s business and finance operations.

You can use the model to improve decision-making at board level. It should ensure that all board decisions are taken with a full understanding of their potential to affect value and the inevitable risk trade-off. No decision is ever risk free, but improved decision-making should mean greater economic output, improved productivity and wealth generation for all.

In other words, using the toolkit helps to mitigate risk – not to eradicate it altogether.

The questions in Key Resource One on page 6 should be applied to understand the current position of the business. Using our model, they break down the business into four core elements – Define, Create, Deliver, Capture – which connect together to lead to value.

The Framework firstly allows you to consider and list all material activities as they relate to value in the context of wider stakeholders. Secondly, each decision on the activities listed may then be considered in light of a number of key questions. These questions are listed in Key Resource Two.

Once you have defined your current position, you can apply the Framework to future decisions – including those related to making changes to your organisation’s business model. You can do this by considering every decision in the light of the further key questions (again relating to Define, Create, Deliver, Capture) listed in Key Resource Two, on page 7.
Key resources
– using questions to make decisions

Key resource one

The questions that help you understand what activities are relevant to your current business model

**Define**
- What is our purpose as an organisation?
- Who are our key stakeholders?
- How should we prioritise our stakeholders?
- What are the needs of our stakeholders?
- What is our value proposition?

**Create**
- For whom are we creating value?
- With whom do we create value?
- For what purpose are we creating this value?
- How are resources procured?
- How do we turn these into products/services that customers desire?

**Deliver**
- To whom are we delivering value?
- How do we deliver value to customers at an appropriate cost?
- How do we get the value to the intended recipients?
- How can technology help us deliver value?
- How do we engage customers in value delivery?

**Capture**
- For whom do we capture value?
- How do we capture this value?
- What will we do with any residual value generated?
- How will we share surplus value amongst our stakeholders?
The questions that help you mitigate risk in future decision-making

Having established the activities relevant to your current business model, the next step is to ask a number of future-focused questions when the board is making material decisions about its key activities. These relate to considerations beyond short-term financials that seek to establish how an organisation’s brand, reputation, long-term success and customer loyalty will be affected.

The following questions have no ‘right’ answer but exist only in the context of the business. They seek to ensure that the implications of material decisions are fully understood and that any trade-offs are accounted for and their negative consequences are mitigated.

How to apply the Framework to future decisions

By grouping board activities under the four key headings of Define, Create, Deliver, Capture, the diagram on page 8 features the organisation’s most business-critical and material priorities, with a critical importance for the organisation’s future success and existence. This is a powerful tool for helping to decide if an activity should start, change or cease.

How to use the diagram:

► Visualise the specific activities of your business. Populate each relevant box with them, and ask questions to identify how they create value over time for which stakeholders
► Where an activity appears to be irrelevant, obsolete or producing insufficient value, consider making a change
► When the board decides that an action has broadly positive consequences on value, it should continue
► Once you have completed a box, move on to the next and, again, ask questions relating to each activity
► Once all actions in all boxes are complete, you have the building blocks of your organisation’s value generation. The board can then decide how to distribute value between stakeholders — as pay, profit, products, services, investment and CSR.
Future activities: the questions to ask

What would the effect of this be on the various stakeholder groups?
An understanding of the impact on stakeholders is critical to understanding how a decision may play out.

Does this activity have wider community or social value?
It is important to look beyond the value generated through profit.

Would this damage the environment?
Increasingly, organisations need to look at environmental factors to ensure that their model is sustainable.

Would this decision undermine trust in the business as articulated in the company’s values?
Research shows that trust in business is at an all-time low. As trust is earned through interaction with stakeholders, it is critical that decisions should seek to build this trust. This means not only acting ethically, but also delivering what you say you will.

Would this be considered ethical by wider society?
How would this be perceived? Would negative press affect the brand? If made public, would these activities damage the brand?
Transparency often shines a light on decisions in a way that may not be obvious to a smaller group. A wider perspective can bring decisions into focus and helps ensure that the business stays aligned to the zeitgeist.

Would this breach the spirit of our regulatory framework?
Often the spirit is more important than the letter. Frameworks exist to ensure a level playing field across sectors. The rules are often underpinned by ethical and societal values, meaning that thought should be given as to whether breaching the rules puts long-term value creation at risk.

Are we creating unnecessary additional complexity?
Past crises have developed because that board has not understood its business model. As a result, inappropriate changes in the business model have fundamentally undermined how the business creates value. This can lead to a much higher risk profile that might be assumed. If the board does not understand this risk, then the company may be vulnerable.
Would customers continue to transact with us in the long term?
The method of delivery and the experience of the customer will typically determine whether repeat business can be generated.

Would this build a healthy relationship with the customer?
The business model has value at its heart. This value is created initially for the customer. However, a number of wider stakeholders can share in this success, including workers, communities, the environment and shareholders. Activity should seek to preserve and distribute this value in a fair manner.

The brand could be damaged if an issue comes to light that detracts from the reputation of the business. Bad practices could involve tax avoidance, contractual obligations with staff or workforce issues.

Is this genuinely innovative?
In a competitive environment, it is important to understand where organisational USPs exist and how easy it would be for a competitor to copy them. This can be described through the reporting framework and is often built up over time. The uniqueness of the model can also guarantee success into the future, so the board should constantly monitor the market to understand how potential threats to the model might emerge, often through technological advances.

How can we measure the value of this activity?
This question seeks to ensure that activities remain under review and are continually considered in the light of new developments in the business.

How can we align our strategy with our business model?
The company strategy should be the tool for keeping the business model relevant and up-to-date. By seeking a strategy that refers and develops the business model, the board should build its understanding of value creation.

How should our value be shared among our stakeholders?
The decision on sharing surplus is fundamental for any board.