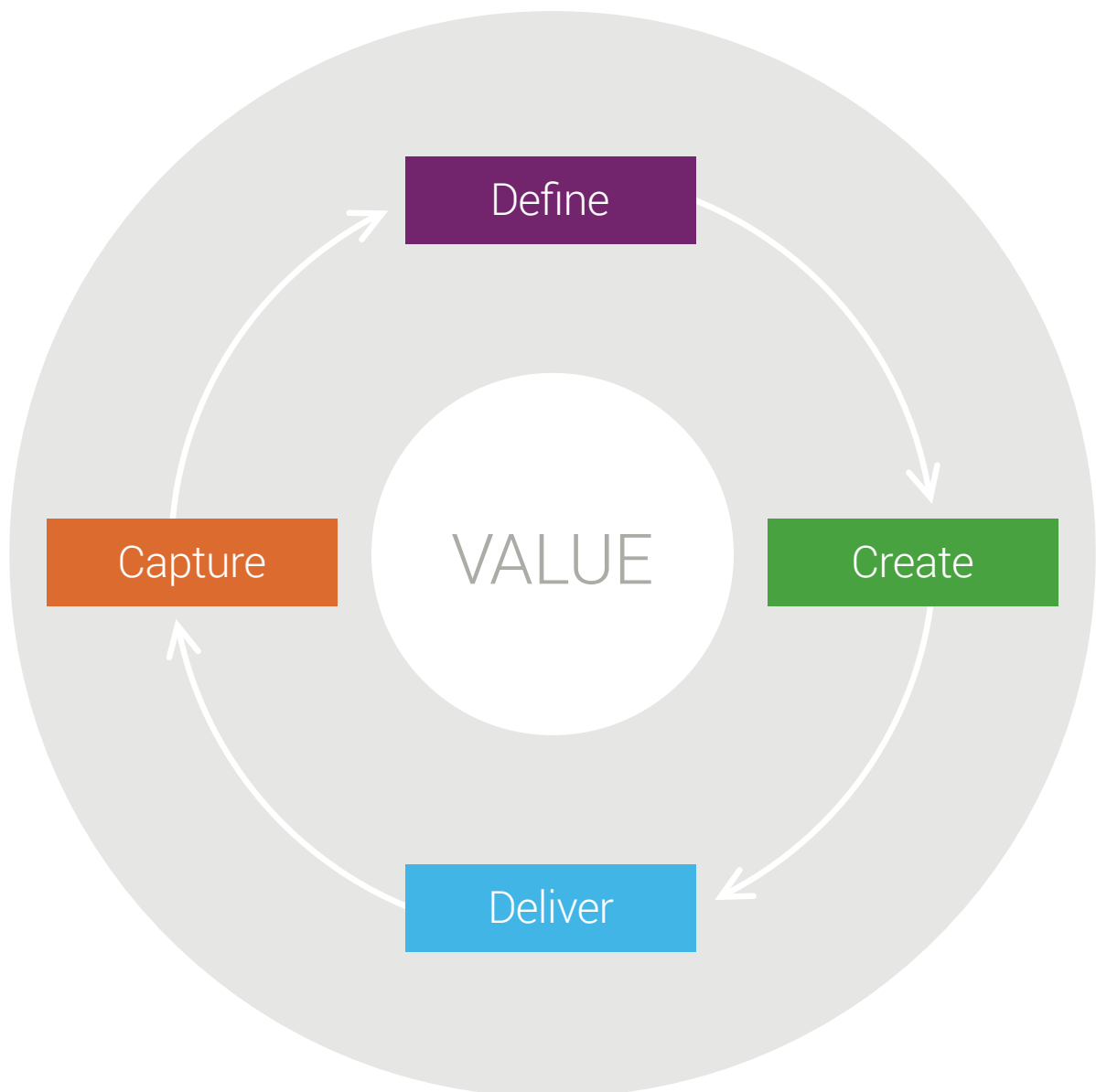


# Methodology paper

Rethinking the Business Model 2018 Edition



# Context

CIMA published a white paper, **Rethinking the Business Model**, in FM magazine in 2016, with our initial thinking on the business model. This white paper developed a business model framework whose purpose was to provide the board and management with a tool to help them consider their business model through a series of lenses and so provide a basis for board discussion and decision-making on the crucial value-creating aspects of the organisation.

The ultimate aim of the CGMA Business Model Framework is to enhance decision-making leading to more resilient long-term value creation.

Following the publication of this paper we decided to consult globally on the framework and gather expert feedback from C-suite finance and business professionals.

The global consultation was designed to understand its strengths and weaknesses, to enhance its evidence base, and make it more applicable and relevant. We hosted a number of round tables around the world during summer 2017, including in the United States, Europe, Asia and Australia.

Following this consultation we analysed all the responses and this is presented below.

## Analysis of consultation responses and round table discussions

- ▶ 43 responses
  - ▶ 7 round tables
  - ▶ New York, Washington, Sydney, Singapore, London, Warsaw, Edinburgh
- 14 questions were consulted on.

# Consultation questions

## Q1 **A business model shows how an organisation defines, creates, delivers and captures value for, with and to its key stakeholders in a consistent and coherent manner. Do you agree with the definition proposed above, do you have any suggestions for improvement?**

All but two respondents agreed that this definition was valid. Six respondents replied with a slightly revised definition and two provided a fuller definition. Six respondents suggested that the definition should be altered to focus on creating value over time or in the long term. There was also one suggestion that the definition should emphasise the stakeholder/partner/shareholder distinction but two respondents noted that the definition needs to be kept brief.

From the round tables there was also a push to keep the definition simple. There was also, at six round tables, suggestion that it should look to the future and concentrate on the concept of sustainable value 'over time'. However, two round tables questioned the definition in terms of how this is measured. One participant noted that the definition reads like a principle or values statement rather than a practical tool that can be measured. All the round tables noted that the definition needs to be dynamic and not static. The word **consistent** was challenged as not reflecting this.

The idea of moving forward over a longer timescale came across in four round tables. One round table suggested that the definition should include the actual capturing of value in the long term. Another round table noted that the organisation that it relates to is not defined. Two round tables noted that the term does not appear to apply to non-businesses such as the Government sector. One round table also questioned whether this framework works outside an institutional setting – for example to an SME.

In summary, most thought the definition adequate but that a focus on **value over time** was critical and that the definition could make it clear **who it is for**. However, any revision should be kept brief.

## Q2 **Would a business model framework be a useful tool in managing your organisation? If yes, how so?**

Six substantive respondents agreed that the framework would be useful to them. Specifically, they thought it was useful for those new to the business in a management role. It was also noted

by two respondents that the model helps facilitate conversations around value and stakeholder value between management and the board. Four respondents were less keen on the framework because it is too formulaic and could be compliance-driven, it does not consider the public sector, it cannot be operationalised and it has too many layers of complexity. One respondent noted that strategy is more important than business models and the framework does not adequately address the competitive strategic decisions that businesses typically face. Largely, it is argued that this is because the framework does not show how a business remains competitive.

At the round tables, the view was that the framework has merit at a strategic level but **that an explicit link with an operational business is missing**. This link needs to be addressed. One suggestion is that it could be used for budget and planning purposes – with specific financial data inserted. However, one also said that it was too complicated to be used in a time-critical environment. All the round tables felt that we needed to **show how it could be operationalised**. In particular, there was criticism of whether the model allows for changes at either a macro or competitive level, particularly where a business operates in new markets. Another noted that it was not clear **how it relates to decision-making and strategy**. One round table stressed that some instructions on 'how' it could be used would be helpful if used in a business context. Another felt that it allowed discussion on value but that this would be theoretical. What is really needed is a tool that facilitates decision-making on key priorities.

## Q3 **The CGMA Business Model Framework defines four elements of the ecosystem - markets, technology, risk and opportunity, and society - in your view, what are the most important factors in terms of the ecosystem for the organisation to consider in terms of understanding and articulating its business model?**

Of the responses, seven agreed that these elements were the most important factors that form the ecosystem. One noted that customers should be mentioned and another suggested that the purpose of an organisation is the most important factor in the ecosystem. Two respondents also noted that changing consumer and employee expectations of business are critical to the modern ecosystem. The role of business in society was mentioned by one respondent

and another felt that 'societal expectations' is the key component which is underplayed in the framework. Trust was mentioned by one respondent as key to this. Porter's Five forces of competition was highlighted by another.

At the round tables all agreed that changing societal, consumer and market expectations are key to the ecosystem. Three felt that macroeconomic and political factors could be emphasised further. One noted that the ecosystem diagram was convoluted and unclear. It was also noted that risk/opportunity in the middle is not adequately explained in the text. One round table noted that the ecosystem concept is different depending on whether it is at department or global level. This needs to be explicit. All the round tables felt that the current environmental, political and competitive forces that buffet the company are not captured by this diagram/model. Responsible business and consumerism were highlighted as issues that impact on this part of the model.

**Q4 The framework is designed to assist organisations to better understand the nature of their competitive advantage, possible threats from new and potentially disruptive entrants as well as other changes in the ecosystem. By better understanding not only your own business model but also the business model of competitors or potential competitors, you are more likely to be able to better assess the strengths and vulnerabilities of your own business model. To what extent do you believe the ecosystem is changing and what impact is this having on the organisation's ability to understand its business model? Will the business model framework assist the organisation to take advantage of the opportunities and risks arising from this impact?**

All respondents agreed that the ecosystem is changing though each noted different external factors that could contribute to this. One mentioned companies who had disrupted incumbent business models and noted that how the surplus is shared can be a determining factor. One noted the question is too big to answer and no one actually addressed how this model could be used to take advantage of opportunities, one saying only that this should improve understanding of competitors.

At the round tables one commented that value destroyers should be highlighted. One felt that this context analysis usually forms part of the discussion on strategy. It was also noted that businesses must be on top of these changes all the time to survive. All agreed that the ecosystem, as stated, was relevant and half highlighted the importance of technology as an enabler or disruptor.

In hindsight the question is perhaps too lengthy.

**Q5 To what extent do you believe that the four conceptual elements 'defining, creating, delivering and capturing value' is an effective structure for understanding and articulating an organisation's business model?**

Fifteen respondents commented on this point and eight noted that these elements are an appropriate structure. The others suggested amendments but acknowledged that the core concepts are broadly ok. Two respondents noted that the value creation element could be expanded. They suggested that the concept of new markets and innovation are key here and the model could make this more explicit. Three others thought that risk tolerance and opportunities could form one of the concepts and two respondents felt that capturing value is key to defining the organisation's purpose and that this link should be made explicit. One suggested that review should be added.

From the round tables, there was some criticism of these elements. Three thought that the concept of value was not adequately defined in the model and two thought that the model was too simplistic. They noted that value is not so easy to define and sometimes sits both inside and outside the company. Two noted that the concept of capture of value relates to financial capture, whereas in fact value can be captured elsewhere – i.e. by wider society. One round table noted that create should be at the top of the model.

Broadly, the consultation showed support for this part of the diagram and its broad elements, though the terms were thought to relate too closely to a purely financial model. Specifically, capture could be replaced with distribute.

**Q6 Please comment on the broad concept of value adopted in this paper. In your experience, how readily accepting of such a concept are executives, boards, investors and other stakeholders?**

From the nine substantive responses who mentioned value, eight thought that the definition was sound, well understood by organisations and should be at the heart of the model. The remaining comment suggested that societal benefit was more appropriate. All respondents noted that the concept of value as it applies to wider stakeholders is little understood and four respondents felt that measures of societal value should be our focus. One suggested investors do not consider wider value but another suggested all value can be measured in the long term. Two also noted that a universal understanding of value was not achievable but one suggested that value needs defining for the model to be of practical benefit.

In the round tables, three commented that value was hard to define, particularly in non-financial firms and that the model should make a better attempt to do this. One noted that the captured value concept outlined in the diagram does not reflect the idea of wider value. One thought that value should sit outside or around the model to show wider definition. All the round tables noted that value is hard, if not impossible, to measure and that this issue is most pressing in Government organisations. One noted that strategic value is the critical idea and is not addressed in the model and one noted that the model seeks to address value but is actually still based on financial concepts such as the organisation capturing value.

**Q7 Are the extended elements attached to the four core conceptual elements sufficient to capture the critical aspects of a company's business model? Are there any you would add? Remove?**

Six respondents commented on the extended elements. All broadly supported those outlined, although one felt sustainability should be added and two questioned the focus on technology, which is not always central, to all businesses. One suggested putting people as a separate element. One noted that external factors should be added as an element.

At the round tables, one noted that employees were not mentioned in these elements and another mentioned that ethical considerations were not there. Another suggested that macroeconomic and political factors, such as trust in business or public anger over tax, would not be captured but could quickly change strategic considerations. Another suggested that the root to market and changes over time were not captured by the static elements mentioned. One mentioned a lack of flow in the model.

In summary, these elements are fine but people, employees and ethics need to be captured, especially as these can have a serious and fast impact on an organisation in a short space of time.

**Q8 Do you agree that the CGMA Business Model Framework has the potential to provide additional clarity on the value creation proposition of organisations over and above current developed and developing reporting frameworks? If yes, how?**

Nine respondents commented on this question and all agreed that this made a positive contribution to the debate. One noted that without measures it would have less impact and one noted that value creation would be better than capture. Another noted that a distinction between strategy and operations is needed.

In the round tables, one noted that the Unilever model was clearer and that our model needs to be clearer on how value is added. One felt that it was not clear how

this model delivers a new value proposition or whether it has a unique selling point. Two questioned how it would be used at an operational level.

**Q9 Do you believe it is useful to view your business model through a series of lenses? Is this something that you currently do and, if so, to what effect?**

Seven respondents commented on the lens approach and all but one agreed that a lens approach is useful. However, one did not think this actionable, as shown in the model. Two noted that different people bring different perspectives and that this is necessary in a business. One noted that a management lens would be helpful and another suggested a trust lens. Another felt that financial and non-financial reporting should be a lens.

One round table felt culture would be an important lens.

**Q10 We have discussed a number of lenses above – which other lenses do you believe are important for long-term value creation? Which would constitute your top five?**

Seven respondents agreed with the top five as we set out. Other lenses suggested were sustainability, the customer, competitive advantage, innovation, stakeholder incentives.

**Q11 We intend to develop a series of tools to assist boards in their implementation of this framework. One such tool could be a number of key questions for the board to address when considering, through a series of lenses, their current understanding of their business model and its capacity to create long-term value effectively and resiliently. Do you agree that this would be a useful tool? Would additional tools be useful? If so, what?**

Three respondents gave comments all saying this would be useful. One suggested a questionnaire for boards would take this forward. Another suggested that an example of how this could be applied would be helpful. Another suggested such a tool could be used to assess the competition. At the round tables, one suggested a financial and non-financial split of lenses would be helpful and another suggested that a performance/KPI lens would be useful.

**Q12 Beyond the roles of the finance professional defined above, do you believe that there is a role for finance professionals to provide leadership in the area of business model innovation? If yes, why? How so?**

Nine respondents gave comments with seven agreeing that finance professionals should take a lead role. One disagreed and argued that the board should not delegate responsibility for the business model. One cautioned against loss of ownership and accountability in carving out a wider role.

# Conclusion

At the round tables, one felt that this should be owned by the CEO, whereas another felt it belonged to the CFO. Another felt that the CFO role was not described by the model. Another suggested that the business model needed linking to pay and rewards. Two round tables suggested that we need to define how and why the framework can be used and the need to make a case for management accountant as a user. There was a view at three round tables that the CFO should be responsible for the capturing and communication of the information but that the CEO and board would make the decisions. Some on the round tables thought that the profession needs to elevate itself within the value chain and set the strategic objectives through the use of the model. One suggestion is that the tool could be used to empower the finance professional. Others thought that the profession's role fell more to the running of the business at an operational level and that the board alone has the strategic role. Amongst both these views, the round tables thought that the profession could provide an invaluable insight to the business through its capturing and communicating of information on the business model.

## Q13 Do you have any other general comments?

Fifteen further comments were made. These focused on the need to apply the model and show how it might work in practice. There was general criticism of too many frameworks and one comment that it would be difficult to maintain ownership for management accountants.

All of the round tables mentioned the issue of business ethics and suggested that this should be part of the model. Four of them mentioned the role of culture and suggested that this should be addressed, though one said this should be all-encompassing and not be a lens. One noted that the model needed data to make it useable.

In summary, the consultation demonstrated that there is an appetite amongst finance professionals across sectors for the development of a business model framework. Although the definition of a business model was supported, participants noted that the definition should be more dynamic and include the concept of change over time.

As a tool, the consensus was that the model is rather theoretical. The view expressed was that further work needs to be undertaken in order to understand how this model could be operationalised, who should use it and what the link is with strategy. Whether the tool would be used by the board to set strategy or be driven at an operational level is a key question to answer.

The concept of the ecosystem was broadly accepted, though prevailing competitive, economic and political pressures could be added. Again the concept of the dynamic and competitive pressures faced could be used to better underpin the concept of the changing ecosystem. However, caution was noted in terms of making this too unwieldy.

The conceptual elements were generally agreed upon. However, the general view is that these were too focused on financial terminology and need updating to take account of the broader context of the model.

Value as the heart of the model is generally endorsed. However, there is a push for us to define what is meant by this or add some numbers to the concept. At the very least, the concept does allow conversations on broader stakeholder value.

In terms of extended elements, employees, ethics and sustainability were all raised as needing to be considered by the model.

The concept of lenses was considered potentially confusing although the advantage of using the model to assess risk, governance, etc, was taken on board. This was generally viewed as a way to sell the model than as part of the model itself.

In terms of application, all thought a contextual piece on how and by whom a tool could be used needs to be drafted.

In general, the role of the profession was seen as being enhanced by the tool and though there was division on the CFO role, all thought that the CFO could benefit from using the model.

# Changes to business model with justifications

Following on from this conclusion the research team convened to discuss a variety of possible changes. Each change was considered and a view taken on its inclusion in an updated framework. A list of changes with justifications are listed below.

## 1. **BM definition updated to included concept of time.**

**Justification** – The consultation responses demonstrate that the model was seen as too static and unresponsive to change and that this concept needs updating.

## 2. **The BM text should make a link with strategy.**

**Justification** – The responses asked us how strategy fits into the business model. Our view is that the strategy is what keeps the business model relevant to current thinking.

## 3. **The BM paper should provide an explanation of how it can be operationalised. This can be achieved through making a link to specific tools. The tools will comprise a list of questions for boards to think about. Each tool will provide some guidance for those seeking to use the model through a specific lens. The tools should help with integrated performance management.**

**Justification** – Many thought the paper too theoretical.

## 4. **The paper should make reference to competitive pressures and illustrate how these affect the model by referencing in the definition.**

**Justification** – The responses felt the model could be used to assess competition, change because of competitive forces and be used to analyse the competition.

## 5. **Bring out the role of the management accountant. MA should have ownership and this leads to empowerment and frames decisions relating to the direction of the business.**

**Justification** – The consultation was split on this critical issue but Association Strategy is to promote the profession and therefore our tools should support this aspiration where possible.

## 6. **Financial terminology – This should be changed to include innovation and to broaden the message.**

**Justification** – This change would make the wording consistent with wider stakeholder ethos.

## 7. **Extended elements – Add a definition of the ecosystem including ethics, workforce and wider economic and political issues.**

**Justification** – The responses agreed with the concept but thought it could be expanded.

## 8. **Value - Link this to possible wider stakeholder value, performance metrics and numbers.**

**Justification** – The value concept was supported but many thought more definition needed.

Following this meeting the framework has been revised and the revisions are now contained in this update. The update is published below.

Based on our update we will shortly be proceeding with our development of practical tools that will bring the framework to life in supporting long-term value creation.



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