BUSINESS MODEL AND ACCOUNTING STANDARDS

THE FRENCH CASE[1]

Abstract :

Suggested by the rise in popularity of the *business model* concept in academic literature, this article highlights the relevance of this concept in the context of financial reporting. It discusses an empirical study conducted on all the statutory texts setting out accounting and financial obligations applicable to French companies. The results indicate that *business model* components are very scarce in current regulations and often remain at a conceptual level. The last part of the paper discusses these findings in relation to recent developments and discussions on accounting and financial standards, including the topic of the relevant place and format best suited to this kind of information.

Key words : financial reporting, business model, regulation, accounting standards, IFRS

Introduction

Over the last fifteen years, increasing attention has been paid to the concept of the "business model" and the topic has developed significantly in the academic literature. In their recent review on this topic using the EBSCO Business Source Complete database, Zott et al. (2011) identify more than 1,250 academic papers published between January 1975 and December 2009, the vast majority of these being published from 1995[2] on.

This growing attention to what may be considered by some as a new paradigm, addresses several research questions pertinent to all management science disciplines. These questions include queries concerning the ability of accounting standards to report on "business models" in an understandable, reliable and relevant way. In this context, the aim of this study is to

[1] This study has been supported by the ANC ([French] Authority for accounting standards).

[2] The search was performed using the keyword « business model » found in titles, summaries and author keywords of papers. By using the same procedure from the ABI/INFORM database, Ghaziani and Ventresca (2005) obtained similar results over the period 1975-2000 (1769 papers identified including 1563 after 1995). The same results can be observed in practitioner-oriented management journals.

show the utility of the "business model" concept for financial reporting and to assess the extent to which financial and accounting reporting standards reflect its principles.

The paper is structured as follows. In section 1 we define the concept of the business model and show its utility for financial reporting. In section 2 we present an analysis of the accounting standards from the business model concept perspective to assess the extent to which accounting standards reflect its principles. The last section is devoted to a discussion of our research findings in light of the most recent debates on financial reporting objectives and constraints.

1. The business model: definitions, components and relevance for financial reporting

After reviewing the definitions of the business model concept in the academic literature, this section describes its key components and shows its utility for financial reporting.

1.1. Definition of the Business Model concept

The term "Business model" was first used to describe the organization of Internet businesses. From 1990[3], it was then extended to other industry sectors. The majority of literature on this concept can be classified into three categories (Osterwalder et al., 2005; Zott et al., 2011; Novak, 2011):

a) Papers that seek to define the business model concept and its main components (the meta-models according to Osterwalder et al., 2005),

b) Papers that propose a typology of Business Models based on common criteria (Timmers, 1998; Malone et al., 2006),

c) Papers that describe specific real word business models (Chesbrough and Rosenbloom, 2002; Demil and Lecoq, 2009)

Although there is no consensus on the definition of the concept (Brink and Holmén, 2009), researchers generally agree that the business model describes how value is created and captured by a company (Morris et al., 2005). In this context, the business model is often seen

[3] According to Osterwalder et al. (2005; p.4) "The business model concept is a candidate to replace the industry as a unit of analysis".

as a detailed description of the activities and resources deployed by a company to create value (Menger, 2004; Lepak et al., 2007).

Moreover, by emphasizing value architecture and the value creation process, the business model concept takes a much more customer-oriented approach through the value proposition (Zott et al., 2011; Demil and Lecoq, 2008). This is different from the strategic approach that focuses more on competition and competitive advantage. However, some authors consider that the business model concept is a complement to the strategic analysis framework because it shows how a company deploys its strategy and build its competitive advantage. (Magretta, 2002; Mansfield and Fourie, 2004; Demil and Lecoq, 2008; Casadessus-Masanell et al., 2010).

On the basis of the definitions[4] proposed in the academic literature (Timmers, 1998; Amit and Zott, 2010; Chesbrough and Rosenbloom, 2002; Magretta, 2002; Casadesus-Masanell et al., 2010; Teece, 2010) a common set of criteria can be identified to refine the definition of the business model concept. This set of criteria is discussed below.

First, the Business Model concept is a systemic view of the company. It includes a set of interrelated components in dynamic interaction with the environment (ecosystem approach). (Johnson et al., 2008; Morris et al., 2005; Zott et al., 2011).

Second, it gives to the concept of value an essential role by showing, on one hand, how a company creates value (value architecture) and, on the other, how a company captures a part of this value (profit formula). (Magretta, 2002; Shafer et al., 2005; Zott et al., 2011). In this context, the business model concept is a stakeholder-oriented approach (clients, shareholders and key partners).

Third, the business model concept focuses on the question “how”; that is to say, the internal (value chain) and external (value configuration) organization. The first aspect (internal organization or value chain) highlights the core processes and competencies. The second aspect (external organization or value configuration) deals with an “Extended Enterprise” vision by including its main partners and partnerships (Amit and Zott, 2010).

[4] A few examples of definitions can be quoted to highlight the diversity of the approaches: “A business model is […] a reflection of the firm’s realized strategy.” (p.195), [Casadessus-Masanell et al. (2010)]; “Business models are “stories that explain how enterprises work.”” (p.4) [Magretta (2002)]; “A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value” (p.179) [Teece (2010)].

Fourth, it emphasizes the essential role of intangibles, namely human capital, customer capital, organizational capital, and core competencies in creating and capturing value.

Finally, it describes cash flow (incurred costs and revenues) generation in relation with non-financial components of the model, i.e. value proposition, customer interface and the value infrastructure.

Based on the literature synthesis and on these criteria, we define the business model as follows: "*a conceptual model that describes how the company creates value for its customers and captures a part of this value for its shareholders by deploying a set of core activities, processes, competencies, partnerships and resources.*"

1.2. Components of the Business Model : the business model template

Part of the literature seeks to identify and describe the key components of a business model (Venkatraman and Henderson, 1998; Hamel, 2000; Chesbrough and Rosenbloom, 2002; Osterwalder, 2004; Osterwalder et al., 2005; Voelpel et al., 2005; Tikkanen et al., 2005; Brink and Holmén, 2007; Demil and Lecocq, 2008, 2010; Johnson et al., 2008; Warnier et al., 2011). Among these articles, the most significant contributions are the following.

Venkatraman and Henderson (1998) define the *business model* through three main vectors: customer interface, resources configuration (i.e. the way these resources are integrated) and the set of knowledge and competencies.
Chesbrough and Rosenbloom (2002) describe the business model as "the heuristic logic that connects technical potential with the realization of economic value" (p.529). According to these authors the business model has six main functions:

- to implement the value proposition,
- to identify the target market segments,
- to design the value chain,
- to estimate cost and potential profits,
- to understand and describe the company position within its value network,
- to make explicit the strategy and the competitive advantage.

Osterwalder (2004) and Osterwalder et al. (2005) propose a "four pillars" analysis of the business model. It contains the following elements:

- the product is equivalent to the value proposition,

- the customer interface is made up of target segments, the distribution channel and the customer relationship,
- the value infrastructure includes activities configuration, core competencies and the partner network,
- the financial aspects are related to the cost structure and to the revenue model.

Morris et al. (2005) develop a conceptual framework based on six main drivers:

- supply-side factors that describe the value creation process,
- market factors that identify the target market segments,
- internal capabilities that lay down the internal source of competitive advantage,
- competitive strategy that explains the differenciation mode,
- economic factors that provide an understanding of the profit generation,
- and finally, several investor-specific factors that help in understanding the vision and ambitions of the managers.

Lecocq et al. (2006) propose a model named RCOV standing for Resources, Competencies, Organization and Value (Demil and Lecocq, 2008, 2010; Volle et al., 2008; Warnier et al., 2011). This model includes four interrelated components:

- value proposition (V) identifies the target customers, the way to satisfy them and the revenue model,
- internal and external organization (O) describes the way a company is organized in order to deliver the value proposition. It encompasses the value chain and the partner network. This component determines the cost structure,
- the mix of resources and competencies (RC) embodied in the company's value proposition,
- finally, an economic component that describes the profitability of the model.

1.3. Synthesis and analysis model

Based on the literature synthesis and the criteria analysis, we use a four component business model template (value proposition, value architecture, resources and competencies and economic formula) containing eleven parameters. The four components and eleven parameters of our template are outlined in Table 1 and are discussed below.

The value proposition identifies the market segments, the company's offer and the customer interface (including the customer relationship and distribution channel.) The value architecture is related to the organizational capital through the internal value chain (key processes and activities) and the external value network (main partnerships and external stakeholders). Resources and competencies refer to tangible and intangible assets (resources) and to the ways (i.e. individual and collective know-how) a company deploys these resources (competencies). Finally, the economic formula is the financial dimension of the template that shows how a company captures a part of the value created by analyzing the cost and revenue structure and the cash flow dynamics.

Table 1 : Business Model template components and parameters

Components	**Parameters**	**Description**
Value Proposition	Company's offer	Description of the products and /or services offered
	Target customers	Targeted market segments
	Customer interface	Distribution channels Customer relationships
Value Architecture	Internal organization – value chain	Core activities and processes
	External organization – value network	Key partners and partnerships
Resources and Competencies	Resources	Tangible and intangible assets
	Organizational competencies	Description of the way the resources and competencies are articulated and deployed
Economic Formula	Revenue structure	Revenue generation and structure
	Revenue dynamics	Cash inflows
	Cost structure	Cost generation and structure
	Cost dynamics	Cash outflows

Regardless the template that is adopted, the business model is a useful way to understand the "cause and effect" relationships between its components. These causal interrelationships enable one to understand value creation dynamics. In short, the value architecture describes the way a company is organized to deliver its value proposition and satisfy its customers by deploying key resources and competencies. Moreover, the first three components (value proposition, value architecture, and resources and competencies) are the key value drivers and determine cash flow generation. In other words, these first three interrelated components explain the value creation process while the fourth one, economic formula, describes the value capture dynamics.

1.4. Business model and financial reporting

The financial reporting normative framework (European regulation) has two primary purposes. The first is to establish a homogeneous and common "framework" that guarantees the relevance, reliability, transparency and quality of financial information. The second is to deliver better financial information to enhance the ability of users to understand cash flow origins and generation. In this context, the business model concept could be considered by regulators as a useful way to report on value creation and value capture processes.

The most advanced working paper regarding the potential influence of the business model approach on accounting standards was published in 2010 by the ICAEW. Based on the Economic Theory of the Firm, this analysis considers the possibility of using different accounting models depending on the companies' business model. The authors propose to extend the measurement approach used in IFRS 9 to other activities. Where the business model of an entity serves to transform inputs into assets or services, the approach recommends using the historical cost model. Conversely where the business model of the entity is to acquire and sell back assets, the fair value measurement model would be more useful. However, the authors recognize the difficulties in using this approach due to comparability problems, mainly because business models are unstable over time and dependent on manager intentions.

Financial disclosure of business model information is also of potential interest for financial analysts. Nielsen and Bukh (2008) show that even if financial analysts usually liken the business model to corporate strategy, the information they use to evaluate companies refers to the key components of the business model. Several studies also highlight financial analyst interest in non-financial information. In this context, Dumontier and Raffournier (2002), and Martinez (2004) show the need to put financial results into perspective by disclosing supplementary non-financial information. According to Mavrinac and Beyle (2001) the use of non-financial information reduces financial analyst forecast errors. Amir et al. (2003) also show that financial analysts compensate for a lack of information on intangibles by using information from outside annual reports. Bejar (2009) highlights the importance for financial analysts of information related to intellectual capital. A 2008 IFOP survey found that 85 % of financial analysts surveyed consider that non-financial information is essential for evaluation purposes.

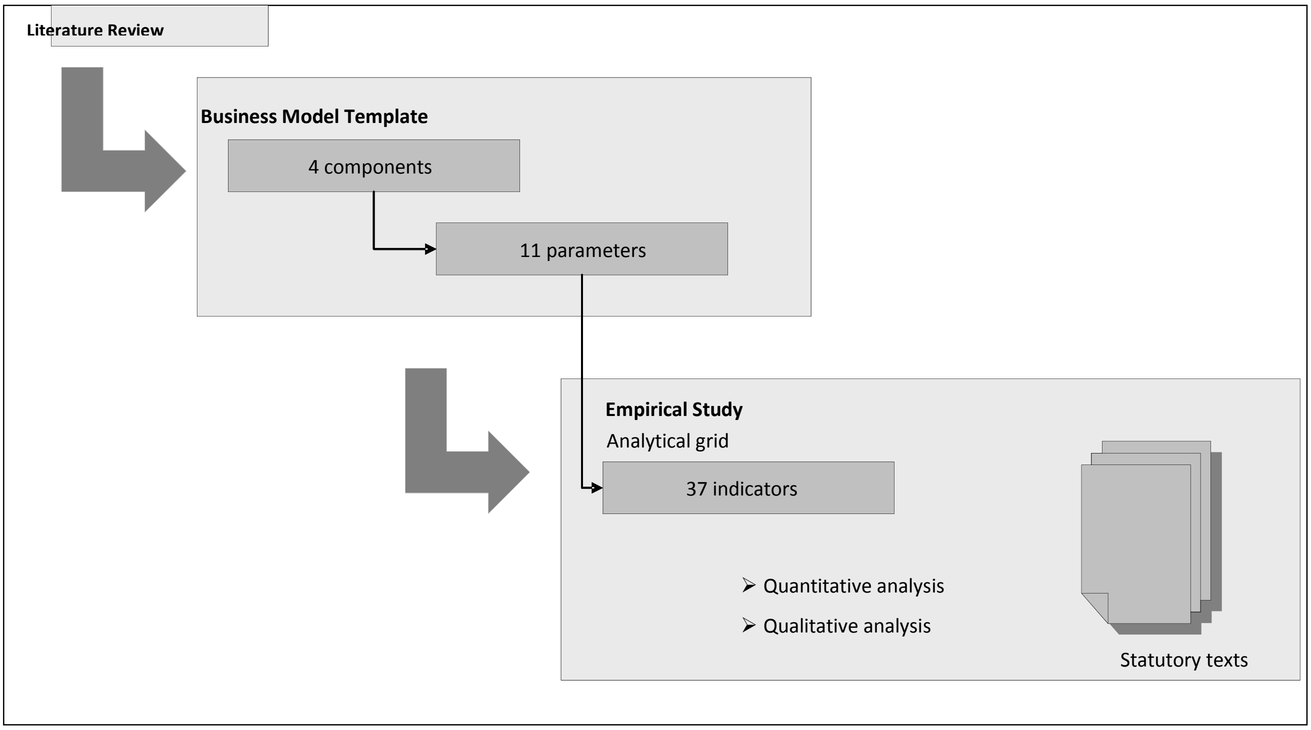
2. Business Model and accounting standards applicable to French firms

In this section, we seek to compare the components of our business model template developed in the first section, to accounting standards applicable to French firms. The primary objective of this study is to assess the extent to which the accounting standards and financial disclosure regulations applicable to French firms take into account the key components of a Business model based on a synthesis of current models.

2.1. Methodology

To conduct our study we use an analytical grid designed from the eleven parameters of our business model template found in table 1 and applied to the whole set of statutory texts describing the regulations related to financial disclosure and applicable to French firms. The methodology is outlined in Figure 1 and discussed in more depth below.

Figure 1 : Methodology



2.1.1. Statutory texts and regulations used

The scope of this study encompasses the main statutory texts, regulations and accounting standards related to financial disclosure that are currently applicable to French firms (French GAAP, European Regulation 99-02 and IFRS5) plus the draft standards under study by the IASB.

- Financial disclosure regulations:

Financial disclosure regulation is essentially based on the European Directive named the "Transparency directive" (109/2004) which sets the objectives of permanent, periodic and regulated information. However, the European Directive (809/2004/CE) amended by the European directive (211/2007/CE) and supplemented by the AMF General regulation and by the recommendations of the European Securities and Markets Authority (ESMA) represents the most successful regulatory framework to date. Therefore, we conduct our study using this text and particularly using its appendix 1 that defines the content of the prospectus and of the "reference document".

- Accounting regulations:

Accounting regulations include the French GAAP, Regulation 99-02 applicable to consolidated financial statements and the IFRS (39 standards) applicable to the consolidated financial statements of listed companies. These sources together represent 41 statutory texts plus 14 draft standards under discussion by the IASB, the French GAAP, the Regulation 99-02 and appendix 1 of the European Directive (809/2004/CE), giving a total of 56 statutory texts.

2.1.2. Analytical method

The 56 texts described in the previous section are analyzed using an analytical grid designed from the eleven parameters of our business model template (see table 1). The eleven parameters of our template are articulated in 37 indicators taken from the literature. Each indicator is used to assess whether the statutory text being analyzed refers to one or several parameters of the Business model. To illustrate, a reference to the first parameter ("company's offer") in a text is assessed using three indicators:

[5] The study covers all the IFRS standards, even when a standard has not yet been adopted by the European Union. See www.ifrs.org for a comprehensive list of standards.

- the text refers to, requires or recommends a description of the company's key attributes (quality, reactivity, functionality, price) offering,
- the text refers to, requires, or recommends a description of the differentiation mode (i.e. product superiority, customer intimacy, operational excellence),
- the text refers to, requires, or recommends a description of the customer value proposition.

For each of the 56 texts, the study is conducted in two phases. A first, quantitative phase uses binary coding "1" or "0" to count the number of references to the business model parameters in each text. In this way, each text receives a score than can be positive or zero. A second qualitative phase is undertaken only on the texts that scored positive in the quantitative phase. This qualitative analysis seeks to assess the level of "reference intensity" of the texts compared to the parameters of the business model. In this way, the statutory texts are classified into four categories according to three criteria (see table 2) as follows:

- Information : the texts require or recommend reporting on at least one parameter of the business model,
- Definition : the texts require or recommend reporting on at least one parameter of the business model and provide an explicit definition of this parameter,
- Recognition /Evaluation: the texts explicitly require or recommend the use of the Business Model concept or one of its parameters to record a transaction.

Table 2 : Level of « reference intensity » assessment

	Definition	**Information**	**Recognition/Evaluation**
Level 1	No	Yes	No
Level 2	Yes	No	No
Level 3	Yes	Yes	No
Level 4	No	No	Yes

To guarantee objectivity, two readings were conducted for each text by two different pairs of readers. Divergences of interpretation were discussed between the readers in each pair and between the pairs. Finally a cross analysis of all the texts was conducted by a fifth reader to guarantee homogeneity in processing data between the two pairs.

2.2. Results

The results of this study are presented in three sections related to the three categories of statutory texts: financial disclosure regulation, accounting regulation and the IASB draft standards.

2.2.1. Analysis of the financial disclosure regulation

The analysis is based on the 25 paragraphs of appendix 1 of European Directive (809/2004/CE) amended by European directive (211/2007/CE).

a/ Quantitative analysis

The parameters of the business model template (see appendix 1.1) are mentioned only 21 times for a potential of 275 possible citations (11 parameters for 25 paragraphs), or about 7.7% of the cases. Regarding the components, the most frequently cited are “resources and competencies” (11 references, 52%) and “profit formula” (5 references, 22%). The “value architecture” and the “value proposition” are the least frequently cited.

Thirteen out of twenty five paragraphs of the “Reference Document” (52%) do not mention any of the business model parameters. For the twelve remaining paragraphs (48%) that mention at least one of the 11 parameters of the business model template, the references are essentially concentrated in two paragraphs: *§14 Corporate governance* (3 parameters cited) and *§6 Overview* (5 parameters cited).

b/ Qualitative analysis

Appendix 1.2 shows that not a single paragraph of the Reference Document provides an explicit definition of the business model or of one of its components. However, all the texts recommend providing information related to the business model without requiring the disclosure of specific indicators (level 1 of our classification).

To illustrate, paragraph 6 of the Reference Document indicates that the issuer of the financial information must “*describe the operations carried out by the issuer and its main activities – including the related key factors – by mentioning the main categories of product sold and/or* *services provided […].”* Nevertheless, this obligation does not enable assessing the product or service attributes, nor the value creation.

2.2.2. Analysis of the accounting regulation

The 41 texts applicable to French firms analyzed in this study are the French GAAP, Regulation 99-02 and the IFRS (39 standards). Appendices 2.1 and 2.2 show the results of the study.

a/ Quantitative analysis

Concerning IFRS, the count indicates only 49 references to the business model out of a potential of 429 ones (11 parameters for 39 standards) or about 11%. These references are concentrated on 21 standards among which 13 refer only to one or two parameters. IAS 17 and IFRS 8 are the standards that refer the most to the business model. The standards that do not refer to the business model are the most technical ones, including IAS8, IAS10 and IAS12.

Concerning the French GAAP and Regulation 99-02; both texts refer to six parameters of the business model. This is because these two texts cover the whole accounting spectrum, while IFRS are by definition segmented and deal with particular accounting issues.

A thorough analysis of the 23 texts referring to at least one parameter of the business model (standards, French GAAP and Regulation 99-02) shows that the most frequently cited components are the “profit formula” (34 citations, about 56 %) and the “resources and competencies” (14 citations, about 23%). The least frequently cited components are “value architecture” (7 citations, about 11%) and “value proposition” (6 citations, about 10%). These results are quite logical considering the objectives of these texts.

b/ Qualitative analysis

Appendix 2.2 shows the result of the qualitative analysis for the 23 texts referring to at least one parameter of the business model. For the vast majority of these texts (20 out of 23, about 87%), the reference to a component of the business model is not defined or is simply limited to an information recommendation (level 1 of our classification) relating to value proposition, value architecture, resources and competencies, or more frequently, to the economic formula. Only three standards go beyond this information level.

The standards IAS 38 and IFRS 3 provide a definition of at least one of the parameters and require reporting on these parameters in the notes to the accounts. The IAS 38, for example, provides a definition of intangible assets and some specific recording criteria: "*identifiability, control over a resource, and existence of future economic benefits*" (§ 10). As a consequence, several components of the business model are excluded from this restrictive definition. "*The entity may have a portfolio of customers or a market share, and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect or other ways to control the relationship with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customers relationship and loyalty for such items (e.g. customer portfolios, market share, customer relationships and customer loyalty) to meet the definition of intangible asset.*" (§ 16). It is recommended but not required, that the entities provide "*[…] a brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria s in this Standard, . […]* " (§ 128).

IFRS9, the text that supplements IAS39, is actually the single standard that takes into account the business model concept in accounting choice (level 4 of our classification). It states that financial assets shall be classified according to the way they are managed (the entity's business model) and depending upon the contractual characteristics of its cash flows. The category in which the asset is classified determines its continuously applied measurement mode for amortized cost or at fair value. Nevertheless, even if the text explicitly uses the term *business model*, it offers no specific definition of the concept.

2.2.3. Analyses of the IASB draft standards

The analysis covers 14 draft standards launched by the IASB as of January 13, 2012. The results are reported in appendix 3.1.

<u>a/ Quantitative analysis</u>

The count indicates only 14 out of 154 potential references to the business model (14 draft standards for 11 parameters) or about 9%. The most frequently cited components are value architecture (2 references, about 14%), resources and competencies (3 references, about 21%), value proposition (4 references, about 29%) and the economic formula (5 references, about 36%).

The draft standards regarding revenues from customer contracts which would replace IAS 11 and IAS 18 refer significantly to 3 out of 4 components of the business model template (three references relating to value proposition, two relating to the profit formula and one reference relating to resources and competencies.)

Among the 14 draft standards analyzed, seven (about 50%) don't make any reference at all to any of the eleven parameters of the Business model. These draft standards seek either to supplement some standards that don't refer to the components of the business model (Amendment to IFRS 1, for example) or to supplement very specific standards (IFRS10 or IAS12). Finally, concerning the seven texts that refer at least once to the business model, six out of seven refer only to one or two parameters, and one standard relating to revenue recognition refers to six parameters.

b/ Qualitative analysis

Qualitative analysis of the draft standards assesses the intensity with which the texts refer to the business model. Only the draft standards that scored positively in the quantitative phase are assessed. The results are reported in appendix 3.3.

The draft standard relating to leases (draft standard 2010/9/ED) is the only one to reach level 4 of our classification by providing a definition of the accounting method based on the business model. However, the reference to the business model is not explicitly included in the actual body of the text, but is instead pushed into the conclusion (paragraph BC27): "*in most cases an entity's business model will indicate when a derecognition or a performance obligation approach would be appropriate as follows: a/ a derecognition approach is likely to be appropriate when the entity's business model is primarily the provision of finance […]; b/ the performance obligation approach is likely to be appropriate when the entity's business model is primarily to generate a return from active management of the underlying assets […]*."

The six other draft standards (about 87% of the cases) provide only an information recommendation relating to one of the components of the business model (level 1 of our classification). For example, the draft standard relating to revenues recognition recommends disclosing information in notes (§ 74) : "*An entity shall disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows* *are affected by economic factors. Examples of categories are: a/ type of good or service […]; b/ geography […]; c/ market or type of customer […]; or d/ type of contract […].”*

3. Synthesis and discussion

3.1. Results Summary

This study primarily shows that the components of the Business model are weakly taken into account within current accounting and financial regulation applicable to French firms. A thorough analysis of the draft standards shows, however, that this could change in the statutory texts to come.

The study was conducted using a total of 80 documents with 96 references to the business model identified out of 880 possibilities (80 documents for 11 parameters), equaling about 11% of the initial sample. Furthermore, 38 texts out of 80 (about 47% of the sample) don’t refer to the business model concept at all.

Concerning the 96 references identified, we note that the financial disclosure regulation framework refers mainly to resources and competencies (11 references out of 21) while the accounting standards (current and under discussion) refer more to the economic formula (39 references out of 75).

Among the texts that refer to the business model (42 texts that scored positive in the quantitative phase), 38 don’t go beyond the level of our qualitative scale (disclosing information is required or recommended, but without any definition).

Finally, only 4 statutory texts significantly refer to the business model concept: IAS38 and IFRS3 that reach level 3 of our qualitative scale. IFRS 9 (a text that supplements IAS 39) and the draft standard 2010/9/ED explicitly use the term Business Model and recommend taking it into account in the recognition choices (level 4).

3.2. Discussion

This study reports a few references to the components of the business model. In general, these references are conceptual without any definition of the component to report.

This general result can be discussed by considering two potential approaches to enhance the way the business model information is taken into account by financial and accounting regulations. The first relates to what type of information is to be disclosed and where (i.e. inside or outside financial statements). The second approach would base the accounting treatments of transactions on the business model concept or one of its dimensions (parameters).

3.2.1. Business Model and Financial Disclosure

The reported lack of information relating to the business model is quite surprising when one considers that evaluation of a company is mainly based on its capacity to create value, that is to say, on the effectiveness of its business model. Even if European Regulation 2004/809/EC refers to some parameters of the business model, the requirements are, in general, limited. Furthermore, as we previously highlighted, the business model is based on a systemic view of the company that stress the cause and effect interrelationships between its components. This need to take into account these interrelationships and especially the links between the three first components and the economic formula is missing in the texts that were analyzed. For example, paragraph 6 of text 2004/809/EC doesn't enable the reader to obtain information about revenue recurrence and dynamics.

Concerning the information disclosed in the financial statements, the weak number of references to the business model is partially due to the technical aspect of the majority of the standards. Nevertheless, it could be relevant to require, within these standards, some information relating to the business model parameters. For example IAS19 and IFRS2 don't refer to resources and competences, but detailed information on the compensation mode of the human resources could be useful.

Other texts could also be modified to explicitly take into consideration some key components of the business model. IAS 38 underlines the difficulties in recognizing knowledge, expertise and talent due to a lack of control of the entity on these elements. But additional information in the appendix could, be required depending on its importance within numerous business models. Also IAS1 relating to the presentation of the balance sheet and the profit and loss statements could, for example, include the possibility of using a presentation based on differentiation between variable and fixed costs (differential P&L statement) that is very useful for achieving a better understanding of some business models.

Some standards require information on one of the components of the business model without any link with the other components. IAS36 requires information relating to the amount of depreciation and its influence on the economic formula. This type of information could be a useful supplement to information relating to the value proposition or architecture that determines these depreciations.

Progress is, nonetheless, apparent in the most recent texts. Concerning financial reporting regulations, the ASB (2009) noted that the majority of British listed companies don't provide any information on their business model. On this basis, in May 2010 the Financial Reporting Council included in its Corporate Governance Code (Art. C1.2) the following statement: "*The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.*" This insertion of the business model concept represents real progress, even if an explicit and operational definition of the concept is missing.

Concerning accounting regulation, progress is equally apparent in the most recent standards. Despite not providing explicit reference to the Business Model concept, IFRS 5, IAS 40 and IFRS 8 help users of financial statements to better assess an entity's business model. For instance, IAS 40 requires entities to present investment properties separately from other properties used in the ordinary course of business. Doing so provides financial statement users a more accurate insight into the resources a company mobilises to run its business. In requiring an entity to present discontinued operations separately on the face of their income statement and balance sheet, IFRS 5 contributes to improving expectations about recurring revenues, expenses and profits. Likewise, because it requires entities to present segment information on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, IFRS 8 enhances understanding of the way the business is conducted.

Finally, the main question that arises from the preceding discussion relates to the place of information in the business model. Should it be presented mainly in financial statements or in other parts of annual reports? The IFRS Practice Statement Management Commentary issued by IASB in 2010 gives a first answer. It states that management commentary should be a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. Although never mentioning the term

Business Model, the Practice Statement recommends disclosures of outside financial statements about all components of the Business Model described in table 1.. In its Comment Letter to IASB's Exposure Draft, the ASB[6] proposed addition of the following paragraph: "*Management should communicate the entity's business model by explaining how these matters fit together and make the entity distinctive, thereby enabling it to create value*".

Following ICAEW (2009), it would be interesting to question the usefulness of disclosures currently provided by companies in their Management Discussion and Analysis documents, and their adequacy related to users' needs.

3.2.2. Business Model and Accounting choices

Concerning accounting choices, two standards propose a Business Model approach. Under IFRS 9,the firm's business model is a key factor that determines whether financial assets are measured at amortised cost or fair value. Exposure Draft 2010/9, Accounting for lease, rests on the same Business Model approach to determine the appropriate accounting treatment to be applied by lessors. However, none of these standards explain what constitutes a Business Model. References to the Business Model are quite simple. Both standards rely only on the value proposition dimension and implicitly on the nature of risk to qualify the business model. Thus IFRS 9 distinguishes between a business model whose objective is to hold financial assets in order to collect contractual cash flows and a business model whose objective is to buy and sell assets in order to make gains. In the first business model, the main risk is credit risk, in the second one, market risk . Exposure Draft 2010/09 is no more explicit. It recognises, on one hand, a business model the purpose of which is provision of finance and, on the other hand, a business model the purpose of which is to generate a return from the active management of the underlying asset either from leasing it or from use or sale of the asset at the end of the lease. Once more, the principal risk is credit risk in the first model, whereas asset risk is more significant in the second one.

Some active projects could benefit from a business model approach. Among them, Exposure Draft 2011/6 is the most disputed. Respondents7 to the exposure draft on revenue recognition

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[6] www.ifrs.org/Current+Projects/IASB+Projects/Management+Commentary/ED09/Comment+Letters/CL13.htm nt+Letters/CL13.htm

[7] Comment-Letter n°183 (Easy-jet), n°387 (Orange), n°604 (Mazars) available on http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1820-100 (5th january 2012).

argue that the projected standard insufficiently recognizes specific characteristics of various business models. Moreover, two arguments can be addressed for the inclusion of the Business Model concept in the IFRS Framework. First, because the concept is used in at least two standards, it should be defined more widely in the Framework to mitigate the potential distortion between standards. Second, because the business model concept describes how the company creates value for its customers and captures a part of this value for its shareholders by deploying a set of core activities, processes, competencies, partnerships and resources, it could play a crucial role in setting the fundamental stewardship role of financial reporting.

However, some constraints can mitigate its use in financial reporting. First, are in-process works that attempt to alleviate mandatory accounting obligations, especially for small and medium entities. Second are trade-offs that should be made between different qualitative characteristics of financial reporting : reliability/faithful representation, completeness/cost, and relevance/timeliness. For example, a business model approach could be useful in faithfully representing transactions but subject to queries on comparability and reliability dimensions because of the intent-based nature of the approach. In line with these issues, the European Financial Reporting Advisory Group (EFRAG) has built a working group that seeks to clarify what is meant by business model to determine if a single working definition can be developed for use in financial reporting and whether business models can be observed and described objectively.

4. Conclusion

The primary objectives of this study were to clarify the Business Model concept and to assess the extent to which the accounting standards and financial disclosure regulations applicable to French firms take into account the key components of a Business Model based on a synthesis of current models. Results of analysis conducted on all statutory texts setting out accounting and financial obligations highlights a limited recourse to the concept and its components. Among the principal limits of this study is the subjectivity inherent to the methodology used. Possible extensions of this work include analysis of International Financial Reporting Interpretation (IFRIC) and detailed analysis of Comment Letters to Discussion Papers or Exposure Drafts addressed by interested parties to IASB during the consultation process.

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Appendix 1.1.: Quantitative analysis of the European regulation CE809/2004

Components	Parameters	§1	§2	§3	§4	§5	§6	§7	§8	§9	§10	§11	§12	§13	§14	§15	§16	§17	§18	§19	§20	§21	§22	§23	§24	§25	Total
Value Proposition	Company's offer	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Target custormers	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Customer interface	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Value Architecture	Internal organization - Value chain	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	External organization - Value network	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Ressources and Competencies	Ressources	0	0	0	0	1	1	0	1	0	0	0	0	0	1	0	0	1	1	0	0	0	0	0	0	1	7
	Organizational competencies	0	0	0	0	0	1	1	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	4
Economic Formula	Revenue structure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Revenue dynamics	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	Cost structure	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Cost dynamics	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Total		**0**	**0**	**0**	**0**	**1**	**5**	**1**	**1**	**0**	**2**	**2**	**2**	**0**	**3**	**0**	**1**	**1**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**21**

Appendix 1.2.: Qualitative analysis of the European regulation CE809/2004

Components	Parameters	§5	§6	§7	§8	§10	§11	§12	§14	§16	§17	§18	§25
Value Proposition	Copany's offer		§ 6.1.1.										
	Target customers		§ 6.2.										
	Customer interface												
Value Architecture	Internal organization - Value chain		§ 6.1.2.				§ 11.						
	External organization - Value network								§ 14.2.				
Ressources and Competencies	Ressources	§ 5.2.1.	§ 6.4.		§ 8.1.				§ 14.1.		§ 17.1.	§ 18.1.	§ 25.
	Organizational competencies		§ 6.4.	§ 7					§ 14.1.	§ 16.3.			
Economic Formula	Revenue structure												
	Revenue dynamics					§ 10.2.		§ 12.					
	Cost structure						§ 11.						
	Cost dynamics					§ 10.2.		§ 12.					

Note: Level of "reference intensity" (see table 2): Level 0; Level 1; Level 2; Level 3 and Level 4

Appendix 2.1.: Quantitative analysis of the accounting regulation

Components	**Parameters**	**Conceptual framework**	**IAS1**	**IAS2**	**IAS7**	**IAS8**	**IAS10**	**IAS11**	**IAS12**	**IAS16**	**IAS17**	**IAS18**	**IAS19**	**IAS20**	**IAS21**	**IAS23**
Value Proposition	Company's offer	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Target customers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Curstormer interface	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Value Architecture	Internal organization - Value chain	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	External organization - Value network	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ressources and Competencies	Ressources	0	0	0	1	0	0	0	0	1	1	0	0	0	0	0
	Organizational competencies	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
Economic Formula	Revenue structure	0	1	0	0	0	0	1	0	0	1	1	0	1	0	0
	Revenue dynamics	0	1	0	1	0	0	0	0	0	1	1	0	0	0	0
	Cost structure	0	1	0	0	0	0	0	0	1	1	0	0	0	0	0
	Cost dynamics	0	1	0	1	0	0	0	0	0	1	0	0	0	0	0
	Total	**0**	**4**	**0**	**3**	**0**	**0**	**1**	**0**	**2**	**5**	**2**	**0**	**1**	**1**	**0**

Components	**Parameters**	**IAS24**	**IAS26**	**IAS27**	**IAS28**	**IAS29**	**IAS31**	**IAS32**	**IAS33**	**IAS34**	**IAS36**	**IAS37**	**IAS38**	**IAS39**	**IAS40**	**IAS41**
Value Proposition	Company's offer	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Target customers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Curstormer interface	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Value Architecture	Internal organization - Value chain	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0
	External organization - Value network	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0
Ressources and Competencies	Ressources	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0
	Organizational competencies	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0
Economic Formula	Revenue structure	0	0	0	0	0	0	0	0	1	0	0	0	1	0	0
	Revenue dynamics	0	0	0	0	0	0	0	0	0	1	1	0	1	0	0
	Cost structure	1	0	0	0	0	0	0	0	0	1	0	1	0	0	0
	Cost dynamics	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
	Total	**4**	**0**	**1**	**1**	**0**	**1**	**0**	**0**	**1**	**2**	**2**	**3**	**2**	**0**	**0**

Appendix 2.1. (continued): Quantitative analysis of the accounting regulation

Components	Parameters	IFRS1	IFRS2	IFRS3	IFRS4	IFRS5	IFRS6	IFRS7	IFRS8	IFRS13	French GAAP	99-02 Regul.	Total
Value Proposition	Company's offer	0	0	1	0	1	0	0	1	0	1	0	**4**
	Target customers	0	0	0	0	0	0	0	1	0	0	0	**1**
	Curstormer interface	0	0	0	0	0	0	0	1	0	0	0	**1**
Value Architecture	Internal organization - Value chain	0	0	1	0	0	0	0	1	0	0	1	**5**
	External organization - Value network	0	0	0	0	0	0	0	0	0	0	0	**2**
Ressources and Competencies	Ressources	0	0	1	0	1	0	0	1	0	1	1	**10**
	Organizational competencies	0	0	0	0	0	0	0	0	0	1	0	**4**
Economic Formula	Revenue structure	0	0	0	0	0	0	0	0	0	1	1	**9**
	Revenue dynamics	0	0	0	0	1	0	1	0	0	0	1	**10**
	Cost structure	0	0	0	0	0	0	0	0	0	1	1	**8**
	Cost dynamics	0	0	0	0	1	0	0	0	0	1	1	**7**
	Total	**0**	**0**	**3**	**0**	**4**	**0**	**1**	**5**	**0**	**6**	**6**	**61**

Appendix 2.2.: Qualitative analysis of the accounting regulation

Components	Parameters	IAS 1	IAS 7	IAS 11	IAS 16	IAS 17	IAS 18	IAS 20	IAS 21	IAS 24	IAS 27	IAS 28
Value Proposition	Company's offer											
	Target customers											
	Customer interface											
Value Architecture	Internal Organization - Value chain									§ 9	§ 13 et seq.	
	External Organization - Value network											§ 37
Ressources and Competencies	Ressources		§21		§ 73	§ 9				§9 to §11		
	Organizational competencies								§ 11	§9 to §11		
Economic Formula	Revenue structure	§ 86		§ 8, 9 to 25		§ 39 to 49	§ 35	§ 39				
	Revenue dynamics	§ 90	§ 18 to 20			§ 39 to 49	§ 13					
	Cost structure	§ 99			§ 73	§ 20 to 33				§ 17		
	Cost dynamics	§ 98	§ 18 à 20			§ 20 to 33						

Note: Level of "reference intensity" (see table 2): Level 0; Level 1; Level 2; Level 3 and Level 4

Appendix 2.2. (continued): Qualitative analysis of the accounting regulation

Components	Parameters	IAS 31	IAS 34	IAS 36	IAS 37	IAS 38	IAS 39 IFRS 9	IFRS 3	IFRS 5	IFRS 7	IFRS 8	French GAAP	99-02 Regulation
Value Proposition	Company's offer							§ B7 to B10	§ 41b		§ 12a	§ 531-2 / 15	
	Target customers										§ 12c		
	Customer interface										§ 12d		
Value Architecture	Internal Organization - Value chain							§ B7			§ 12b to § 22a		§ 1000 et seq. and § 425
	External Organization - Value network	§ 13 to 29 and § 56											
Ressources and Competencies	Ressources					§ 12 to § 118		§ 66 et seq.	§ 41a to § 41b		§ 23	§ 311.3 to 532.1	§ 2111 / 2111-121, 122 to 424
	Organizational competencies					§ 13 à 15							
Economic Formula	Revenue structure		§16b to §16g				§4.2.					§ 531.2 /15	§ 41, § 425 to § 426
	Revenue dynamics			§ 129 to 130	§ 86		§ 4.2.		§ 33b to 41c	§ 33			§ 426
	Cost structure			§ 126		§ 126						§ 531.2 /15	§ 41
	Cost dynamics				§ 86				§ 33b to 41c			§ 531.2 /15	§ 426

Note: Level of "reference intensity" (see table 2): Level 0; Level 1; Level 2; Level 3 and Level 4

Appendix 3.1.: Quantitative analysis of IASB drafts

Components	Parameters	2010/2	2011/4	2011/2	2011/5	2009/2	2010/9	2011/6	2008/12	2010/1	2009/12	2010/13	2010/8	2008/9	2009/8	Total
Value Proposition	Copany's offer	0	0	0	0	0	1	1	0	0	0	0	0	0	0	**2**
	Target customers	0	0	0	0	0	0	1	0	0	0	0	0	0	0	**1**
	Customer interface	0	0	0	0	0	0	1	0	0	0	0	0	0	0	**1**
Value Architecture	Internal organization - Value chain	0	1	0	0	0	0	0	0	0	0	0	0	0	0	**1**
	External organization - Value network	1	0	0	0	0	0	0	0	0	0	0	0	0	0	**1**
Ressources and Competencies	Ressources	0	0	0	0	0	1		0	0	0	0	0	0	1	**2**
	Organizational competencies	0	0	0	0	0	0	1	0	0	0	0	0	0	0	**1**
Economic Formula	Revenue structure	0	0	0	0	0	0	1	0	0	0	0	0	1	1	**3**
	Revenue dynamics	0		0	0	0	0	1	0	0	0	1	0		0	**2**
	Cost structure	0	0	0	0	0	0		0	0	0	0	0	0	0	**0**
	Cost dynamics	0	0	0	0	0	0		0	0	0	0	0	0	0	**0**
	Total	**1**	**1**	**0**	**0**	**0**	**2**	**6**	**0**	**0**	**0**	**1**	**0**	**1**	**2**	**14**

Appendix 3.2.: Qualitative analysis of IASB drafts

Components	Parameters	2010/2	2011/4	2010/9	2011/6	2010/13	2008/9	2009/8
Value Proposition	Copany's offer			BC 27	§ 12 to 30			
	Target customers				§ 115			
	Customer interface				§ 12 to 30			
Value Architecture	Internal organization - Value chain		§ 2 et seq.					
	External organization - Value network	§ RE7 to RE10						
Ressources and Competencies	Ressources			BC 6				§ 8
	Organizational competencies				§ 74			
Economic Formula	Revenue structure				§ 69 et seq.		§ 3	§ 25 et seq.
	Revenue dynamics				§ 69 et seq.	§ 40		
	Cost structure							
	Cost dynamics							

Note: Level of "reference intensity" (see table 2): Level 0; Level 1; Level 2; Level 3 and Level 4