

Book Review

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Lorenzo Simoni, *Business Models and Corporate Reporting: Defining the Platform to Illustrate Value Creation*, Routledge, 2022

by Sam Rawsthorne*

Stakeholders and regulators have long been calling for changes to the way firms approach corporate reporting. Concerns that information contained in financial statements alone does not meet users' needs have brought narrative commentary centre stage (Michelon et al., 2020). Empirical evidence confirms non-financial information is taking an increasingly integral role in firm disclosure strategies (Dyer et al., 2017; El-Haj et al., 2020) while providing substantial and varied insight into performance, risk, and environmental, social and governance (ESG) matters among others.

More recently, attention is turning to the role of business models (BM) in narrative reporting. Essentially, a BM is a snapshot of how a business creates and maintains value (Amit and Zott, 2001). Understanding how a business generates value is of key importance to investors and other stakeholders, not least to provide a contextualising framework through which to understand firms' financial and non-financial information (NFI). This has led to recent regulatory developments in the European Union, South Africa, and the UK, requiring firms to disclose their BM in annual reports. Despite interest by regulators and stakeholders, the role of BM in corporate reporting is an underexplored area in academic research.

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Against this backdrop, Lorenzo Simoni provides a timely contribution with the book *Business Models and Corporate Reporting: Defining the Platform to Illustrate Value Creation* (2022). The book has three main objectives. First, it introduces readers to the concepts of NFI and BM. This is a helpful analysis to ensure the book and arguments proposed are accessible and engaging to a wide audience. Second, the book debates the role of BM in corporate reporting. Simoni is careful to outline the value of communicating BM to users both because the BM itself is informative but also because it provides a device for presenting a holistic story of financial information and NFI. This analysis also elucidates current reporting regulations and practice while serving as a call to preparers to improve disclosure. Third, Simoni makes a methodological contribution by critiquing previous attempts at assessing BM disclosure quality and offering an alternative approach for future research. In meeting these objectives, the book may be of interest to academics and practitioners wanting to engage with BM disclosures or explore how firms' reporting environment can be improved more generally.

The book is divided into five key chapters. Briefly, the first chapter offers an introduction to core themes. Chapters 2 and 3 provide the lion's share of content. In Chapter 2, Simoni provides an in-depth analysis of NFI and tracks the history of the BM concept, where he carefully navigates the lack of consensus over the definition of business model. This is followed by Chapter 3 which focuses on the role of BM in corporate reporting. Here, Simoni also analyses attempts by prior literature to assess reporting quality and proposes a new evaluation index. Chapter 4 details the implications of BM reporting for a plurality of stakeholders before concluding in Chapter 5. The remainder of this review summarises and critiques each chapter in turn. To conclude, I offer key takeaways and benefits to the reader.

Chapter 1 introduces readers to the core themes of the book. It begins by outlining the rise to prominence of BM in corporate reporting, initially underpinning financial accounting standards (e.g., IFRS 9 *Financial Instruments*) and later as a device for preparers to explain how the firm creates value. This has become more important with many economies and businesses relying increasingly on intangible assets (Haskel and Westlake, 2017). Moreover, the book introduces readers to the main argument that, by offering a holistic picture of value creation, BM can be used as the bedrock to identify and articulate relevant information about firms' resources, operations, relationships, outcomes and risks. In this way, the BM concept offers a "better model of corporate reporting" (p. 2) by enhancing the value of other information disclosed.

Chapter 2 provides a comprehensive handbook to introduce readers to the two key concepts of the book: NFI and BM. Simoni's analysis requires no prior knowledge of the concepts meaning this chapter is especially helpful for readers unfamiliar with either concept. The chapter begins by outlining the limitations of traditional financial reporting, such as omitting information on intangibles and the growing pressure for firms to elucidate information for a broader range of stakeholders. Drawing on prior literature, the chapter shows that NFI can overcome these limitations, such as narrative discussion of intellectual capital or disclosure of ESG data. Simoni reviews the academic literature on the determinants and consequences of NFI while taking care to highlight the diversity of regulatory approaches. This part of the chapter concludes with a discussion of current problems in NFI disclosure, including the absence of explanations by preparers of how NFI disclosures are relevant to firms' strategic objectives and value creation.

The remainder of Chapter 2 presents the BM concept. Readers are guided through its origins in the rise of the internet and e-businesses as a way to conceptualise the value creation process. Simoni articulates the difference between the concepts of BM and strategy, and offers a helping hand through various BM definitions, ontologies and taxonomies. Here, the book acknowledges one of the hurdles to using the BM concept in corporate reporting: there is little consensus as to what constitutes a BM which means how BM is conceptualised likely differs within and across preparers, regulators, users and other stakeholders.

Chapter 3 uses the previous chapter as a springboard to introduce BM in corporate reporting. The first part of this chapter presents the case that BM disclosure is key for users to understand and assess the relevance of financial reporting and NFI. Essentially, Simoni argues that the BM provides "a macro-level view of the business" (p. 52) to show how other elements of reporting are interrelated and contribute to the value creation process. In this way, the BM seeks to overcome the current limitations of NFI specifically as well as corporate reporting more broadly. The chapter goes on to outline why preparers may (not) be willing to provide meaningful BM commentary and details recent regulatory developments aimed at enhancing BM disclosure.

In this chapter, Simoni also provides a review of the embryonic literature investigating BM disclosure. The book offers a comprehensive snapshot of empirical studies looking at BM disclosures in annual reports which seek to determine their usefulness, such as biased commentary or connectivity with other NFI elements. While the summary is helpful, going beyond synthesising to critically evaluating prior research would have added value for

readers. For example, two studies discussed in the chapter (Mechelli et al., 2017; Simoni et al., 2019) seemingly find opposite results when investigating how disclosure of BM influences value relevance of book values. Exploring inconsistent findings and applying a critical lens would aid readers in better understanding current research. Nevertheless, the key takeaway is that few annual reports provide a coherent narrative around their BM.

The remainder of the chapter dives into BM disclosure assessment. Simoni identifies that while studies exclusively rely on content analysis techniques, the approaches applied by researchers vary substantially. Prior studies often assess the volume of disclosure or measure comprehensiveness against an external framework either derived from BM ontologies or guidance provided by regulators or stakeholders. The chapter highlights several limitations with such approaches, noting, for example, that the presence of an item does not guarantee meaningful insights about value creation. Other studies instead assess qualitative and quantitative aspects of disclosure, including connectivity and tone. Simoni draws together these approaches to propose a single comprehensive instrument to measure the quality of BM disclosure. The new index uses the BM Canvas ontology (Osterwalder and Pigneur, 2010) to measure the presence of relevant items before evaluating a battery of qualitative attributes. Simoni completes his proposition by applying his index to the UK telecommunications industry and documents how going beyond scope and volume metrics offer more granular insights into disclosure quality. Readers interested in evaluating BM disclosure will find useful insights in this discussion.

Chapter 4 moves on to evaluating the implications of BM disclosure for a range of stakeholders. The first section focuses on preparers. Here, the discussion serves as a call to action by outlining the motivations and benefits to provide and improve disclosure quality. Challenges of disclosure, such as proprietary costs from releasing sensitive information to competitors or plurality in how individuals conceptualise the BM, are not discussed in detail. Further analysis of these challenges may help illuminate the low levels of disclosure documented in earlier chapters. Second, Simoni explains the relevance of business model disclosure for users. The analysis here is focused on financial analysts and auditors of NFI. Widening the scope to other users, such as employees or suppliers, would offer further interesting insights. Readers may benefit from reading this discussion before the section on BM disclosure assessment to contextualise evaluative approaches. Therefore, it may have been helpful to locate the discussion or signpost this section before discussing BM disclosure assessment. The third

section discusses regulations and BM disclosure. Here, Simoni outlines the limitations of current regulation and how these could be improved moving forward.

Last, Simoni discusses avenues for future academic work. From the discussion, investigating how BM disclosure can be used as a tool to contextualise other financial and non-financial information is a fruitful area for future research. The discussion is somewhat limited to content analysis, although the benefits of additional approaches are highlighted, such as mixed methods and survey evidence. One further avenue not mentioned in the chapter is offered by empirical archival research relying on innovations in natural language programming techniques or proprietary datasets, which may help expand the scale and scope of traditional content analysis to answer complementary research questions (see e.g., Athanasakou et al., 2022; Wang et al., 2021).

The book concludes in Chapter 6 with remarks to emphasise key themes. Simoni draws on analyses made in earlier chapters to reiterate the central argument that the BM offers a tool for preparers to provide a holistic view of the firm and link all other elements of corporate reporting to value creation. Despite the potential value of BM, both its disclosure by companies and academic research are in their infancy. Simoni leaves the reader with suggestions of how regulatory agencies and academics could partner to improve the corporate reporting landscape.

Overall, the volume offers several benefits to the reader. Simoni provides an accessible yet comprehensive analysis of NFI, BM and the role BM could play in corporate reporting. This is a timely and important contribution given the increasing emphasis placed on BM by regulators, policymakers and stakeholders. The empirical section also offers a useful launchpad for future research to go beyond rudimentary measures of disclosure quality, such as scope and volume metrics. Such insights may be of interest to academics, auditors, preparers, regulators and stakeholders.

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