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Paradise Lost: Accounting Narratives Without Numbers

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Abstract: Regulations addressing corporate reporting in the United Kingdom require reporting entities to disclose their business model in their Strategic Report. The business model is intended as the organising concept for the non-financial disclosures, with its principal role being to explain how the reporting entity creates value for stakeholders. The business model concept has become a pervasive concept for corporate reporting with global organisations such as the IIRC, AICPA and IFAC emphasising its central role in external reporting. Using interviews conducted with FTSE 350 company executives and others in the reporting ecosystem, this paper analyses the extent to which responses from the interviewees align with the economic and strategic management literature framing the conceptualisation of business models. It is argued in this paper that there is a powerful preformative aspect to business model reporting. It does not strengthen accountability but serves a different purpose: to colonise new arenas of value by installing unstable concepts like purpose, value and stakeholders. These business model disclosures obfuscate and provide an opportunity for managers to construct narratives that are untethered from the financial statements to create stories without numbers. This ‘reinvention’ of capitalism is more a recasting of old principles rather than ushering an era of a more enlightened view of the corporation. It is a salutary reminder that regulation of corporate reporting does not necessarily lead to improved accountability.

Keywords: business models, corporate reporting, regulation, economic sociology, contents

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To convey his moral there must be a fable, a narration artfully constructed so as to excite curiosity, and surprise expectation.

Samuel Johnson's critique of Milton's Paradise lost

Rethinking Non-Financial Reporting: A Blueprint for Structural Regulatory Changes

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5. The Challenges of Assurance on Non-financial Reporting, by Amanda Ling Li Sonnerfeldt, <https://doi.org/10.1515/ael-2018-0050>.
6. Integrated reporting and sustainable corporate governance from European perspective, by Jukka Tapio Mähönen, <https://doi.org/10.1515/ael-2018-0048>.
7. Why 'less is more' in non-financial reporting initiatives: concrete steps towards supporting sustainability, by Georgina Tsagas, <https://doi.org/10.1515/ael-2018-0045>.
8. Planetary boundaries and corporate reporting the role of the conceptual basis of the corporation, by Andreas Jansson, <https://doi.org/10.1515/ael-2018-0037>.
9. The financialization of civil society activism: sustainable finance and the shrinking of bottom-up engagement, by Davide Cerrato, <https://doi.org/10.1515/ael-2019-0006>.
10. Paradise Lost Accounting Narratives Without Numbers, by Mario-Abela, <https://doi.org/10.1515/ael-2019-0035>.

1 Introduction

Corporate reports are not expected to be fables but documents of record, with financial statements presenting a set of 'facts' resulting from the accounting system – at least that is the intended moral of the story (Hopwood, 1987). The

privileged status of the corporation with limited liability comes with a price tag: a standard of accountability and transparency (Weinstein, 2012). In 2006, at the high watermark of New Labour in the United Kingdom (UK), it was installing its variant of the modern corporation, with the promise of a more enlightened and gentler capitalism in sight. What materialised was somewhat less spectacular – codification of existing Common Law requirements for directors of the company, clarifying that the corporate form did not give them an unfettered right to generate wealth and returns for shareholders at the expense of other stakeholders, though it fell short of undermining the dominance of shareholder primacy (e. g. Talbot, 2016). The changes introduced by a newly elected Tory Government in 2013 made further changes to replace the Operating and Financial Review with a new and innovative Strategic Report that carried with it all the hallmarks of the much lauded Integrating Reporting (IIRC, 2013b).

Unlike the OFR, which was mainly intended as a commentary on the financial statements, the Strategic Report was much more than that as now it had to tell a story about value creation. The business model was intended to be the central disclosure of the Strategic Report, providing the key elements binding together all the content into a compelling narrative. However, consistent with the notion of Enlightened Shareholder Value (ESV) in the Companies Act, this innovation in corporate reporting was an instrumental part of the broader neo-liberal project to make capitalism and its effects more palatable by being more inclusive and kinder (Thrift, 2001) but not necessarily more accountable (Johnston & Talbot, 2018). It was an opportunity lost: the new corporate reporting requirements could have provided greater accountability – especially by making transparent the impacts of value creation, but instead it became a placeholder for the narrative without numbers (Robé, 2012).

The dominance of the economic rationale installed in the 1970s placed the owners of capital at the centre of the corporation's existence. It emphasised the primacy of their need for returns and the immorality of attempting to deal with social and environmental problems – these 'externalities' were for governments and civil society to address, with the legislature supplanted by the wisdom of the free market (Friedman, 1970). Shareholder primacy has presided over decades of resources being extracted and misappropriated resulting in the irreversible destruction of the planet and communities (Stoknes & Rockström, 2018) and this has gone largely unaccounted for in the annual reports of corporations. The neo-liberal logic of an unflinching focus on shareholders was being challenged by corporate reporting reforms, but the business model was quickly sequestered to function as a market device (Doganova & Eyquem-Renault, 2009) performing its role to refashion, rather than break away from, shareholder primacy and installing a grand narrative to further conceal rather elucidate its impacts.

Some scholars have argued that despite the growth in non-financial reporting¹, the financial narrative continues to dominate company discourse (e. g. Brown & Dillard, 2014; Stubbs & Higgins, 2015) partly because of the ancillary nature of non-financial factors in predicating of financial returns (Cho, Michelon, Patten, & Roberts, 2015). This study arrives at a different conclusion: disclosure of the business model (and by extension other non-financial disclosures) has led to four major shifts in the discourse of corporate reporting in the UK: (i) from profit to value creation; (ii) from shareholders to stakeholders; (iii) from business to purpose; and (iv) going concern to viable entity. Those pairings are inextricably linked signifying not just a substitution of terms but a noticeable shift to a set of unstable notions which enable companies to craft narratives that are no longer constrained by the accounting numbers (Beckert, 2019).

To explore whether the changing discourse about corporate reporting marked a break with shareholder primacy and the beginning of accounting for externalities, senior executive in FTSE 350 companies, standard setters and others were interviewed to understand how they construct the business model and situate it within a wider narrative about value creation. Despite the rhetoric that has seduced both academics and practitioners alike (Dumay, Bernardi, Guthrie, & Demartini, 2016) value creation has not been redefined but continues to a cash-based concept². The issues raised are considered against recent developments in the economic sociology literature (Beckert, 2019) and is underpinned by a social constructionist research philosophy (e. g. Gergen, 1999). The paper proceeds in four sections: a brief review of the legal requirement for disclosing a company's business model; an explanation of the methodology and methods used to collect and analyse data; followed by discussion and analysis of the research findings drawing in relevant aspects of the literature; and finally some concluding remarks. The findings show that the shifts that were initiated had a different outcome to what was intended by the UK government in creating an identity between shareholder interests and those of other stakeholders. That is by taking care of stakeholders, businesses would be more successful and shareholders would ultimately

1 In this paper the term “non-financial reporting” is used to refer to both the narrative part of the annual report (the Strategic Report under the UK Companies Act 2006) and other reporting such as sustainability reports which are prepared by companies on a voluntary basis.

2 Value creation has entered business discourse to signify something beyond generating cash but under accounting, economic and legal concepts there has been no such shift in the basic tenets of value-in-exchange and value-in-use both of which are both cash-based concepts. Whether under a neo-classical or Marxist economics ‘value’ remains a cash-based concept. Despite the IIRC (2013a, 2013b) introducing the notion of non-financial capitals apart from specific initiatives to measure value-to-society (see www.value-balancing.com) these methods remain experimental and yet to have any significant impact on market transactions.

be rewarded. This mutuality of interests was the next best thing to moving towards stakeholderism which the UK Parliament rejected. As a neo-liberal world view was already encoded in the legislation, this gentle nod to stakeholders requiring directors to consider their interests but failed to gain any purchase. The result was to open the way for a final separation between the narrative and the numbers in corporate reporting, severing the link to accountability. It has, in effect, demonstrated “the devastating power of what is nothing more than the window-dressing of an ideology” (Robé, 2012, p. 3).

This paper is unique because it is, to the author’s knowledge, the first qualitative study, based on detailed interviews with key actors, that attempts to explain why the resulting disclosures of a company’s business model in the UK have failed to result in meaningful disclosures about ‘value creation’. Instead corporate reporting has continued its trajectory to serve as a compelling narrative without numbers, creating its own stylised view of the company and its performance. It becomes a narrative about purpose without the numbers—where its malleability serves the function of representing progress and a transformation story without the need to ground outcomes in stable metrics (Beckert & Bronk, 2018). The contribution this paper makes to the literature is that it signals the need for policymakers, investors and civil society to understand that it is not axiomatic that a change in reporting requirements will necessarily result in better information that can be used to hold companies to account. Especially where the underlying ontological view of the corporation in the law is inconsistent and pushes away from, rather than toward to, a broader stakeholder orientated notion of accountability. As a result of this tension, the business model disclosure requirements are interpreted and adapted to provide a narrative that sets out a series of beliefs and expectations about the corporation.

2 UK Legal Requirements on Business Model Reporting

In the UK, large listed companies are required to prepare a Strategic Report to accompany their financial report along with other disclosures, all of which form the ‘annual report and accounts’ (Companies Act 2006). The Companies Act 2006 was intended to mark a departure from a pure ‘shareholder primacy’ perspective to something more nuanced: ‘ESV’ which codified the need for the directors to have regard to various stakeholders beyond shareholders³. A move towards a ‘stakeholder’ view was debated and what resulted was a form of compromise:

³ See Section 172(1) Companies Act (2006).

There was a time when business success in the interests of shareholders was thought to be in conflict with society's aspirations for people who work in the company or in supply chain of companies, for the long-term well-being of the community and for the protection of the environment. The law is now based on a new approach. Pursuing the interests of shareholders and embracing wider responsibilities are complementary purposes, not contradictory ones (Department of Trade and Industry, 2007, p. 2).

This statement by Margaret Hodge MP lays to rest any potential conflict between shareholder needs and others. The result is that little has changed and ESV is typically interpreted as not imposing any new responsibilities on directors and remains aligned with the company law in the US (Talbot, 2016b). The changes do not represent a move to stakeholderism and its promise of a more equal settlement amongst all stakeholders (Freeman, 2017).

The chain of logic in the Companies Act 2006 cascades from the overall ESV notion which underscores the primary fiduciary duty of directors to 'promote the long-term success of the company' (Section 172). The reporting requirements under the Act are set out in Section 414C which states: "The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172" – accordingly, the reporting requirements are intended to 'mirror' the directors' fiduciary duties thereby creating an accountability link. However, there is an inherent fault-line in the legislation because whilst Section 172 takes an 'enlightened' view, it sits awkwardly with Section 414C which encodes financial reporting rules by requiring disclosures to conform to the reporting conventions adopted for the financial statements⁴. Accordingly, the scope and boundary of the business model is circumscribed as that for the 'reporting entity'. As Callon notes:

...if calculations are to be performed and completed, the agents and goods involved in these calculations must be disentangled and framed. In short, a clear and precise boundary must be drawn between the relations which the agents will take into account and which will serve in their calculations and those which will be thrown out of the calculation as such (Callon, 1998a, p. 16).

In other words, the default to accounting means stakeholders and the impacts of the business model on them are pushed outside of the calculation. If, for example, the reporting entity shifts all of its manufacturing to an outsourced relationship

⁴ Financial reporting principles are grounded in neo-classical economics, assume efficient markets and take no account of externalities. The social function of accounting was vigorous debated in the development of the Conceptual Framework in the 1970s but ultimately rejected when it was agreed that: "The primary and continuing goal of every commercial enterprise is to increase its monetary wealth so that over time it can return the maximum amount of cash to its owners." (AICPA, 1973, p. 21).

with suppliers in developing countries with poor working conditions that externality is not accounted for (apart from perhaps a greater margin on goods sold):

We book the resource transfer:

Dr Purchases

Cr Cash

And the accounting system ignores what sits outside the reporting entity boundary:

Dr Full Labour Costs

Cr Employee Wages

Cr Employee Contribution in Kind

No reporting entity books that final credit because the uplift in labour costs (if we were to apply fair value measurement⁵) is ignored, as are environmental ‘discounts’ applied. Nothing in the UK legal requirements would compel companies to report that ‘difference’ in either the narrative or the numbers and under existing auditing standards, the statutory auditor would most probably advise a company to remove it.

The specific requirement to disclose the business model is set out in Section 414C(8)(c) “a description of the company’s business model”. In 2014, the FRC issued non-mandatory Guidance on the Strategic Report (FRC, 2014). That Guidance was intended to elaborate on the requirements set out under the Companies Act (2006) setting out the expectations of the FRC. The disclosure requirements for the business model are set out in paragraphs 7.12–7.16 which set out the purpose, function and content elements (See Table 1).

The disclosure requirements are comprehensive in the breadth of information that should be included to explain a company’s business model. They also broadly encompass the key features of business models discussed in the academic literature. These disclosure requirements are similar to those promoted under the International Integrated Reporting Framework (IIRC, 2013b) and the European Union’s Non-financial Reporting Directive 2014/95/EU. The FRC Reporting Lab has now conducted two reviews of business model reporting in the UK – in 2016 and again in 2018. The Lab noted in both reviews that practice is still falling short of the intended disclosures of an entity’s business model (FRC, 2016a, 2018a). This is somewhat surprising given the attention and prolific references to the ‘business model’ in the FRC’s guidance and in annual reporting reviews undertaken by the Big Four (e. g. Deloitte, 2016; PWC, 2015). A global survey undertaken by PwC in 2017, indicated that only 45% of investors believed that companies had done a

⁵ In is interesting that many financial instruments are marked-to-market, but the same logic does apply to repricing externalities unless they are specifically priced through a Pigouvian tax.

Table 1: Business model guidance.

7.12	The description of the entity’s business model should set out how it generates or preserves value over the longer term, and how it captures that value. It should describe what the entity does and why it does it. It should also make clear what makes it different from, or the basis on which it competes with, its peers.
7.13	The description of the business model should also provide shareholders with a high-level understanding of how the entity is structured, the markets in which it operates, and how the entity engages with those markets (e. g. what part of the value chain it operates in, its main products, services, customers and its distribution methods).
7.14	An entity will often create value through its activities at several different parts of its business process. The description of the business model should focus on the parts of the business processes that are most important to the generation, preservation or capture of value.
7.15	The description of the business model should provide shareholders with a broad understanding of the nature of the relationships, resources and other inputs that are necessary for the success of the business.
7.16	The description of the business model should provide context for the strategic report and the annual report more broadly.

Source: Guidance on the Strategic Report (2014), pp. 21–22

good job of explaining their business model (PWC, 2017, p. 3). In their own review of the quality of the annual reporting in the UK, the FRC found that:

Our reviews found that while many companies make reference to the NFR matters in their annual reports, the disclosures are sometimes generic and do not always identify the company’s policies in these areas, the specific outcome of those policies or any due diligence carried out in relation to them. We also found that companies sometimes overlooked the fact that the regulations require disclosure of the impact of the company’s business on the environment, as well as the risks that environmental matters pose to the company (FRC, 2019, p. 25).

The legal sociology literature points out that adoption and compliance with regulatory requirements is not a simple process:

With respect to behaviour, numerous studies have shown that how people respond to regulation is more complex than a binary "comply" or "not comply" response, and that their responses can be shaped by a calculative pursuit of profit, but are also shaped by their normative values (whether they agree with the requirement); their interpretive framework, including the view of those in their social network or with whom they interact in the market (what their peers are doing, what those in their immediate locality expect of them, their "social licence" to operate), or the nature of their interactions with the regulator (their sense of fairness and due process in that interaction); and their own capacity to comply (Black, 2013, p. 416).

Accordingly, even with detailed guidance, it is not clear that the expectations of the FRC would necessarily be satisfied nor those of investors relying on the

disclosures to understand a company's business model. This notion of having loose principles that could be adapted to a specific entity is consistent with the findings of recent sociological studies on financial regulation (Thiemann, 2017). The broad principles allow for the construction of grand narratives by companies, which have a powerful preformative role in co-ordinating the expectations of heterogenous actors. By creating a plausible story that market participants adopt, that 'story' serves to construct a new 'reality' that forms the basis of their strategy (Boyer, 2018).

3 Methodology

The analysis in this paper is based on an interpretative approach (Schwartz-Shea & Yanow, 2012) employing the qualitative method of semi-structured interviews. Interpretative approaches are not uncommon in accounting research (Beattie & Davison, 2015) though they run against the grain of mainstream positivist-based research. The interviews under taken were of 16 senior executives (drawn from finance, strategy and investor relations) in FTSE 350 companies (9), investors (1); global and national standard setters (including board members and technical staff) (4) and non-governmental organisations (including a company law expert) (2). Based on the business model literature, a set of questions were developed and used to guide the interviews with actors in the reporting ecosystem to understand how the business model was being constructed in practice. All the participants were experts in corporate reporting and held senior positions in the reporting supply chain. The aim of interviewing different actors was to establish whether constructions of the business model differed among them. Interview participants were identified using the snowballing technique (Lune & Berg, 2017).

The interviews were carried out between January and May 2018 mainly in London, UK. The interviews were recorded and transcribed. The interview transcripts were analysed using NVIVO 12. The analysis of the interview transcripts employed an abductive approach by first considering the themes expected to be found from a review of the literature and formed the first basis of coding the interviews. In the second sweep of coding, codes were developed inductively based on the themes and issues raised by the interviewees (See Table 2).

The principal task was to identify the ways of constructing the business model and to draw meaning from the explanations provided by the interviewees.

Table 2: Abductive coding schema.

Deductive coding (drawn from the literature)	Inductive coding (drawn from points raised by interviewees)
Purpose of the corporation	Employee versus investor perspectives, licence to operate, shareholders, transparency
Definition of the business model	Compliance, manipulation, market sanction, new information, predictive value, regulation, unchanging
Scope of the business model	Long-term sustainability, resources, social contract
Level of activity that should be captured by business model	Granularity, investment, understandability
Stakeholders	Customers, community, investors
Reporting the business model	Connectivity, image management, investor interest, materiality, other stakeholders, transparency
Risks and opportunities inherent in the business model	Balance, contract risk, cultural risk, sustainability, unmitigated risks, winning markets
Long-term viability of business model	Continuity of activities, convergence of purpose, exploitation, linkage, resources, risk and disruption

Source: Author’s data collection.

4 Locating the Business Model in Practice

4.1 What is a Business Model?

The precision by which interviewees could define the business model depended where they came from and both practitioners and standard setters seemed unaware of the framing of the business model in the academic literature. They, instead, drew their inspiration from the explanation of a business model provided in the IIRC Framework (IIRC, 2013b). The formulaic notion of a business model in the *Guidance on the Strategic Report* (2014) was also relied upon to satisfy disclosure requirements. Beyond the basic concept of a business model reflecting ‘how a business makes money’ there was little reference to financial statements and the linkage between the business model and its performance. The overwhelming comment coming through the interviews for preparers was to make a compelling case for the business’ right to exist and its value to society. The other elements of the business model were taken as given and the success of a business model hinged on the notion of ‘purpose’ which is discussed below.

From the perspective of an investor, there was perplexity around why it is so difficult for companies to describe their business model:

I think of it as ‘what is the company in business to do?’ So, they either make something, or they provide some kind of service and how do they do that? Maybe I am mixing up strategy and business model in one thing. They are difficult to separate, I think. But it’s really about what the company’s in business to do. And one thing I have always struggled with is companies that don’t do a good job of describing their business model, every company has to have their 30 s elevator pitch, and if the board doesn’t understand what that is or management can’t communicate that to the board and then communicate that outside, then there’s clearly a problem. (Investor 1)

Similarly, for standard setters the concept was relatively clear:

I would say that the way it’s normally described is that it is how a company captures value first of all, like, where in the chain of value does it operate and how does it capture that value across what part of the chain and how much of the value. And then, secondly, how the entity, through what it does, creates and protects that value. (Standard Setter 4)

Standard setters consider the business model as a ‘set of facts’, something that is readily observable and understood by business. In some respects, like the investor they struggle to understand why preparers find it difficult to comply with this simple formulation – what the business does to make money by transforming resources from inputs to outputs through some sort of value-adding process. It remains unclear what the nature of the ‘value’ created is – whether it is simply cash flows or something else. If it is something else, what is the nature of that value and to whom does it accrue? Does it include the colonisation of future sources of value – things yet to be commoditised given that a number of interviewees referred to creating value over the long-term?

For companies the definition varies considerably and is more nuanced to reflect the nature of their business operations:

I suppose when someone talks about the business model to me, it’s really, what does the company do, how does it operate, to try and add value, or make money? (Company 1)

...if you’re talking about the business model, it should very much be about the purpose. Why does the organisation exist? The aim. What’s the focus for the business as a whole? What areas does it participate in? Whether that be from a product perspective or a geographic perspective. Where do we participate and what do we do? (Company 4)

Whilst there is some acknowledgement by the interviewees from companies that a balance must be struck between fulfilling a social purpose and generating profit, the quote above highlights that is a binary concept: “add value, or make money ...” the two notions are in conflict. In the second quote, the two notions become conflated and the binary tension seemingly resolved (like the comment from Margaret Hodge MP that ESV removes the trade-off, so being responsive to stakeholders and generating profits were essentially fused together).

An NGO challenged that notion that the business model represented a ‘set of facts’ based on their experience in reviewing business model disclosures in annual reports:

...to my mind that's an incredibly broad, fluffy concept. Anecdotally, I think of it as the process by which a business entity proposes to make money. And the story about how they will do that. I think it's probably a story. It's a narrative. It's a story about a proposed set of actions and description of the world and through the lens of how to generate a profit from, in particular, a state of affairs. (NGO 1)

Perspectives differed amongst interviewees on whether the business model disclosure pertains to representing the business model for the group or whether individual business models operating across the group should be disclosed⁶. There were no discernible differences between groups of actors which all favoured a more granular, activity-based approach. Three principal reasons were given why disclosure should be at the individual business model level – they were understandability, granularity and aiding investment decisions:

There is nothing like a big business model and other business models underneath. You have eventually an explanation of the overall strategy, of how these react differently to economic cycle, in order to ensure that stream of revenue.

Then you can have a group that runs different activities, but these activities are interdependent, that is, in order to have a control over a wider spectrum for the same type of activities. (Standard Setter 3)

One interviewee highlighted the preformative aspect of the ‘level’ of the business model, that if an entity atomises its business models to a very granular level it becomes a way of taking a narrow set of impacts into consideration:

On an aggregate level you can see a lot ... And I think when you go to the more granular level it is more or less a lot about what are the interdependencies with different resources and realities to arrive at a positive financial outcome that can be sustained over time ... like the parameters that they decide around what's a reasonable way of making money, right, in the end. That kind of implicates everything that's happening on the segment level. (Standard Setter 1)

⁶ This highlights inherent ambiguity between the business model of the ‘firm’ and the ‘reporting entity’. The ‘firm’ is an economic unit and the business model literature has developed based on microeconomic principles of why firms exist and how their purpose is to maximise profits. In transplanting this notion to corporate reporting, standard setters and other regulators have assumed that the concept can be applied at a group level (i. e. a constellation of firms) ignoring legal and economic boundaries. It remains unclear how the business model operating at the level of the group is intended to deal with different business models operating at segment, entity or activity level. The Guidance on the Strategic Report (FRC, 2014) suggests that it is the business model for the group (see paragraph 7.13). The Companies Act 2006 requires that the group strategic report include information relating to entities included in the consolidation (414CA(2)) that is, using the same reporting entity boundary as the financial statements.

The belief that disclosure shifts the market (Verrecchia, 2005) was pervasive from the conversations with the interviewees – it is sufficient for companies to disclose non-financial information and they had a responsibility to manage external perceptions of the company. In fact, this belief was unchallenged by any of the interviewees. It followed that ultimately, users and other stakeholders would make their investment and consumption choices based on rewarding those companies that were transparent and demonstrated management of their network of stakeholders and in some cases the market would mete out sanctions to those that did not adequately disclose information (Ball, 2009).

4.2 From Profit to Value Creation?

Profit and profitability came up infrequently in the conversations with interviewees. Instead, many referred to ‘value creation’ and ‘adding value’ as the key objective of a business model. However, when tested the overwhelming concern for interviewees, particularly those from companies, was to generate cash for shareholders:

... ultimately, what really matters at the end of the day is cash. And that does take you to assets and liabilities. Right? So, ultimately, you need the cash to fund the assets within the business, and the purchase of those assets. (Company 2)

There was some variation in terms of how the business model connected with the organisation but essentially arrived at the same equivalence that ‘value’ was ultimately about cash flow.

it is an explanation of how the firm is generating value out of the different assets of the company, in the context of creating and providing the services and products in question. So it's really, at least in the context of [company name], I think it's still a high level view of the firm, to generate cash flow and explaining what are the key components to put together the services and products of the firm. (Company 9)

In terms of these other components of value, their character was profit-related, but it was more a question of timing and there would be a financial impact at some point:

But some of these factors, I would argue, wouldn't necessarily turn out to be a monetary inflow or outflow, but should still be taken into account, because they actually impact the probability of other cash flows happening, in terms of like reputation, what's the risk of your reputation impacting on future turnover, and there are other non-financial factor which won't necessarily lead to cash flows, but could have a significant impact upon future cash flows in an indirect way...

I think the financial information is essential, as a foundation, and non-financial information adds to the value, adds to the colour, adds to that information. (NGO 2)

This last point made by NGO 2, summarises quite well the overall consensus that non-financial information, and by extension non-financial components of value, “add colour” but lack the essential character of financial information. In other words, they fall outside the calculation but may have a bearing on future profitability. In a similar vein, it was argued that non-financial value was important but what set it apart was that it was not recognised in the financial statements. It still had implications for the calculation of profit in that it was a component of growth in future profits:

But for us, in a sense, it is non-financial because it's about the growth driver and it's about not being on the financial statements that we think it's relevant to look at those sorts of things as well. (Company 8)

The views from companies were consistent that value needed to translate to something that could be measured in the calculation of profit. However, not all interviewees agreed that profit was the most meaningful proxy for value. One standard setter highlighted how often externalities were ignored:

Generally speaking, it would be great if more stakeholders are considered for these exercises. I'm not so sure whether they are really an audience, necessarily, for an annual report as such. I think where they come in and where they are interesting, the other stakeholders are actually good proxy in the end for what you need to manage to have a sustainable business, if you don't only look at profits. So easy thing is, it is more profitable to ignore the ILO labour related conventions. (Standard Setter 1)

What can be observed from the interviews is that externalities, as they are unpriced, are exploited to shift costs away from the firm to other parties as a mechanism for remaining profitable. The external costs lie outside the boundary of the reporting entity and are therefore unaccounted. Non-financial capitals (such as human, social and relationship, and natural capitals) have been force-fitted into the value creation narrative, but are seen as a ‘limitless’ resource with a value of zero so are consumed by the business model at no cost to the firm (defying the basic economic problem of scarcity) (Panayotakis, 2013). Accordingly, whilst the language may have changed, it was apparent from the interviews, regardless of the interviewees’ affiliations, value creation was at its core no different to cash. Accordingly, there is no evidence that practitioners are taking into account anything more than returns to shareholders in their decision-making.

4.3 From Shareholders to Stakeholders?

The role of stakeholders was more complicated: interviewees generally accepted the importance of stakeholders beyond just serving the needs of shareholders.

Various reasons were given for the purpose of reporting such as impacts on future customers, accountability to the community and engagement being a necessary part of developing the strategy of the business. For standard setters the view was generally narrower:

I think it's for everyone whom the company should see as its stakeholders but it's very particular purpose is to inform its financial stakeholders. So, it should be able to inform a broader spectrum of stakeholders but for purposes specifically financial (Standard Setter 4).

Whereas for companies the notion and purpose of reporting was broader and not limited to providing a financial perspective:

The key is better engagement with stakeholders. Then, the ability to have a business model that reflects what the different stakeholders want. And not have this corporate arrogance. That, well, we've built ten wind farms in the past. We will continue to build wind farms. Because the external environment is constantly changing. And, therefore, your business model needs to continuously change to reflect that. (Company 5)

Some interviewees suggested that that the business model needed to consider 'value creation' over the longer term⁷ at which point the belief was that shareholder primacy and stakeholderism converge:

It's a question of who you think you're reporting to. If you think you're reporting to investors and then you ask yourself, and over what time horizon am I reporting to them, you know. In other words, what's their investment time horizon. Over what period do they care? But the further out you go in terms of time horizon, I think you get closer and closer to reporting on things that matter to all stakeholders. (Standard Setter 4)

Others emphasised the importance of the company's licence to operate and the extent to which existing business models push the costs and impacts of the company's activities to those external to the firm:

... there's increasingly an expectation that for a business to be successful, it needs to talk about its value-generating proposition and its purpose and its positive social externalities that will add to its social licence to operate and that kind of thing. (NGO 1)

In summary, the network of relationships with material stakeholders⁸ (beyond investors) created by a business model, required acknowledging the needs of all stakeholders but it was not clear how that would be enacted in operationalising the business model. It is such a vague term that it allows companies to formulate the

⁷ This long-term convergence of 'purpose' and 'profit' is a belief that is embedded in the guidance issued by the FRC (2018a, 2018b); IIRC (2016) and highlighted by scholars (e. g. Tweedie, 2014).

⁸ 'Stakeholders' is a term commonly used in the literature and is used as a catch all for everything beyond investors. Even the environment is deemed a 'stakeholder' and there is a lack of precision between at whether it is current and/or future stakeholder interests that are being considered.

composition of their own stakeholder group, appropriate them with specific needs, interests and outcomes over an uncertain timeframe. For investors, company performance is a function of time, with past performance being the basis for estimating future profitability and returns to shareholders. It was not clear that there was a compelling need or urgency to ‘internalise’ externalities (e. g. Berta and Bertrand, 2014, Nicolaus Tideman and Plassmann, 2010) and for those effects to be reflected in the financials (both *ex ante* and *ex post*). The company’s response would be conditioned by the actions (or inactions) of competitors. This genuine need to attend to the needs of all stakeholders was in tension with the need to generate cash and that was apparent particularly amongst the companies.

4.4 From Business to Purpose?

The purpose of the company came up frequently in conversations with interviewees from companies and the resilience of the business model over the longer term. When discussing purpose, its function was, inter alia, as the basis for the selection of the business model and it did not mean social purpose as often described in the literature (Lüdeke-Freund, Massa, Bocken, Brent, & Musango, 2016; Mayer, 2018). The conversations never returned to the meaning of ‘purpose’ in the context of Company Law but more as a construct that was at a company’s discretion. It suggests that businesses can write their own supra-national constitutions (Teubner, 2017), attenuated by what they define as their ‘purpose’:

Your purpose is, sort of, why you’re here, your business model is, you know, how you set yourselves up to win, and the strategy is then how you deliver on it. And, I think, it’s important to communicate that to everybody. So, whether that be investors, whether that be analysts, whether that be business partners, whether that be customers, whether that be your employees, because if you can’t ... coordinate your story to everybody, it’s a muddle.

So, I think it is vitally important the companies can explain, you know, why they’re here, what they’re doing. Most of them do know how, and I think, you know, all boards and certainly chief executives know what they’re about. (Company 8)

Through this erosion of the boundary between the reporting entity and the society within which it operates in is perhaps again part of constructing what Thrift calls ‘soft capitalism’ (2001). What is at stake at that boundary is who pays for externalities or market failures. The following example from a company interviewee helps to clarify the ‘real’ purpose and demonstrates that externalities are left for others to resolve:

Let me give you an example. Increasingly we're talking about the role of digital technology and AI replacing people. So how do you manage that tension? That's a challenge. As a bank you have to make money, you have to be efficient. You also have to respond to your customers' needs. And increasingly they want to operate digitally. How do you balance that out with also being a fairly significant employer?

I think it's all driven by customer needs. And if customers move towards digital channels rather than physical channels, then actually our offer and our services will reflect that. Frankly, if you don't need the same amount of staff to do that, you shouldn't be there just as a public service. (Company 4)

It follows from this statement that companies are not there to solve social problems such as the unemployment they create as a consequence of embracing technology. It underlines that human capital is a 'consumable', a cost in accounting terms. Consistent with neo-classical economics the role of the firm is to maximise profits by identifying efficiency and minimising the consumption of resources. It demonstrates how unstable notions like purpose are in practice when pushed to a trade-off.

It is interesting that a regulator subscribes to this 'shareholder primacy' override. The question is not conceived in terms of the impact of a company's activities on the consumption of resources but externalities are only relevant to the extent that they impact on profitability:

I think all the developments around climate change and sustainability from an environmental perspective, and all these kind of things, I think they have an interest to investors in two possible ways, and that depends on the activity the entity is involved in.

If your business has a direct relationship to climate change, so these are then elements which are relevant to the business. Or you are not in that circumstance, and then it's more of a question of wanting to invest in line with a certain level of ethics, you don't want to put your money in something that will work against society and people. But the link to what we do in my view is very tenuous ... (Standard Setter 3)

Furthermore, Standard Setter 1 argued that imposing such regulatory disclosures served to create a 'fiction' and there were few business models that could be considered sustainable and viable over the longer term. A similar comment was made by an NGO:

I think that's the way things are developing and there's an increasing expectation of that's what's provided and the standard around that. That being said, I do think it's a developing area and I think, at the moment, we are already seeing lots of PR driven statements about business model and purpose that are more greenwashed than integrated. And there's a huge divergence in practise and what companies are disclosing about the business that they do. (NGO 1)

Others commenting on how the market would mete out sanctions for entities not properly disclosing their business model:

...they can manipulate any of that information. I think if there is an audience that reads this information over time, they will call them out for it, especially for this type of information and Amazon one year says: Our future is online. And then the next year it's stores, physical locations and this is our main business now. Then the first question from investors will be, 'so you have the stores or you're going to have them in five years?', right. (Standard Setter 1)

One standard setter highlighted the role of the financial statement auditor to pick up any discrepancy between the business model disclosure and the financial statements:

It would seem to be. I mean if the impression you got from the financial statements is that they were a manufacturer of goods, and their main revenue stream was financing, you've probably got a fairly limited view of their business model. So when they explain one and the financial statements look like it's something else, I would have thought that's an inconsistency you'd expect your auditor to be taking up. (Standard Setter 4)

While some interviewees linked the business model to the financials: “there should be complete alignment to the financials, the strategy and the business model. And saying how you’re utilising your strengths should be the driver of your financial trends” (Company 4) many made no explicit reference to the financial statements and the business model description being linked⁹ to other components of the annual report. The prevailing theme was the importance of the narrative: “So it really spans the whole annual report and the whole sort of communication to investors about how companies explain their story.” (Company 9). This point was reinforced by the response to the question about whether the regulator should provide further guidance to define and shape the business model disclosure in the strategic report. The general consensus was that a more prescriptive approach would constrain the narrative and eliminate the inherent differences between companies’ business models:

I think it would be helpful, because it's probably a term that's not uniformly understood, in that it's perhaps interpreted in different ways by different people. So, you can't always compare business models between similar companies. So, perhaps a bit more guidance, as opposed to perhaps strict rules around it, might be useful. But you don't want to sort of provide very tight rules which sort of restrict what people can do, and how they can display it, because I am sure that different businesses view their own business models in different ways. (Company 1)

⁹ This is an interesting conundrum given that the FRC in its *Guidance on the Strategic Report* (2018) places emphasis on its principle of ‘linkage’ as the main objective of the Guidance: “promote greater cohesiveness in the annual report through improved linkage between information within the strategic report and in the rest of the annual report” (p.5).

Even standard setters supported a loose definition of the ‘business model’: *“I think if you wrote something very specific, it would be evolved out of usefulness pretty quickly. I mean, today, you know, we have a very disruptive environment for businesses”* (Standard Setter 4).

There has been considerable attention in the financial press about the risky nature of some business models and the inherent risks (and opportunities) they face from their activities. Some of these are driven by scandals such as Volkswagen (Financial Times, 2018a); Facebook (Financial Times, 2018b); or unrealistic assumptions made about the sustainability of a business model – such as the realisation that Apple’s business model and profitability based on the sales of its flagship iPhone could not be sustained (Financial Times, 2019). These events signal the fragility of these market narratives and the profound impact they can have on the value of a company (Dumay & Guthrie, 2017). This point was highlighted by an investor:

I think that risk and opportunity should link to the business model ... I mean the business model may be risky, but risk is in the eye of the beholder too. So, the business model is what it is and the risks and opportunities that go along with that, is something for management to deal with and for investors to see if they’re comfortable with it. (Investor 1)

It reinforces the importance of a narrative and avoids unpicking the business model to determine longer term viability. It demonstrates that the agency problem (Jensen & Meckling, 1976) is not merely solved by contracting but has a significant element of judgement, subjectivity and ethics:

So, how can you describe the risk on those contracts? That’s the problem. Because each of them probably have some very different terms, you know? Because you’re running ... a prison, and the atomic weapons establishment, and refuse collection in a city ... with hindsight, I should have asked ... more penetrating question about the business model, and how risk was governed. (Company 2)

The interviewee goes on to highlight some of the critical failures of reporting such as the limited provisions for disclosures about onerous contracts. The issue is not addressed at all in narrative reporting given that risk reporting is aimed a small number of principal risks (FRC, 2018). Onerous contract terms have led to the demise of several large companies (e. g. Carillion plc see Financial Times, 2018c; House of Commons, 2018), underscoring that business models need to be understood in their socio-economic context and viability of the financial models that underpin them: *“unlimited liability [in contracts], that was never explained ... to shareholders. As far as I can tell. And I mean that was fundamental. And it’s not reported on at all, really, is it?”* (Company 2).

4.5 From Going Concern to Long-term Viability

The final shift is away from the accounting concept of a ‘going-concern’ which typically has a twelve-month horizon to long-term viability over an indefinite period. Repeatedly the interviewees, particularly those from companies, emphasised the importance of telling a story and showing the company in the best light. For the investor trying to understand the inherent risks in the business model it is a matter of finding alternative information sources (Esterly, 2016). The incentives are stacked against companies telling bad news or full disclosure of risks create a level of instability that, as one interviewee stated, most legal counsel we advise companies to avoid:

... I think that wrong information, or imperfect information, in the wrong hands is a loaded gun. And, you know, that's where the lawyers are really, you know, very, very anti. And so they should be, you know? (Company 5)

These risks are likely to be latent in the network of stakeholder relationships that the business model impacts and may be critical to profitability. However, the Companies Act (2006) employs a complex twist – whilst the directors of the company must have “regard to” broader stakeholders in making decisions (Section 172), the reporting requirements in Section 414 make it clear that reporting is to the “members of the company” (shareholders) as one interviewee from an NGO explained:

They have to report on implications of their activities for broader stakeholders. But only to the extent that they have implications for value creation for their shareholders. To take an example, tobacco is the easy one. They need to report probably to their shareholders about the risks of their products to the extent that they think there's potential regulatory and consumer pushback on that. (NGO 1)

The existence and viability of a business model depends on a business being able to carry out those activities profitably and to meet its liabilities as they fall due.

A regulator can introduce rules that prevent or limit the operation of a business model – it can make activities less profitable (e. g. through the introduction of a tax on the product or force a company to partially offset its externalities) or may prevent the marketing and sale of the product but ultimately it comes down to business models that are no longer fit-for-purpose:

...there is just no magic solution to this anymore and some business models simply don't work ... I mean society, historically, has always found a solution to these things. It sometimes takes too long. (Standard Setter 1)

A strong theme coming through all the discussions on risk was the changing and increasingly disruptive nature of the external environment and the implications that has on the viability of the business model over the longer term – that is, well

beyond the 12 months covered by the going concern assessment. Long-term viability was interpreted in several ways providing a range of perspectives on how business models are dynamic over time. Despite the legislation and standard setters encouraging companies to take a longer term view (e. g. FRC 2016a, FRC 2016b; FRC 2018a, FRC 2018b; IIRC 2013a, 2013b) the incentives for companies push management behaviour in the opposite direction:

...all our bonuses are going to get cut, and then people start to think it's short-term or something, right, we just need to get through the next twelve months. It's a typical gambler syndrome is not it, well we need to get to the half year, if we get to the half year, then we are doing quite well, let's get to the next, you know. So, it becomes, that they are not really looking long term, they are just going right, okay, we are in this position, how do we get to the next position? (Company 6)

Supporting the notion of longer-term viability was maintaining 'business as usual', that is perpetuating this belief that because a business has been successful in the short-term it can be extrapolated out on the basis that resources remain available to exploit even though there is a wealth of evidence to the contrary given environmental issues such as climate change and divisive and crippling social issues. Any student of economics recognises the problem of scarcity and yet it seems to be assumed away in the context of the business model. This claim is not as fanciful as it may first appear – in a recent class action by a pension fund, the directors of Exxon Mobil¹⁰ are being sued because they considered and then chose to ignore the impact of climate change on exploiting their oil and gas reserves. A federal judge rejected Exxon Mobil's motion to dismiss, suggesting that the Company had a case to answer for potentially misleading investors.

There was a pervasive view amongst the interviewees that the current 'business as usual' was sustainable though companies could be more transparent about the impacts and dependencies of their business model. There was a sense that some companies were at least thinking critically about the sustainability of their business model over the longer term:

You know, you think about the sustainability of the financial position. The sustainability of growth and margins and cash flow generation, and, you know, all of that sort of stuff. So, it just comes as a natural product at that point, I think. (Company 2)

That said, there is a strong capital market disincentive to be honest about management's view of the company's long-term viability:

10 Pedro Ramirez Jr v. Exxon Mobil et al., U.S. District Court, Northern District of Texas, No. 16-03111.

Because if they do that, the shares will be suspended and that's it. So, what do you do, so I think that's why in a way, maybe even the term, viability statement, do you not just want an honest view? But this is where you have got the vagaries of the market. If you go to an investment manager and whatever and say, we are a bit uncertain about the future, well you are downgraded, and then everybody gets very twitchy, because the board are thinking about, and also, I think performance pay comes into this as well. What happens is, to a certain extent, non-execs don't want to see what they don't want to see. Then you get the crisis, and then everybody has to pitch in to deal with the crisis, but I think if you go back, they will probably all go, 'well yes, we sort of saw it coming but we didn't know how to deal with it, because we don't know how to give bad news'. (Company 6)

It would appear that the equivalence between better information leading to a better form of capitalism is itself mitigated by agency and individual and group incentives. A sharper focus on the broader externalities or impacts of decisions would serve to preserve value over the longer term – regardless of what time horizon is chosen by a company.

5 Discussion and Analysis

What is going on here in how practitioners are making sense of the business model? While there is an understanding that the concept serves to colonise new arenas of value it is more nuanced than that in practice. It is clear that the business model has a job to do (Callon, 1998b; Doganova & Eyquem-Renault, 2009; Doganova & Muniesa, 2015; Muniesa, Millo, & Callon, 2007): finding non-assets to colonise and convert into future revenue streams (Doganova & Muniesa, 2015), it follows that these are the new frontier resources not recognised in the financial statements because they are part of changing expectations (Beckert, 2013). These non-assets have become primary drivers of value: where authoritative sources continually cite that over 80% of company value is not captured in its financial statements (e. g. Adams, 2015) despite this only being validated by a limited study conducted by a consulting firm¹¹. Similarly, a flaw has been found in the Integrated Reporting Framework that its multi-capital approach in broadening the notion of value is problematic in practice (Sukhari and de Villiers, 2018). For example, the experience in South Africa has identified a number of weaknesses in the ability of companies to report against non-financial capitals (Van Zijl, Wöstmann, &

¹¹ This notion of 80% of company value being accounted for by intangibles has been promoted by research undertaken by Ocean Tomo, a consulting firm which basis this analysis on S&P 500. The last study was undertaken in 2015 and found that the figure had risen to 84% of company's market [value being explained by intangibles. The study is available at: <https://www.oceantomo.com/intangible-asset-market-value-study/>.

Maroun, 2017). But any number helps to anchor the belief in value that may or may not be realisable (Tuckett, 2018). ‘Value’ has become an empty signifier (Laclau, 2006), at least in its meaning beyond cash, to signpost a new ‘form’ of capitalism. Many of the interviewees either implicitly or explicitly pointed the practical problems militating against active and meaningful business model disclosures – few senior executives are willing to layout the weaknesses in their business model. In order to make the grand narrative of the corporation palatable, the business model needs to set out the ideal employing all the elements of a successful narrative that is attractive to providers of capital.

This is becoming apparent in other business discourse. For example, the Inclusive Capitalism Coalition arose from the shocks of the Global Financial Crisis in 2008 and the proceeding period of economic prosperity. It is a coalition of businesses, investors, academics, central bankers and other policy makers with a mission to sustain capitalism and underscore the irrelevancy of socialism, in their view, as an economic model. Interestingly, though central to the Framework developed there is no definition of ‘long-term value’. The narrative begins with a focus on ‘stakeholders’ but they are quickly substituted for ‘shareholders’ in this fusion of what’s good for asset owners must lead to prosperity for the rest:

Thus, finding better ways of measuring and communicating how a company creates value consistently across all material stakeholder groups over the long term lies at the core of rebuilding trust, even if this information is hard to measure at first ... The income statement is focused on in-period changes in revenues and costs, but only takes into account movements in values of certain assets and liabilities. It fails to account for the value of strategic capabilities that increase long-term shareholder returns. Without the metrics to demonstrate the value of these long-term investments, many companies face intense pressure to focus on short term results above all else (Frost et al., 2018, pp. 12–13).

This is more of the same, trickle-down economics by another name, all aimed at securing the long-term wealth of investors (Beckert & Aspers, 2011). It falls short of explaining the process of redistribution as that is seen as the role of governments (Frost et al., 2018). Figure 1 illustrates the changing notion of ‘value’ and this pivot from thinking about value over a short-term horizon to a longer term perspective – that is, from a stable to an unstable notion as ‘long-term’ escapes any precise definition. What is important to underscore is that the overall quantum of value remains unchanged which appears to be a contradiction given that the text suggests value for stakeholders should be captured suggesting that new arenas of value will be created. Therefore the only noticeable difference is that more intangible value is recognised and communicated to investors (and it would reconcile with a factor for intangible value which is already within focus of the investor). However, it is noted in the report: “we are not suggesting that intangible

value should be further captured on the balance sheet” (Frost et al., 2018, p. 13), instead it would be included in the ‘non-financial’ report. What is curious in Figure 1 is the additional amount of value that exceeds market value which is not explained but potentially some notion of intrinsic value that the market has yet to price. It follows that a decline in value ‘not measured or communicated is also possible putting a significant amount of value at risk – again this demonstrates the instability of the vague notion of value that is employed, it defies measurement and yet is worth depicting.

The sentiments in Figure 1 and the text that explains it in the report reinforce the points made by the interviewees that ‘value’ as a construct has not really changed from the consideration of future cash flows. As Standard Setter 1 noted it was about maintaining a ‘fiction’ that many existing business models were in fact viable whereas in practice they are quite precarious as pointed out by Company two noting that there was a significant contract-related risk that was typically not understood by anyone in the company nor was it accounted for in any way. It is interesting that risk to cash flows which constitute prudent accounting and common for financial assets is ignored when it comes to intangibles.

In economics (as in accounting) ‘value’ is a relatively simple construct: “The present value of expected future cash flows. For example, the economic value of a

Figure 1: Components of value. Source (Frost et al., 2018):13.

fixed asset would be the present value of any future revenues it is expected to generate, less the present value of any future costs related to it” (Law, 2016). It is also founded on the belief that ‘value’ is an immutable concept governed by a set of economic laws (which rely on bold assumptions being made about the past and the future). It follows that anything that is unpriced by the market, such as externalities, are valued at zero and as calculative practices are unable to deal with null values, these resources are assumed under the neo-classical economic model to be limitless and ignore intergenerational effects can be ignored (Bithas, 2011).

This was not always the case but more a product of recent memory where purpose was equated with cash for shareholders fuelled by the financialization of the corporation (Talbot, 2016a) and declining profits has bred new techniques for extracting value from the corporation (Lazonick, 2017). Weinstein notes that the social purpose of corporations was a fundamental principle for lawyers wrestling the governance of the modern corporation. However, it is a strand of the literature that is often not cited as the cadence of the arguments collapse under the weight of the dominant and pervasive shareholder primacy myth (Weinstein, 2012). That orthodoxy is being challenged as a system of beliefs and assumptions rather than an observable feature of the market – more and more commentators are advocating that the market does not always lead to the most efficient solution (Prosser, 2006). This conviction to a particular narrative is based more on the belief that money will flow from a business model (or investment) and stresses “the human capacity to organize experience through narrative, and demonstrates how cognitive and affective responses are combined to facilitate action opportunities” (Tuckett, 2018). But what is often missing from those narratives are the negative displacement effects that operate when cash flows fail to reflect the cost of unpriced externalities created by the operation of the business model. Curiously the calculations have not changed – investors continue to focus on cash generation though they do recognise that externalities can impact the future cash flows of a company (CFA Institute, 2017). Accordingly, the story is no longer tethered to the numbers in the financial statements. Business leaders, such as Paul Poleman, former CEO of Unilever, has stated many times that a company without a purpose is unlikely to survive in today’s world (Schawbel, 2017). In the sustainability literature, scholars are increasingly turning to business models as a means of embedding sustainability within business and colonising the term ‘value creation’ to its broader limits to include environmental and social factors (Schaltegger, Hansen, & Lüdeke-Freund, 2016) but like Integrated Reporting fails to reconcile with current concept of value in accounting and economics. Sweeping into the general business narrative the notions of ‘purpose’ and ‘shared value’ (coined by Porter & Kramer, 2011) appear to be empty signifiers (Laclau, 2006) pointing to something that is not there which seems to be the case in terms of sustainability outcomes (Brown, 2016).

The business model concept has travelled from its origins in the strategic management and economics literature, it has been transplanted into accounting without modification (Girella, Tizzano, & Ferrari, 2018) ignoring the function that boundaries serve in reporting (Girella, Abela, & Ferrari, 2018). The FRC has made it clear that the application of the business model concept, for the purposes of reporting, must follow accounting norms (FRC, 2014). That gives rise to two practical issues about the scope of the business model and its boundaries. Accounting draws on but does not follow the logic of the strategic management or economics literature and has its own logic (Biondi, Canziani, & Kirat, 2007). Hopwood observed that accounting tries to emulate economics to obtain its legitimacy but then always falls short of satisfying economic norms (Hopwood, 1992).

The business model literature, with roots in strategic management and economics, is also not clear on the boundary of the business model, as that is not really a question that concerns strategists or economists but of critical concern to accountants. The reporting entity no longer bears any resemblance to the simple construct of the firm. The business model of the reporting entity becomes a chimera that does not resemble the boundaries of either the neo-classical economic notion of the firm or the accounting construction based on accounting principles anchored in property rights of sorts. It has become an untidy proposition for financial accounting being derided by some standard setters (Leisenring, Linsmeier, Schipper, & Trott, 2012) clinging desperately to neo-classical precepts and agency theory (Jensen & Meckling, 1976). Whereas its usefulness is identified by others as a potential logic for improving reporting (EFRAG, 2013; IIRC, 2013a, 2016) and a hallmark of a new era of inclusive capitalism (IIRC, 2016).

It is important to consider what remains silent in the text and left out of the interviewees responses (Bradley, 2008). The inter-generational dimension did not come up as an issue for the business model. The interviewees generally recognised the impact and dependencies of business models and viewed them as a series of decisions about trade-offs (e. g. customer preferences for Internet banking and the rights of employees). Despite the reality of climate change, critical limits being exceeded on planetary and social boundaries, they are outside of the calculation – whether that is contained in non-financial narratives or the financial statements. The inter-temporal production possibility frontiers implicit in accounting calculations hold constant: utility, substitution and the role innovation and technology, which given a zero price enables companies to ‘borrow’ from future generations without any obligation being incurred today (Fine, 2017). For accounting purposes, allocative efficiency is not part of the calculation, so no consideration is given to Pareto optimality. This has two effects: an intergenerational transfer of resources to current generations (at no cost) and as a consequence a wealth transfer drawn forward from future generations who will enjoy less resources and be burdened with obligations

to remedy harm done today – together those effects represent a process of financialisation that is not sustainable. The inter-temporal dimensions of business model are generally ignored beyond binary choices: for example, extract oil or stop extracting oil and switch to another business model. There is a whole string of assumptions that the current discourse ignores: what is the transitional state between business models (e. g. from oil to renewables); the inter-generational impacts and how future generations will be required to address these problems but value (cash) has already been extracted by the current generation of investors. How do business models deal with the legacy of addressing known degradation and inequalities whilst also paying a current charge for externalities created today? A notion of long-term viability that just presumes the existing business model will run in a steady state over the chosen time horizon is a great illustration of cognitive bias and the role of beliefs in forming views about the world (Wikforss, 2014).

Based on the conversations with the interviewees and literature it is unlikely that there is a panacea to arriving at meaningful disclosures of the business model and more informed and responsible decision-making given the stories being told are no longer explained by the numbers reported (Beckert, 2019). One approach, that may be effective if it were enforced, would be to set rules around the principle of ‘connectivity’ or ‘linkage’, which would connect the business model to other content elements of the annual report and accounts’. The IIRC defines ‘connectivity’ as “a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time” (IIRC, 2013b, p. 16). If this principle were operationalised by requiring that business model disclosure make direct connections with the financial statements and risks, there would be a much higher imperative for directors to ensure compliance and for the auditors to be satisfied that there is consistency. Such a requirement would need to be backed up by enforcement though that seems unlikely given much of the regulatory infrastructure has been dismantled.

It is perhaps naïve policy making to address the issue of poor and potentially misleading disclosures by addressing content elements of corporate reports in an atomistic fashion. A more systemic approach is needed that addresses corporate reporting in a more holistic manner. That is, the problem needs to be tackled upstream by clarifying the corporation does not exist in isolation to the society it is part of. At present, company law in the UK maintains that the principal duty of the directors is effectively to the shareholders by not substantially requiring the need to balance the needs of other stakeholders.

There’s one benefit in terms of information being provided to the market that’s useful for them to make decisions and for shareholders to be more active. But perhaps even more impactful is

requiring executives and directors within companies to start thinking about these issues themselves. And go through that process.

There are both conceptual and procedural barriers to something like that happening. On the conceptual level, directors have duties to act in the best interest of the company and to perform their duties with due care, skill and diligence. But they have very broad discretion around how they go about doing so. There's the famous business judgement rule which is a bit of a 'get out of jail free' card, which gives directors a wide degree of discretion about how they do go about conducting the business.

So, if they haven't turned their mind at all to managing the business over the long term as is required under the Companies Act or the process they had for doing so was so far below the industry standard that might be grounds for charging them on that. (NGO 1)

Companies and their directors are increasingly being called to be 'transparent' but that is somewhat different to the legal notion of accountability. The responsibility is not just to furnish stakeholders with information but provide an account of the decisions made and their impact (Keay & Loughrey, 2014).

6 Conclusions

On the surface the interviews highlighted several conundrums: discussion of 'purpose', ethical and societal consideration alongside a strong focus on generating cash. This binary relationship between profit and society and the inherent trade-off seems to be a recasting rather than a rejection of the shareholder primacy myth (Stout, 2012). The language has been tempered to be more palatable to be compatible with current mores, but it is still functionally unchanged. What the interviews illustrate is that this complex narrative or 'story' breaks free of the numbers and fuses together notions of value (in terms of discounted value) and value (in terms of societal benefits) to be transposed under the rubric of 'value creation'. The discourse is softened, which enables value to remain a construct about cash to shareholders, albeit overall a longer time horizon.

It is not clear how the narrative and the fusion of 'value' concepts articulates with the present accounting model which purports to be anchored in neo-classical economics and the efficient market hypothesis. Further research is needed on what constitutes a broader approach to value and how it should be accounted for (Barker & Mayer, 2017). The present model of financial reporting leaves unanswered how to account for the 'non-financial' drivers of value and the implications they have for the measurement of financial position and performance (stocks and flows). The centrality of measurement in accounting theory

underscores the pursuit of quantifying externalities even if those measures yield information that is not relevant in discharging a company's accountability to its stakeholders (however defined). It creates a tension between a difficult to define scope for the business model and financial reporting: the very notion of the reporting entity and the unit of analysis for accounting no longer accords with how the business is conceived by key actors in the financial ecosystem. There are, of course, limitations on the extent to which these conclusions can be generalised given the scale of this study. However, the qualitative evidence in terms of how key actors perceive the 'business model' and its function, serves to identify a discrepancy between how the business model is described in the strategic management and economics and how it is applied in practice. For more robust explanations, economic sociology provides a useful frame for analysis highlighting the preformative nature of these disclosures and the consequences that flow from them. Understanding the behaviour of companies with respecting to meeting legislative requirements is not straightforward (Black, 2013). That is, the business model functions as a mechanism for expanding the notion of value and extracting greater output by leveraging unpriced externalities and consuming intangibles that are not represented in any of the calculations. But it does more than that, it assembles and privileges those effects that are chosen by companies to describe their performance. The resulting narratives are enabled by loose regulation that lacks precision and creates unstable notions that are readily exploited. Once untethered from the constraints of the financial numbers, the narrative becomes the basis for setting and conditioning expectations of investors (and other stakeholders) and no company will voluntarily declare bad news. It sets aside the need for accountability in favour of constructing a fable that can be believed until the perils of environmental degradation and social disorder fracture that illusion.

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