

# About CGMA

Chartered Global Management Accountant (CGMA®) is the most widely held management accounting designation in the world. It distinguishes more than 150,000 accounting and finance professionals who have advanced proficiency in finance, operations, strategy and management. In the U.S., the vast majority are also CPAs. The CGMA designation is underpinned by extensive global research to maintain the highest relevance with employers and develop competencies most in demand. CGMAs qualify through rigorous education, exam and experience requirements. They must commit to lifelong education and adhere to a stringent code of ethical conduct. Businesses, governments and nonprofits around the world trust CGMAs to guide critical decisions that drive strong performance. [www.cgma.org](http://www.cgma.org)

## About the Association of International Certified Professional Accountants

The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMAs and accounting and finance professionals globally.

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## The consultation

The focus for all organisations should be achieving success over time. To achieve this they need to meet the needs of their customers and other stakeholders including society, also over time. A critical stakeholder is the investor but their return is dependent upon responsibly meeting customer needs in return for a fair consideration.

For an organisation to meet the needs of the customer and other stakeholders in the long term, it needs to understand how value is created today, the potential impact of changes in the organisation's ecosystem in which it operates, and how value can be created in the future. To do this, it needs to truly understand its current business model.

To support this understanding, CIMA published a white paper in 2016, **Rethinking the Business Model**. The white paper developed a Business Model Framework, whose purpose was to help the board and management consider their business model through a series of lenses. It was designed to provide a basis for board discussion and decision-making on the crucial value-creating aspects of the organisation.

We will use responses to this consultation paper to help us enhance our current framework to make it even more relevant and valuable in an ever-changing business environment. Furthermore, we will use the responses to inform our development of practical tools to support long-term value creation. Published findings from the consultation will be anonymous. The Association of International Certified Professional Accountants complies with the Data Protection Act 1988.

**Issued:** 23 May 2017  
**Respond by:** 6 September 2017

### How to respond

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Respondents are invited to comment on some or all of the questions summarised in Appendix 1.

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

This consultation summarises the earlier CIMA report and now, through the global CGMA designation, the Association of International Certified Professional Accountants ("The Association") invites finance and business leaders to comment on the various elements of the CGMA Business Model Framework which we have presented in five sections as follows:

- Definition of the business model
- The organisational ecosystem
- Elements of the business model
- Implications for organisations
- The role of finance professionals

Responses can be submitted in three ways:

- (i) By e-mail to [Business.Models@aicpa-cima.com](mailto:Business.Models@aicpa-cima.com)
- (ii) In hard copy to Dr Ian Selby, CIMA, Third Floor, The Helicon, One South Place, London, EC2M 2RB. England.
- (iii) Online at [www.CGMA.org/BusinessModelConsultation](http://www.CGMA.org/BusinessModelConsultation)

This consultation exercise is designed to enable the Association to develop a new, practical, integrated framework of the business model relevant to CGMA and the wider global business community and the public sector including 'not-for-profit' entities. It will be complemented by the production of a range of new practical business-model-focused tools and other content in 2018 and 2019.

# Introduction

It is our view that organisations need to:

develop greater clarity around their business model or models;

improve their understanding of how value is created and shared with stakeholders; and

improve their understanding of the potential impact of changes in the external environment.

This understanding needs to extend from the past, through the present, into the future, articulating how value can be created in the long term. The need for this greater understanding is largely driven by so-called 'megatrends' such as globalisation and digitisation, which have made new business models possible and old ones redundant at an accelerating rate. Organisations are having to contend with new competitors and other changes, emerging from unexpected sources. Because of this, understanding the business model and its dynamics is crucial for long-term value creation. At its heart is the value created for the customer. As well as enhancing an organisation's long-term value creation potential, the CGMA Business Model Framework will help it to address both the risks and opportunities relating to pursuit of the United Nations' Sustainable Development Goals (SDGs).<sup>1</sup>

## The concept of value

We adopt a wider view of value than has historically been used in accounting. Value goes beyond shareholder value to co-creating shared value for a range of stakeholders. Value can be financial or non-financial, tangible or intangible and value is not limited to the past, it also extends to the present and the future. Future value covers both the short term and the long term.



A well-described, customer-focused business model addresses, in an integrated manner, organisational objectives, values, opportunities and risks. It links pay to performance and skills. It also provides a basis for effective reporting and assurance and helps put sound governance at the centre of corporate decision-making. It identifies the key areas that require robust metrics and supports all decision making. In essence, this shared 'narrative' of the organisation provides a powerful basis for supporting strategic and operational conversations at all levels of the organisation.

It is our contention that the board, senior executives and managers, investors and wider stakeholders would benefit from an integrated and common understanding of their organisation's business model. The existence of a defined business model would help decision makers to understand when an organisation is deviating from long-term and sustainable value creation and help to avoid decisions that lead to short-term profit followed by corporate failure. It would also help decision makers to respond intelligently and effectively to changes in the external environment.

The CGMA Business Model Framework can be used as a tool to aid articulation of an organisation's business model and to facilitate stakeholder communication. In addition, management can use the analysis to challenge elements of an existing business model and the process of engagement can lead to business model innovation, which we have seen is increasingly important in today's business environment.

We believe the focus for all organisations should be to achieve success over the long term, creating value for all their stakeholders. To make this possible, they need to meet the needs of their customers and other stakeholders, including society as a whole. Long-term investors are another critical stakeholder group, but their return is dependent upon responsibly meeting customer needs in return for a fair consideration.

The CGMA Business Model Framework, within which all of these aspects can be considered by both the board and management, takes the following points into account:

the objectives of the organisation, in particular the products or services to meet customer needs;

how these objectives will be met;

through which channels; and

how any surplus arising will be shared.

<sup>1</sup><https://sustainabledevelopment.un.org/?menu=1300>

# Definition of the business model

A business model shows how the content, structure and governance of an organisation's activities are designed to create value through the exploitation of opportunities, represents the way an organisation operates, and demonstrates how it creates and captures value for its stakeholders.

A business model tells a story about how an organisation works, how it makes money and how it delivers value to its customers at an appropriate cost.

### We therefore conclude that:

A business model shows how an organisation defines, creates, delivers and captures value for, with and to its key stakeholders in a consistent and coherent manner.

Figure 1  
The organisational ecosystem



### Consultation questions

- Q1 Do you agree with the definition proposed on the left, do you have any suggestions for improvement?
- Q2 Would a business model framework be a useful tool in managing your organisation? If yes, how so?
- Q3 The CGMA Business Model Framework defines four elements of the ecosystem – markets, technology, risk and opportunity, and society – in your view, what are the most important factors for the organisation to consider in terms of understanding and articulating its business model?
- Q4 The CGMA Business Model Framework is designed to assist organisations to better understand the nature of their competitive advantage, possible threats from new and potentially disruptive entrants as well as other changes in the ecosystem. By better understanding not only its own business model but also the business model of competitors or potential competitors, an organisation is more likely to be able to better assess the strengths and vulnerabilities of its own business model. To what extent do you believe the ecosystem is changing and what impact is this having on the organisation's ability to understand its business model? How do you think the CGMA Business Model Framework will assist organisations to take advantage of the opportunities and risks arising from this impact?

# The organisational ecosystem

The design and deployment of an organisation's business model takes place within an ecosystem. Organisations evolve within and adapt to this ecosystem which comprises markets and society.

**Markets** bring together the organisation, its customers, suppliers, partners and competitors. It is characterised by exchange, competition and often profit. The different types of market are the markets for goods, services, capital and labour.

**Society** regulates the conduct, activities and operations of organisations through laws, customs, moral norms and social action. It comprises government (at all levels), regulators, local communities and civil society entities and can transcend national boundaries. Importantly in a digital world, it is both global and local. And society provides the wider social infrastructure that enables business activities to take place. In that way, it both enables and constrains the activities of organisations.

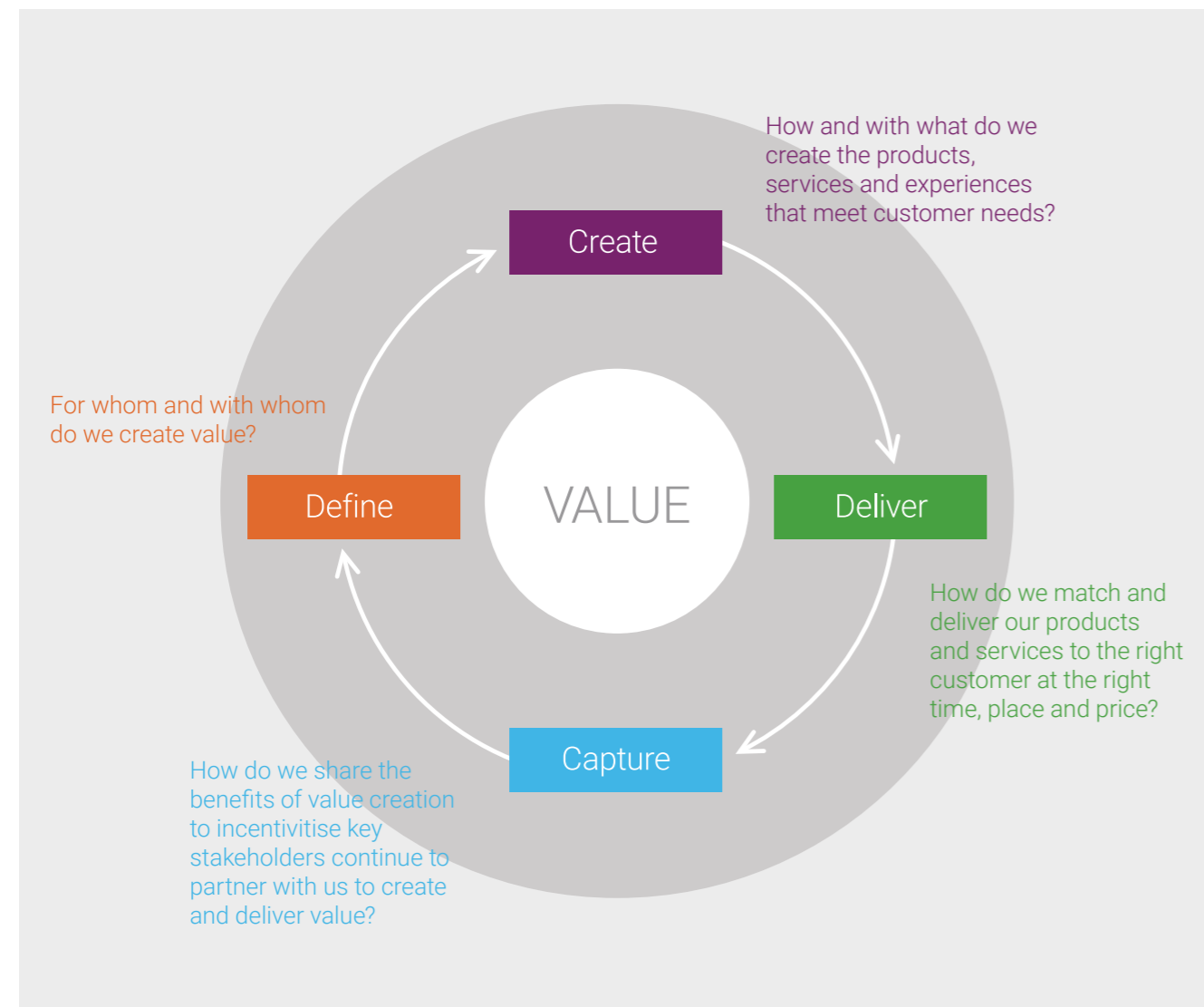
Markets and society interact with each other to produce outcomes for the organisation. **Technology** impacts both of them. The impact of technology on society is shown in new ways of interacting (e.g. social media), new experiences and new expectations. Technology affects the productivity and efficiency of organisations. It is often a source of their competitive advantage and in the last 20 years has been the single most important source of competitive disruption.

The interaction within and between markets and society **creates risk and opportunity** for organisations. Both must be understood and managed in the context of the business model for the organisation to create and deliver value over the long term. Figure 1 shows the organisational ecosystem.

# Elements of the CGMA business model framework

The CGMA Business Model Framework comprises four conceptual elements: define, create, deliver and capture value as shown in Figure 2.

Figure 2  
Elements of the business model



**Value is defined** by customers, investors and other stakeholders. The process involves identifying and prioritising the organisation's stakeholders, finding out their needs and formulating propositions to meet those needs. Not all value created can be measured in financial terms, organisations create a range of value for a variety of stakeholders.

At this stage, the organisation is asking the question: for whom and with whom will we create value?

**Value is created** through the harnessing of key resources and relationships. These inputs provide the resources that are converted into outputs through the activities and process of the organisation. Most of the financial costs of the organisation are incurred at this stage, although value creation is not limited to the organisation. Employees value their pay and derive job satisfaction, suppliers and partners benefit from financial rewards for co-creation activities and society benefits from operating taxes and duties such as those relating to payroll, land and building usage, and import/export activities.

The key question here is: how and with what, or with whom, do we create the products, services and experiences that meet customer, investors and stakeholder needs?

**Value is delivered** to ever-more demanding and sophisticated customers when the outputs from the value creation element yield favourable outcomes – revenue, security, customer satisfaction, customer loyalty etc. To do this effectively, the organisation must segment its customers and understand the channels through which the products and services can be delivered to these customers. Most of the organisation's revenue is earned at this stage. The organisation seeks answers to the following question: how do we match and deliver our products and services to the right stakeholder (customer, investor, etc.) at the right time place and price?

In the context of profit-oriented organisations, value is captured for stakeholders when the revenue received from delivering value exceed the costs incurred when creating value. This surplus is reinvested and/or distributed to shareholders (dividends), employees (performance-related pay) and the wider society (taxes). In the public sector, value is captured for stakeholders when the public utility or societal benefit derived from delivering services exceeds their costs. The primary question here is: how do we share the benefits of value creation in a manner that incentivises all key stakeholders to continue to partner the organisation in creating and delivering value?

## Consultation questions

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

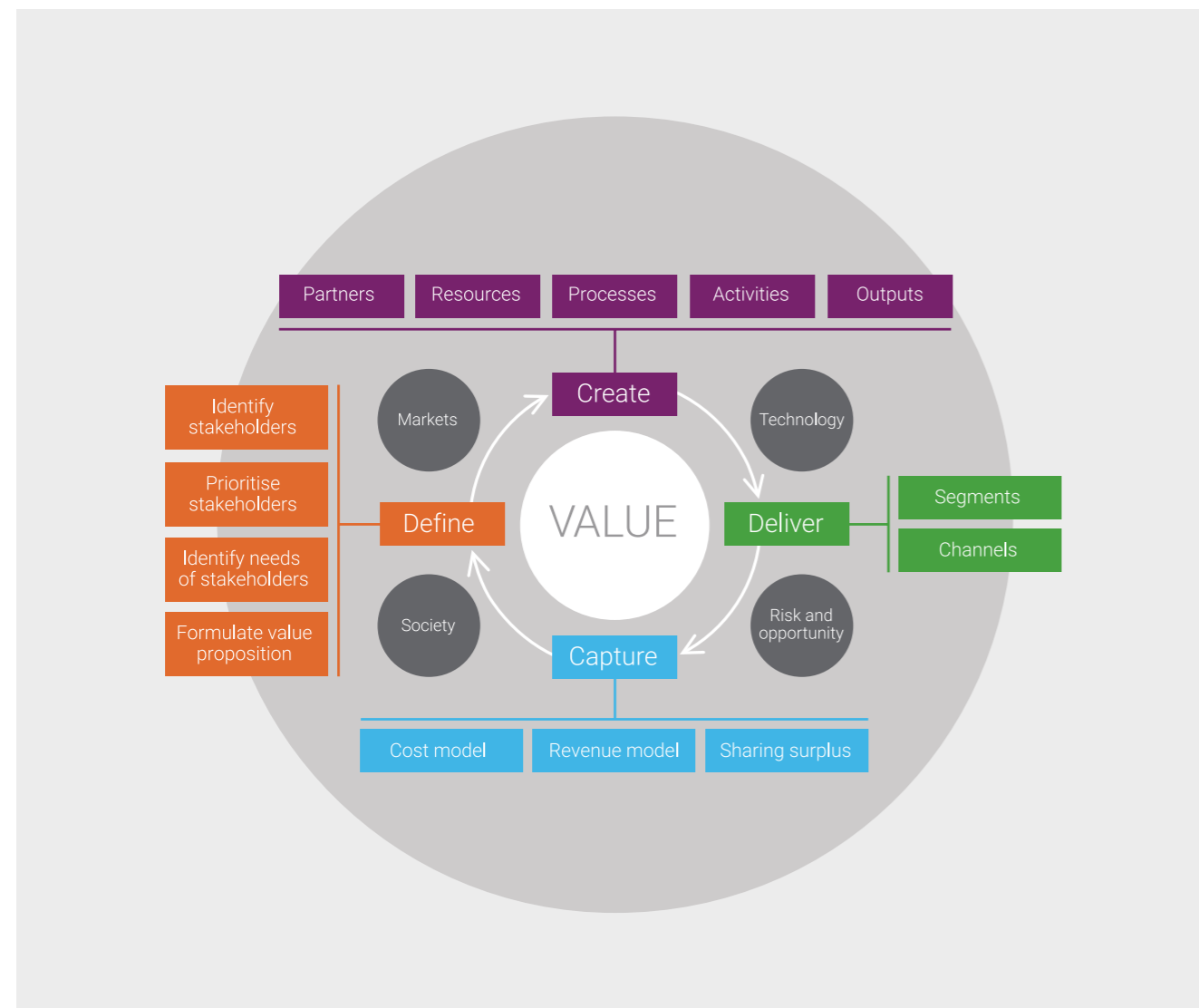
**Q6** Please comment on the broad concept of value adopted in this paper. In your experience how readily accepting of such a concept are executives, boards, investors and other stakeholders?



# CGMA business model framework – bringing it all together

The CGMA Business Model Framework and its different components are shown in a single diagram in Figure 3.

**Figure 3**  
The CGMA Business Model Framework –  
bringing it all together



## We therefore argue that the CGMA Business Model Framework, centring upon value creation:

defines the objectives of the organisation – the stakeholders and their needs, and in particular the products or services to meet a customer need(s);

identifies how the products or services are created;

identifies how the products and services are delivered; and

addresses how the value captured is shared between the different stakeholders.

## The CGMA Business Model Framework addresses potential change in the external environment arising from:

markets;

society;

technology; and

risk and opportunity.

The white paper makes no distinction between the business model and strategy, maintaining that the business model comprises two interconnected models: the strategic model and the operating model. The decisions and actions involved in defining value, and capturing and sharing value are essentially strategic in nature and constitute the strategic model. Decisions made in the context of the strategic model should be executed to create value and deliver value. The operating model therefore comprises the value creation and value delivery part of the business model.

In our analysis, the important thing to stress is that the different parts of the business model should connect to, and align with, each other as well as with the ecosystem of the organisation. Using the CGMA Business Model Framework to understand the organisation will help the board to identify and articulate clear objectives, value drivers (and destroyers), material resources and relationships, relevant external factors, risks and opportunities and so develop a more effective forward-looking, customer-focused organisation.

### Consultation questions

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

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

# Implications for organisations

We envisage that the CGMA Business Model Framework can be used by boards and management to view their business model through a series of lenses. This approach enables specific aspects of an organisation's business model to be examined in the context of the whole organisation. We believe that this integrated approach will support connected decision-making that more fully recognises the impact of long-term value creation.

There are a number of lenses that can be applied to an examination of the business model, each with particular implications for organisations:

- 1 From a **governance** perspective, boards must be able to understand the organisation's business model and hold executives accountable for designing appropriate business models, effectively deploying them and reporting on them to the wider stakeholder group<sup>2</sup>.
- 2 In addition, **risk** is inherent in all the elements of the business model and how they connect with each other and the organisation's ecosystem. The business model should therefore provide the basis for developing an integrated and embedded risk management system for the whole organisation.
- 3 The organisation should invest resources to understand key **customer** needs and support the development of the relationships, processes, technologies and other intangible assets such as know-how to create and deliver long-term value creation.
- 4 The organisation should have a clear understanding of the value of its **intangible assets**, brand, reputation, talent etc. and be able to harness this to create the right business model to maximise and grow intangible value. The business model should provide the basis for managing intangible assets.
- 5 Business model **innovation** should be targeted on finding new ways of meeting customer needs through new products, services and experiences and new ways of producing and delivering them. Innovation may create new revenue streams, enhance current revenue streams, improve service delivery or reduce costs.
- 6 The organization should seek to **incentivise** all the key stakeholders to ensure that they continue to partner with it to create and deliver value in such a way that a surplus is generated over the long term. The incentives must be based on the continuing prioritisation of different types of stakeholders including investors (return on investment), customers (customer satisfaction) and society (acting as a good corporate citizen in return for a fair tax and regulatory regime).
- 7 The business model should be viewed with a **competitive advantage** lens that compares the organisation's business model to that of its actual and potential rivals in the marketplace focusing on resilience in the face of competitors' activities as well as identifying key business advantages and disadvantages.

<sup>2</sup>For example, Provision C.1.2 of the UK Corporate Governance Code states that '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'.

## Consultation questions

- Q9 Do you believe it is useful to view the business model through a series of lenses? Is this something that you currently do and, if so, to what effect?
- Q10 We have discussed a number of lenses on the left, which other lenses do you believe are important for long-term value creation? Which would constitute your top five?
- Q11 We intend to develop a series of tools to assist boards in their implementation of the CGMA Business Model Framework. One such tool could be a set of key questions for the board to address when considering, through a series of lenses, its current understanding of the organisation's business model and its capacity to create long-term value effectively and resiliently. Do you agree that this would be a useful tool? What additional tools would be useful?



# The role of finance professionals

The role of finance professionals is to provide the necessary information and control infrastructure to enable the organisation and its stakeholders to make and implement decisions. This creates the necessary impact to creating, delivering and preserving value as captured in Figure 4.

Finance professionals **collate** information by collecting, cleaning and connecting data. The information produced is often too general for the specific use of the organisation and its partners.

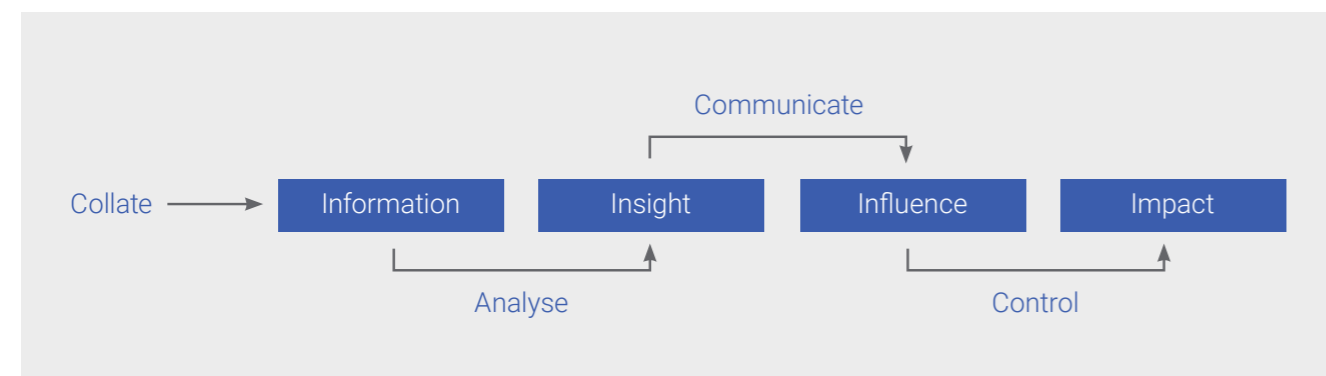
Finance professionals **analyse** the information further to provide insight which is more specific to the needs of users. Digital technology is providing the means to analyse information in different and specific ways.

Finance professionals **communicate** the insight to the intended audience to influence their decisions, actions and behaviours. The communication should be to the right person at the right time using the right format, accessible terminology and language.

For the organisation and its partners to achieve the necessary performance, finance professionals must ensure that the right resources are provided at the right time and be of the right quality to enable the business model to perform and flourish. They should review performance and take appropriate measures to ensure that the organisation is meeting or exceeding its objectives. Taking ownership of the business model and in this way addressing connectivity and related metrics is part of the **performance management and control** function of finance professionals. The CGMA Global Management Accounting Principles support organisations in benchmarking and improving their management accounting systems and so can assist in this process.

These activities should be performed across all the elements of the business model. For example, costing and cost management information and insights can be communicated to those involved at the value creation stage. Similarly customer and channel profitability analyses can be used in support of the value delivery stage.

Figure 4  
The role of finance professionals



## Consultation questions

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

**Q13** Do you have any other general comments?

# Why we need you

Your input is invaluable to our work and it is your insight that will allow us to ensure the business model framework we develop is as robust, relevant and ultimately useful as possible.

Please share your views on some or all of the questions above either via email to [Business.Models@aicpa-cima.com](mailto:Business.Models@aicpa-cima.com) or by visiting [www.CGMA.org/BusinessModelConsultation](http://www.CGMA.org/BusinessModelConsultation). All responses will be entirely anonymous. In addition, we will be hosting a number of round tables around the world and collecting feedback until 6 September 2017.

We will then analyse the responses that we have received and use this information to develop a new, practical, integrated framework of the business model relevant to CGMA, the wider global business community and the public sector, including 'not-for-profit' entities, that we will publish towards the end of 2017. It will be complemented by the production of a range of new practical business model focused tools and other content in 2018 and 2019.

## Appendix 1 – Consultation questions

**Q1** Do you agree with the definition proposed above, do you have any suggestions for improvement? (page 10)

**Q2** Would a business model framework be a useful tool in managing your organisation? If yes, how so? (page 10)

**Q3** The CGMA Business Model Framework defines four elements of the ecosystem - markets, technology, risk and opportunity and society - in your view, what are the most important factors for an organisation to consider in terms of understanding and articulating its business model? (page 10)

**Q4** The CGMA Business Model Framework is designed to assist organisations to better understand the nature of their competitive advantage, possible threats from new and potentially disruptive entrants as well as other changes in the ecosystem. By better understanding not only its own business model but also the business model of competitors or potential competitors, an organisation is more likely to be able to better assess the strengths and vulnerabilities of its own business model. To what extent do you believe the ecosystem is changing and what impact is this having on the organisation's ability to understand its business model? How do you think that the CGMA Business Model Framework will assist organisations to take advantage of the opportunities and risks arising from this impact? (page 10)

**Q5** To what extent do you believe that the four conceptual elements 'defining, creating, delivering and capturing value' provide an effective structure for understanding and articulating an organisation's business model? (page 9)

**Q6** Please comment on the broad concept of value adopted in this paper. In your experience, how readily accepting of such a concept are executives, boards, investors and other stakeholders? (page 9)

**Q7** Are the extended elements attached to the four core conceptual elements sufficient to capture the critical aspects of a company's business model? Are there any you would add? Remove? (page 8)

**Q8** Do you agree that the CGMA Business Model Framework has the potential to provide additional clarity on the value creation proposition of organisations over and above current developed and developing reporting frameworks? If yes, how? (page 10)

**Q9** Do you believe it is useful to view the business model through a series of lenses? Is this something that you currently do and if so to what effect? (page 10)

**Q10** We have discussed a number of lenses above, which other lenses do you believe are important for long-term value creation? Which would constitute your top five? (page 12)

**Q11** We intend to develop a series of tools to assist boards in their implementation of the CGMA Business Model Framework. One such tool could be a set of key questions for the board to address when considering, through a series of lenses, its current understanding of the organisation's business model and its capacity to create long-term value effectively and resiliently. Do you agree that this would be a useful tool? What additional tools would be useful? (page 12)

**Q12** Beyond the roles of the finance professional defined above, do you believe that there is a role for finance professionals to provide leadership in the area of business model innovation? If yes, why? How so? (page 14)

**Q13** Do you have any other general comments?





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