

## Interrelation of company's business model structure and information disclosed in management reporting

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**Abstract.** The article hypothesizes that there is a relation between the structure of a company's business model and the information disclosed in the management reporting. To justify this hypothesis the authors generalized various definitions of the business model; analyzed its structure; demonstrated the necessity to use management accounting methods in the description of individual elements of the business model. The authors recommended method of Activity-Based Costing to describe the business model elements representing information on costs and results of the company as this method allow the company to allocate overhead costs more precisely and develop more efficient pricing policy, which is a key factor in the company's value chain.

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### Introduction

The analysis of world experience shows that market participants in conditions of market economy struggle both for the possession of capital resources and tangible assets and for the ability to develop and implement effective innovations of organizational and economic nature. Researchers associate modern sources of economic growth more with technology (39%) rather than with capital (34%) and labor force (27%) [1]. One of the priority directions of development for entities is a goal-oriented system of arrangements for design, implementation, and development of various tools and techniques of management accounting in the united corporate information system of organization management [2].

Each organization in order to succeed in a competitive environment needs to develop a business model that would allow the company to understand the processes that contribute to an increment in value [3]. A study conducted in 2010 by a group of Economist Intelligence Unit showed that according to 50% of managers the innovative business models are more important for the company prosperity than innovative products or services. A poll among Corporate Heads conducted in 2011 by IBM showed similar results. Almost all respondents expressed the need for business models adjustment with consideration of new conditions. In tough economic times, companies are considering the business models as one of the most important factors of stability in a volatile environment. However, according to a study by the American Management Association, global companies allocate for the development of new business models no more than 10% of the total investment in innovation [4].

### Methods

The study is based upon a method of comparison and synthesis of different approaches to the definition of the business model. Unfortunately, the science has not worked out an unambiguously true, the fullest, and the most precise definition of "business model" yet. Although this term is found in works by many specialists and scientists engaged in research on the strategic management and strategic management accounting. We have considered the main approaches to the definition of the business model and its components in Table 1.

Approaches to the business model definition considered in Table 1 treat this concept as logic and method of doing business, on the one hand, and as a way of adding value for customers and increment in the company's market value, on the other.

### Results

Analysis and synthesis of various definitions of "business model" have allowed us to formulate, in our view, a more accurate and comprehensive definition of the business model: it is a structured description of financial and economic activity of the company that reflects the way of its value increment. Let us distinguish the main components of each business model:

- structure and management system in the company;
- markets and proposed values (products, services);
- value chain: a financial component of the value chain (cost structure, income structure, cash flow structure); economic component of the value chain (mechanisms of interaction with suppliers and contractors, other partners);

- clients: vehicles of sales and promotion of the product in the market; a targeted group of buyers; mechanisms of interaction with customers;

- corporate culture.

It is a well known fact that the effective management decisions are usually made by virtue of information provided in the management reporting of the enterprise. The term and the concept of management reporting are studied in works by many American and European researchers in the field of economic sciences, such as Ray Garisson, Eric

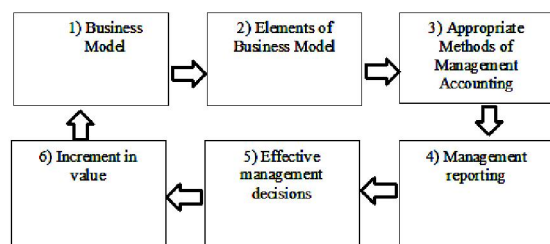
Noreen, Peter Bruay, Anthony A. Atkinson, Rajiv D. Banker, Robert S. Kaplan and others [11, 12, 13, 14].

Analyzing and summarizing the authors' definitions, we can say that management reporting is one or several documents in which financial and non-financial information about the company for a certain period of time is organized and generalized. One of the management reporting features is that it contains the very information required to make effective management decisions in the company. Management reporting is a trade secret of the company, on the one hand, and is unique for each organization on the other [15, 16].

**Table 1. Comparative characteristics of different approaches to the definition of "business model"**

Country	Researcher	Definition of the term "Business Model"	Structural element of a business model; aspects of scientific investigation
1	2	3	4
USA	Larry Bossidy and Ram Charan	Business Model is a robust, reality-based process for thinking about the specifics of your business in a holistic way [5]	Business model is effective if the external realities and the company's financial goals are in harmony with its internal capacities, resources.
USA, Germany	Mark Johnson, Clayton Christensen, Henning Kagermann	Determine the business model as a set of the following four elements [6].	a) Customer value proposition, b) Profit formula, c) Key resources, d) Key processes.
Russia	V. Gusakov	Business Model is how and at what expense the company makes money [7].	a) goals and vision of the company's prospects; b) structure and management system in the company; c) company's markets and products; d) corporate culture; e) value chain within the company
Russia	V. Kotelnikov	Business Model is a method of sustainable performance which converts the base values (resources, company's capabilities and innovation - in economic results) [8].	Components of business: a) Business strategy, b) Economics and Finance, c) Marketing and competition, d) Entrepreneurship.
	D.Hambrick and J.Friedrickson	Business Model is a definition of a business model give a list of five questions, the answers to them form the business model definition and structure [9].	a) Questions that develop the definition of a business model: b) Arenas. Where will we be active? c) Vehicles: How will we get there? d) Differentiators: How will we win in the marketplace? e) Economic logic: How will we obtain our returns? f) Staging: What will be our speed and sequence of moves?
	H. Chesbrough	Business Model is a useful framework to link ideas and technologies to economic outcomes [10].	The following are important functions of business model: a) Value creation (that is: a series of activities that will yield a new product or service). b) Value capture (firm captures value from a portion of those activities).

Quality and success of management reporting is directly dependent on management accounting techniques [17, 18]. In our opinion, methods of management accounting, and techniques for classification and grouping of accounting information may also be a means to describe the financial component of the business model. The role of management accounting within the proposed structure of the business model is shown in Figure 1.



**Fig. 1 The logical interrelation of the business model and methods of management accounting**

How, then, the formed business model as a whole and its elements can affect the disclosure of information in the management reporting? To explain Figure 1, let us note that the goal of the business model of any company is a demonstration of the value chain process. The increment in value, in turn, is one of the goals of the business entity.

## Conclusion

Effectiveness of the company activities is conditioned by accurate choice of managerial accounting methods and efficiency of the management reporting that must meet the needs of the company's management by disclosing information about the business. In this case, by effectiveness of the company we mean net financial result and the increment in value.

Thus, we can conclude that the structure of the business model affects information disclosed in management reporting. The company can describe such an element of the business model as a financial component using selected management accounting methods. We recommend, among others, the Activity-Based Costing method, since in comparison with the traditional methods of management accounting it allows to determine the cost of production more accurately and to develop an effective pricing policy.

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