

Value Added: Technique for Corporate Performance Measurement under Social Perspective

Bharata Bhusan Sahoo ¹, Alok Kumar Pramanik ²

¹ Department of Commerce, Karilopatna College, India

² Department of Commerce, Bhattar College, India

akp_dnt@rediffmail.com

Abstract

Financial Analysts consider as profit the most important measure of business performance. Profit may be expressed in terms of money value and measured as sales margin percentage or be calculated as return of investment. These, in any form, are used as basis for measure of business performance. In recent years, considerable interest have been shown in the use of value added as an alternative or additional approach to measure the operational efficiency and profitability of a business. A lot of discussion have been going on about reporting the performance of an organization in terms of value added rather than conventional profit or loss. The information disclosed by the Statement of Value Added, based on Value Added Accounting and reporting is considered to be much more useful than that disclosed by the conventional profit and loss account in providing a realistic basis for measuring the economic performance of an organization. The concept has received great attention in accounting practices with the emergence of large corporations having significant bearing on the society and finally on the economy for multi-dimensional impact over and above the owners. Value added system is a very useful measure of judging the performance of an enterprise for managerial decision-making and for inter-firm comparison.

Keywords: Value Added; Value Added Accounting and Reporting, Value Added Statement, Annual Report.

JEL : L25 ; G32

DOI : 10.24002/kinerja.v21i1.1038

Received : 12/01/17

Reviewed: 30/01/17

Final Version: 18/02/17

1. INTRODUCTION

The main thrust of financial accounting development in the recent decades has been in the area of 'how' we measure income rather than 'whose' income we measure. The common belief of the traditional accountants that net income or profit is the reward of the proprietors (shareholders in the case of a company) had been considered as a very narrow definition of income. In fact, proponents of the proprietary theory argued that the proprietor is the centre of interest. The assets are assumed to be owned by the proprietor and the liabilities were the proprietor's obligations. The notion of proprietorship has been accepted and practiced so long as the nature of business did not experience revolutionary changes. The proprietary theory holds well for a sole proprietorship or a partnership kind of business. But with the emergence of corporate entities and the legal recognition of the existence of business entity separate from the personal affairs and other interests of the owners led to the rejection of the proprietary theory and formulation of other theories like entity theory, enterprise theory and fund theory. The entity theory has its main application in the corporate form of business enterprise. The entity theory is based on the basic accounting equation. It also suggests that the net income of the reporting entity is generally expressed in terms of the net change in the stockholders' equity. It represents the residual change in equity position after deducting all outsiders' claims. The enterprise theory is a broader concept than the entity theory.

For entity theory, the reporting entity is considered to be a separate economic unit operating primarily for the benefit of the equity shareholders, whereas in the enterprise theory, the reporting entity is a social institution, operating for the benefit of many interested groups. The most relevant concept of income in this broad social responsibility concept of the enterprise is the value added concept. Therefore, the origin of concept of value added lies in the enterprise theory. Thus, there was need to modify the accounting and reporting system. As a result, "Value Added Accounting and Reporting", based on Value Added concept and originated from enterprise theory, has been considered as very useful innovation in the field of Corporate Accounting and Reporting. This newly developed accounting and reporting method is aimed at adding a new dimension to the existing system of corporate financial accounting and reporting through the disclosure of additional information regarding the amount of wealth of an entity has created in the accounting period and the way the wealth has been distributed by the entity amongst those that have contributed to its creation. In fact, the value added approach as a measure of organization performance is broader, more universally applicable and closer to social reality in comparison with profit. Since the emergence of social responsibility of business, the concept of profit has started losing its importance. Ultimately, the objective of a business unit has changed from profit maximization to value added maximization. It has been considered as an appropriate tool for measuring the success of a business unit. Now-a-days, too much interest has been shown on this concept and it is being considered as another approach to measure operational efficiency and profitability of a business unit.

This approach of measuring business performance is basically a social approach which highlights the social benefits that a firm is going to provide to the

different stakeholders. It reveals about the social character of production which is traditionally excluded by profit and loss account.

Value added concept appeared to offer a solution to the problem of how was efficiency to be brought into relation with democracy. It was repeatedly presented as a means of achieving a felicitous combination of participation if not democracy and efficiency. Value added functions as a strategic mode or point of interrelation within the network of statement generated by efficiency-democracy disclosure.

The objectives of this study is (i) to discuss the historical background of value added concept; (ii) to observe the usefulness of the value added statement as a supplementary financial statement; (iii) to highlight the controversial issues in preparing this statement and the lack of uniformity; and (iv) to suggest in respect of need for standardization and statutory incorporation.

2. THEORETICAL BACKGROUND

2.1. Background of Value added

The concept of value historically can be traced back to the theoretical and technical attempts to measure national income. Therefore, the origin of that measurement is in the context of national accounts emphasizing the production side of the whole economy: the sum of the value added in different sectors (agriculture, industry, and services) net of duplication. If we accept the idea that one of the objectives of the economic system is to generate a high level of production of economic goods and services to satisfy human needs, then the value added is one of the tools available for measuring the accomplishment of that objective. In this sense, the value added can be considered a performance indicator of a country's economic success: the gross national product. The gross national product can be used as a surrogate appraisal of the level of satisfaction of human needs in a specific economic system, the level of well-being in a society, in connection with the concept of economic progress and growth (Maddison, 2005).

The concept of value added was initially used in 1790 in the first North American Census of Production (Gillchrist, 1970). Trenché Cox, a treasury official, whose techniques have since been adopted by most industrial nations in the calculation of Gross National Product (GNP), is regarded as the man responsible for realizing that value added avoid double counting. Value added has also been defined in the economic literature by Ruggles and Ruggles as The value added by a firm, i.e. the value created by the activities of the firm and its employees, can be measured by the difference between the market value of the goods that have been turned out by the firm and the cost of those goods and materials purchased from other producers. This measure will exclude the contribution made by other producers to the total value of the firm's production, so that it is essentially equal to the market value created by this firm (Ruggles and Ruggles, 1956). The VAS therefore, has a macroeconomic origin, in that the calculation of value added in the value added statement corresponds with the calculation of GNP, as well as economic significance.

If we shift our attention from the macroeconomic perspective to a single business unit, it appears reasonable that a firm's accounting language could use

value added reporting in symmetry with national accounts. *“if accounting is to measure the contribution of the enterprise to society, in addition to its profitability, many of the concepts developed in the national income analysis can be used to advantage in the preparation of value added statement. The statement is prepared by the enterprise to provide more information to the various participants than they obtain at the present time from either the income statement or the balance sheet, which would still be prepared as they are presently”* (Suojanen, 1954). The underlying idea is that the enterprise is an institution aimed at satisfying human needs (Zappa, 1927). *“Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, no knows how much he is promoting it. ... He intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention.”* This classical quote, extracted from Adam Smith’s *The Wealth of Nations* (Smith, (2009), suggests that the publication of a value added statement could be interpreted as a symptom of awareness in pursuing a public interest by the enterprise. The concept of value added would be adapted to the single business unit, which in this way could have an additional tool for the management control and financial reporting.

The major impetus for value added concept was the emergence and introduction of value added taxation in the European countries. The use of the concept as a focus of attention for external reporting is only recent one. Gradually, corporate industrial firms have show the great potential inherent in the value added concept to measure the productivity and profitability. Thus, the concept has now been applied in corporate performance appraisal besides application of the management accounting tools and techniques.

2.2. Background of Value added

In the United Kingdom (U.K), early forms of the VAS functioned as part of a worker participation orientation towards the management of economic performance. It was important during the economic crisis of the immediate post-war era, but it disappeared during the prosperous years of the 1950s and the 1960s, only to return when similar strategic postures were adopted towards the management of the economy in the mid-1970s (Burchell et al., 1985). According to Gray and Maunders (1980) the origins of the then interest in the United Kingdom in value added statements (VASs) can be found in *The Corporate Report* (ASSC 1975), which suggested the publication of a VAS among other reforms.

From 1977 onwards an increasing number of UK companies published the VAS, as has been established by various surveys of published financial statements. (For examples Morely 1978; Rutherford 1978; and Gray and Maunders 1980). Burchell et al. (1985) predicted that the value added statement could lose its significance again when the social-political landscape changes. The research of Burchell et al. (1985) indicated that the incidence of publication reached a climax in 1980, but started declining after that. In U.K., there were, therefore, definite trend towards and away from the publication of value added statement. A review of Gray and Maunders (1980) of the publication of the statement around the world indicated that a significant number of companies in Netherlands, France and Germany provided value added data. They also noted

growing instances of VASs being disclosed in countries such as Denmark, Switzerland and Italy. An additional supportive influence in the European context was the interest of analysis in to value added data, especially in France. No further reference to the publication of the statement in Europe could be traced in the literature. In the United States of America and Canada, companies have not published value added statement at all. Burritt and Clarke (1984) reported that the Australian approach to value added had been very cautious, showing nothing like the initial zeal in Britain. A few companies published value added statements (eight companies of the largest 100 in 1982) as a regular supplement to the traditional accounts.

Mathews and Perera (1996) reported that in New Zealand very few companies published a value added statement as part of their financial statement. In South Africa the interest in value added statements started with the publication of The Corporate Report in 1975. Unlike the situation in the United Kingdom, when the incidence of publication has fallen since 1980, the incidence of South African companies publishing the value added statement has increased.

2.3. Motivation for Disclosing the Value Added Statement

The debate on the role of value added among accounting measurements has received attention in the last fifty years, with a particular emphasis in the 1970's and 1980's (Van Staden, 2003). This analysis of value added can be classified in at least three fields of research: management control (internally oriented), financial reporting (externally oriented), and social reporting (externally oriented). The first field emphasizes the role of value added as an indicator of efficiency among the tools to appraise the 'economic productivity' (Sutherland, 1956 ; Ponzanelli, 1967). Therefore, the value added measure is used as one of the performance indicators in the management control system, particularly in the industrial sector, with the main purpose of controlling costs and the performance of productive factors, especially labour. It is of interest to note that an empirical research conducted in a developing country (Nigeria) on the perceived usefulness of the value added statement shows its main role to be in measuring productivity (Malgwi and Purdy, 2009). In this context, the expression "industrial" value added can be appropriated, with the potential use also in the business strategy supporting the corporate decision making process (Rispoli, 1983).

The second field of analysis looks at value added reporting as additional information to the traditional income statement, which is focused on earnings and net profit. So, the published financial statements orient towards several stakeholders (or the society in general) instead of only the stockholders. An externally oriented value added statement can synthesize the contribution of the whole business in different sectors, not only the industrial one. In this context, one suggestion is to add the value added statement to the traditional income statement in annual reports (Meek and Gray, 1988).

The third approach considers the value added statement as an embryonic form of social reporting. The value added statement is interpreted as additional information to give a true and fair view of financial performance, even though there could be "social motivation" for voluntarily disclosing such information in annual reports.

The motivation can be linked to the social economic root of the value added concept as one of the indicators of the wealth produced and distributed to achieve, in theory, a general well being. If we adhere to such an idea, the reasons for publishing the value added statements could be found in social theories. In this context, we can mention the “stakeholder theory” and the “legitimacy” theory (Van Staden, 2003 ; Gray et al., 1995). During the 1980s and 1990s theoretical perspectives regarding the publication of social and environmental information developed to counter the narrow focus of the decision usefulness paradigm, which was focused on the provision of financial information mainly for creditors and shareholders. Researchers in this area have suggested theories such as legitimacy theory, stakeholder theory and political economy theory to explain and motivate the voluntary reporting of social and environmental information (Mathews, 1997; Gray et al., 1996; Deegan, 2013). These theories extend the normal and ethical duty of individuals and organizations beyond mere self-interest. In their critical form, they are concerned with the relative position of power between society, the environment and the organization.

Stakeholder theory accepts that an organization has many stakeholders (*“any human agency that can be influenced by, or can itself influence, the activities of the organization”* Gray et al., 1996) and argues that all stakeholders have the right to be treated fairly by the organization (Deegan, 2013). Following from this it can be argued that stakeholders therefore have a right to be provided with information on how the organization impacted on them. The reference to the stakeholder theory implies a vision of management that, from the strategic perspective, tries to satisfy the expectations of several stakeholders that contribute in different ways to the survival and growth of a business entity (Freeman, 2010). There is a link with each group of interest, including the public at large that expects some form of respect and remuneration.

Legitimacy theory assumes that there is a ‘social contract’ between organizations and society. According to Deegan (2013), *“legitimacy theory asserts that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being ‘legitimate’”(p,253)*. This is based on the premise that society provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees and therefore has a legitimate expectation that the organization will operate within acceptable norms (Mathews, 1997). Society may revoke the ‘social contract’ by, for example, consumers not buying company’s products or the labour force withholding the supply of labour to the company (strike action) (Deegan, 2013). The legitimacy theory suggests that organizations change their behaviors to influence the perception of the organization in the eyes of the stakeholders. In this way, the business entity can obtain the support without which it would be more difficult to survive and grow. In this context, companies can be analyzed under a political dimension (subject to public pressure) in an attempt to address the eventual threat to their legitimacy.

From the two social perspectives mentioned above, it follows that the business unit or the management has a “duty” or an “interest” to report to several interest groups. As stated in the IAS 1(2004: par.7), *“the objective of general*

purpose financial statements is to provide information about the financial position, financial performance and cash flow of an entity that is useful to a wide range of users in making economic decisions. ... This information ... assists users of financial statements in predicting the entity's future cash flow and, in particular, their timing and certainty." From this definition, there follows a particular orientation of the business entity toward the "financial participants" or providers of finance (lenders and shareholders). Implicitly, other interest groups find a minimum of information to satisfy their needs in the financial statements.

A value added statement can be seen as an attempt to explicitly widen the interest group audience for business performance. This statement describes how the wealth produced has been distributed among different interest groups: workers, capital providers (lenders and shareholders), public administration including the public at large, and the organization (company) itself considered as an autonomous entity. Among the different groups of interest that have received attention in connection with the publication of the value added statement, workers play a prominent role. This idea is also expressed in the International Accounting Standards (IAS 1, 2004:par. 10), which states that "many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group". It is worth noting that in the 1997 version of the IAS 1 (1997: par. 9), "enterprises are encouraged to present such additional statements if the management believes they will assist users in making economic decisions". In the following version of the IAS 1 (starting from the revision of 2004), this encouragement disappeared, specifying that the environmental reports and value added statements presented outside financial statements are outside the scope of the International Financial Reporting Standards (IFRSs). In this sense, the publication of the value added statement is "pushed" outside the official annual reports toward the corporate social reporting.

The value added statement seems to present an organization that is not driven by profit motives but by the common good of the participants. The enterprise theory as expressed by Soujanen (1954), saw the company as a decision-making centre where decision affecting various interest parties is made. The VAS could therefore be regarded as a statement that recognizes the importance of the other stakeholders to the organization. Burchell et al. (1985) confirmed this by indicating that value added was seen as a performance criterion that put employees at a part with other interests in the enterprise. The fact that the VAS often indicated that labour made a huge contribution to value added could have been part of the reason why it became unpopular in the UK.

A significant experience regarding the publication of the value added statement is represented by the UK. In 1975, the Accounting Standard Steering Committee (ASSC) published The Corporate Report containing the suggestion for British companies to present the value added statement in addition to the traditional profit and loss account. The motivation was explained in this way: "the simplest and most immediate way of putting profit into proper perspective vis-à-vis the whole enterprise as a collective effort by capital, management and employees is by presentation of a statement of value added (that is, sales income less materials and services purchased). Value added is the wealth the

reporting entity has been able to create by its own and its employees' effort. This statement would show how value has been used to pay those contributing to its creation. It usefully elaborates on the profit and loss account and in time may come to be regarded as a preferable way of describing performance.

We accept the proposition that profits are an essential part of any market economy, and that in consequence; their positive and creative function should be clearly recognized and presented. But profit is a part only of value added. From value added, there must come wages, dividends and interests, taxes and funds from new investment. The interdependence of each is made more apparent by a statement of value added" (ASSC, 1975: 49). In this way, the annual report would be enriched by a wider perspective more suitable for dialoguing with different stakeholders, mainly workers, which would an attempt to open financial statements to different users. In general, in the European context, at the end of the 1960s and 1970s, there is a growing interest in business entities by the public, as witnessed by the debate about the corporate social responsibility. As a consequence, external accounting information is perceived more and more as a "public good", leading to a general process of renovation and constitution of the accounting rules and institutions in different countries.

The relationship between accounting and its context, with reference to the UK, is described by Burchell et al., (1985), who analyze the role played by the value added statement. The basic question goes beyond the calculation problem of value added and involves the motivations behind the great interest in the value added statement in the UK at the end of the 1970s. One of the reasons lies in the growing debate about "efficiency", "productivity" and the participation of workers in the business life of the company. The conjugation of "efficiency" and industrial "democracy" seemed possible through the change of language and the change of focus: from profit to value added, and from shareholders to stakeholders. Thus a political and social background creates the space for the emergence of the value added statement. In similar way, the political change in the UK leads to the decline of the role played by the value added reporting in the social relationship. So the future of the value added statement as additional information or as the main performance statement is linked to the evolution of the political, social and economic context. Giving a social meaning to financial accounting, Burchell et al., (1985) state that "value added therefore does not simply represent the company as cooperating team; it also is seen as playing a positive role in the creation of this cooperative harmony. ... In such a context, accounting is seen as a means of vision. A change in accounting implies a change in what is seen and hence a change in action. Social might therefore not so much be revealed by value added as constituted by it". Following this mental trajectory, the use of the value added statement could facilitate the affirmation of a business unit opened to the public at large, trying to satisfy the needs of different interest groups (Catturi, 2003). Moreover, in the growing global economy, there is literature that has argued that multinational companies should produce a local value added statement in their host country (Rahman, 1990).

2.4. Review of Literature

Burchell et.al. (1981) predicted that the value added statement could lose its significance again when the social-political landscape changed. The research of Burchell et.al. (1985) indicated that the incidence of publication reached a climax in 1980, but started declining after that. In U.K., there were, therefore, definite trend towards and away from the publication of value added statement. A review of Gray and Maunders (1980) of the publication of the Statement around the world indicated that a significant number of companies in Netherlands, France and Germany provided value added data. They also noted growing instances of value added statements being disclosed in countries such as Denmark, Switzerland and Italy. An additional supportive influence in the European context was the interest of analysis in to value added data, especially in France. No further reference to the publication of the Statement in Europe could be traced in the literature. In the United States of America and Canada, companies have not published value added statement at all. Burritt and Clarke (1984) reported that the Australian approach to value added had been very cautious, showing nothing like the initial zeal in Britain. A few companies published value added statement as a regular supplement to the traditional accounts. Mathews and Perera (1996) reported that in New Zealand very few companies published a VAS as part of their financial statement. In South Africa the interest in value added statements started with the publication of The Corporate Report in 1975. Unlike the situation in the United Kingdom, when the incidence of publication has fallen since 1980, the incidence of South Africa companies publishing the value added statement has increased.

In U.S.A, Riahi-Belkaoui (1978) has done a series of studies linking "Value added information" to external market indicators. Karpik and Riahi-Belkaoui (1989) in their study established that value added accounting information could supply considerable explanatory power of market risk beyond that provided by earnings or cash flow measures, especially at the individual firm level. Bannister and Riahi-Belkaoui (1991) examined the ability of value added to identify firms targeted for takeover. They concluded that value added is worthy of consideration as a tool for evaluation of performance of the company. Riahi-Belkaoui and Picur (1994) in their study in 1994 concluded that value added information can supply important explanatory power of security valuation beyond that provided by earnings. E. Pavlik and A. Riahi-Belkaoui,(1994) in their study examined the effect of ownership structure on a value added measure of performance. They concluded that when the concentration of ownership is low, total return maximization as measured by value added is also low and vice-versa. Riahi-Belkaoui,(1996) found that value added information published concurrently with earnings does have additive information content. In the same year he also found that value added-returns relationships offered better explanatory power than the earnings-return relationships, when the relationships were expressed by a non-linear convex-concave function. Bag and Bao (1996) examined the time series properties of value added as well as prediction accuracy of the value added series. In India, very few research studies have been undertaken on the value added concept.

Shakuntalamoni (1987) made study which was undertaken with the objective of analyzing trends in value and distribution of value added in selected

textiles mills, 4 composite mills and 11 spinning mills was selected for the study. The study has concluded that all the 15 textile mills, under this study, have improved their net value added. However, the factors influencing the level of net value added have not been covered in this study. Sharma and Agarwal (1987) in their study made an attempt to evaluate the performance of nine State Road Transport Corporations of India in the perspective of value added concept. This study has concluded that the State Road Transport Corporation are contributing much to the society through the generation of employment and taxes. The justification for the existence of State Road Transport Corporations was found on its capacity to generate surplus along with the value added. The study has established that the value added concept is a highly useful method to evaluate the operational efficiency of these transport corporations. Rao (1991) in his study made an attempt to evaluate the performance of public enterprises by applying the value added approach. This study has covered all the production enterprises in the public sector in India. The main finding of the study is that the contribution in terms of value added by public enterprises is massive and social surplus generated is more in the case of petroleum industries. In a study Chander (1989) made an attempt to know the practices adopted by the public and private sector enterprises in India regarding the disclosure of value added statement in their annual reports. This study covered 100 companies (50 from public sector and 50 from private sector for the year 1985 – 1986 and 1986 – 1987). It has revealed that only 17 companies, nine from public sector and eight from private sector, disclosed this statement in their annual reports. This study has established that value added concept is definitely an improvement over the traditional profit and loss concept in the sense that it puts the efforts of different interested groups in an organization into a proper perspective.

Bhattacharyya (1991) in his study made an attempt to evaluate the leading issues and controversies in respect of value added concept. This study has concluded that the contributors of capital have released a part of retained earnings one of value for developing industrial estates and for extending real benefits to their labour forces as it confirms Karl Marx's contention Surplus Value. Sharma (1991) in his study made an attempt to evaluate the performance of TATA TEA LIMITED by applying the value added concept. The value added statements of Tata Tea Limited has shown an increase in value added from Rupees 5,391.82 lakhs during 1983 – 84 to Rs. 7,562.49 lakhs during 1987 – 88. This study has pointed out that enterprise, not making profit shall become sick but not generating value added may die over a period of time. Further, this study has concluded that the value added is a basic and broad standard of judging the performance of an enterprise. This study has established that the value added concept is an important dimension in the field of financial analysis to highlight the profitability and social responsibility of the concern. Shankaraiah (1991) in his study established the significance of value added concept as a tool for corporate performance appraisal since it helps the management to assess the performance of the company, to compare and analyze the growth of the company and enable them to identify the factors that are to be controlled to improve the performance. Moni (1991) in his study made an attempt to popularize the four ways i.e., price increase, product development and diversification, increasing sales and cost reduction, by which manufacturing companies can increase added value.

The study has revealed that added value. The study has revealed that added value is a better indicator of the performance of a company than the sales turnover. This study has concluded that the creation of added value i.e., wealth creation should be the fundamental objective of any company because added is the key to the success. Ganesan (1994) made an attempt to measure value by 11 spinning mills in Tamil Nadu in order to assess their performance. This study has revealed that added value is a better indicator of the performance of mill than the net profit. This study has concluded that it has laid foundation for full-fledged development of concept of value added and for effective corporate reporting. Badani and Sharma (1989) in their study concluded that since the corporate sector occupies an important place in the national economy, there is an imperative need to disclose the value added statement.

2.5. Institutional Steps

The following professional institute and associations have also produced some research reports on the value added concept to popularize the same.

1. Added Value in External Financial Reporting – Penschall M., Allan. R., & Nicholson. K. : London, Institute of Chartered Accountants in England & Wales, 1979 ;
2. The Value Added Statement : A British Innovation – Morley, Michael F., : The Chartered Accountant Magazine, May, 1978, The Institute of Chartered Accountants of Scotland ;
3. Value Added: An Appreciation for the Accountant Concerned with Industry – Cox, Bernard – London , Heinemann, 1978 : The Institute of Cost and Management Accountants, London ;
4. Value Added Reporting: Uses and Measurement – Gray, Sidney: London, the Association of Certified Accountants.

The only pronouncement of Value Added Reporting in the United States came from a recommendation by the 1989 - 90 'American Accounting Association (AAA) Committee on "Accounting and Audit Measurement" to include a Statement of Value Added in financial reports, as well as amplified disclosure regarding labour (AAA,1991). The use of value added in the Asian countries, such as Japan and Singapore, is more prevalent in managerial accounting.

3. FINDINGS AND DISCUSSION

3.1. Benefits of Value Added Statement

Value added reporting, through Value Added Statement along with the value added ratios have several benefits which can also be grouped into three major sectors. These are (1) Labour-Oriented Benefits; (2) Investor-Oriented Benefits; and (3) Economic-Oriented Benefits

3.1.1 Labour-Oriented Benefits

Value added reporting generates a good organizational climate for workers by highlighting their importance to the final results of the firm. The disclosure of the value added statement should lead to an increased favourable and positive attitude by employees towards their companies. It may be useful to the employee

group because it can affect its aspirations and those of its negotiating representatives. Value added reporting may be used as measure of relative equity in relation to other Stakeholder groups (Mauders, 1985). The concept may also be used as a measure of 'ability to pay' and a measure of total productivity in the bargaining process. It is an excellent means to estimate the productivity of economic entities through their efficiency in the use of productive factors such as the work force and capital (Shimizu et. al., 1991) It may provide a more practical way of introducing productivity bonus increases and link rewards to changes in the value added amounts (Morley, 1979) and also may be useful to employees by revealing their share of value added and signaling the extent of their importance to management. (Pavlik and Riahi-Belkaoui, 1992).

3.1.2. Investor-Oriented Benefits:

Value added ratios may act as good diagnostic and predictive clues. These ratios may be useful in detecting or predicting economic events of importance to the firm (Sinha, 1993). Value added reporting may be useful to equity investors. Value added information could be related to the prediction of either the systematic risk of a firm's securities or the expected return or total risk of those securities, depending on which view of the efficiency of the market is considered relevant. The link can be made by the possible direct impact of value added on the earnings of the firm (Mauders, 1985). Value added appears to offer a useful tool for predicting earnings, expected returns, and total risk associated with securities (Mauders, 1985). Net value added is a better index of performance than net profit. This observation is especially true in cases where arbitrary and incorrigible accounting techniques result in the recognition of an accounting loss rather than an accounting profit (Sinha, 1983). Value added reporting offers a better picture of the firm's re-investment policies by disclosing separately the funds generated internally to replace and separate fixed assets. Hence, the sum of depreciation and retained earnings signals the importance of management attaches to the internal generation of funds for re-investment in renewal of productive assets and investment in new technologies (Riahi-Belkaoui, 1992).

3.1.3. Economic Oriented Benefits

Value added reporting is congruent with the concepts used to measure national income and may create a useful link to the macro-economic databases and techniques used by economists. It is useful for macro-economic analysis of governments, especially when measuring and forecasting national income. It can provide a good measure of the size and importance of companies. It is better measure of the net creation of wealth a company has achieved. The inclusion of a local value added statement in the host country annual reports of multinationals would provide information to analyze the contributions of these firms to the process of national economic development.

3.2. Controversial And Problematic Issues In Value Added Statement

The Value Added Statement is a product of "The Corporate Report" (U.K.). This document was discursive, rather than prescriptive. Therefore, various forms of presentation have developed. The problems of presentation and preparation apply to all ingredients of the value added statement, but are particularly acute in

the area of depreciation, employees' remuneration and taxation. Simdy (1980) cited all the problems regarding these items.

First, the problem is presenting the depreciation. For calculating value added income, the alternative methods of treating depreciation are:

1. Depreciation is as an application of value added, being provided for maintenance extension of the business; and , therefore, shown with 'retained profits'. This method gives "Gross Value Added" (GVA), i.e., the value added by the enterprise is not reduced by the depreciation charge. This method is favoured by "The Corporate Report (U.K.)" and by most companies. The arguments in favour of this opinion are :
 - i. The bought-in materials and services figure is factual, and to include depreciation (which is decided by subjective judgements on assets lives) would increase the possibility of manipulating the value added figure. Although this method is analogous to the economic concept to GNP, it is most commonly followed, possible because it provides a higher figure of value added. The followers of this view argue that since depreciation, being an accounting charge based on subjective assessment about the life of the asset, is not an actual expenditure, it should not reduce the 'value added' by the firm. Besides, it will widen the scope for 'accounting manouvere' of the amount of value added;
 - ii. It maintains the link between depreciation and retained profit;
 - iii. The concept of GVA accords with economists' preference for gross, rather than net measurement of national income.
 - iv. One more convincing argument why depreciation is shown as 'application' is that it gives the Value Added Statement some sort of Cash Flow Orientation. It may also be mentioned that if depreciation is joined with retained profit, the resultant figure can readily give an indication of the funds of the business firm.
2. Depreciation is included in 'bought-in materials and services'. This method gives 'Net Value Added (NVA)'. This opinion is substantiated as follows :
 - i. One of the cost of producing new wealth is the 'diminution' in the value of fixed assets used, in arriving at a measure of the wealth created, we must recognize that cost;
 - ii. Gross Value Added is not wholly available for distribution – funds must be set aside for depreciation. Net Value Added recognizes this fact. Similarly, if the Value Added Statement is drawn up on Current Cost Basis, Net Value Added can be

distributed (liquidity permitting) in wages, taxation and dividend without eroding the Company's capital base ; and

- iii. Consistency demands that capital goods should be charged to revenue as they are used up just like any other material or service consumed.

The supporters of this view feel that computation of value added without deducting depreciation would mean that the use of bought – in asset is 'cost-free' which is incorrect. Moreover, it is inconsistent with the 'accrual principle'. Lewis and Pendrill have pointed out in this connection that 'the purchase of fixed asset from another firm, a non-team member, is a bought-in item and it is only the fact that the asset has a long life which necessitates the charging of depreciation (Lewis & Pendrill, 2004). It is examined from the conceptual standpoint; the inclusion of depreciation in bought-in inputs would be much more rational than treating it as an allocation of value added. Brooman states "*Plant and Machinery though not wholly used up, will be partly worth out in production, and its wear-and-tear should, therefore, be treated as an input on exactly the same footing as the input of materials and deducted accordingly from the value of output*" (Brooman and Jacoby, 1970).

The treatment of depreciation as an allocation of value added, grouped with other amounts retained in the business 'to provide for maintenance and expansion of assets has been attacked as unsatisfactory, since, and erosion in the opening stock of wealth must be made good from value generated within the period before the balance of value added can be struck (Rutherford,1972).

3. Elimination of depreciation charge entirely at the time of calculating value added income

This approach is advocated by Jack Roullier (1978). According to him, 'the net cost of any piece of equipment would be charged completely to the trading account if it were consumed fully within one accounting period, and depreciation is only a method of spreading the cost over the various accounting periods during its life. For this reason, it is considered that capital equipment should be regarded as bought-in materials, with depreciation excluded from the value added statement.

This approach lacks theoretical justification and inconsistent with the accrual concept. It would result in meaningless 'value added' figure where the company's level of capital is fluctuating. On this account, it be advisable not to adopt this approach. This approach also may, however, be justified from the Cash Flow Approach, but, unless this approach is uniformly adopted by all the companies, the problems of comparability will arise.

The Government is identified as another team member having some reasonable claims in the value added by the organization. Services received by the organization from the Government are remunerated by the payment of various types of taxes. But, there is considerable diversity of opinion in respect of the treatment of such taxes at the time of calculating value added income. Taxes are generally shown as the application of value added payable to the Government on the premises that these are paid on the value of output. But, to bring the uniformity, it is suggested that items i.e., custom and excise duties, sales taxes paid on the purchase of inputs etc., which are levied before the goods are ready for sale should be included in bought-in inputs. And only taxes on the value added or profit should be shown as an application of value added.

A great deal of diversity is found as regards the inclusion of employees' remuneration also. While one set of opinion is that this item should include only the actual payments made to the employees, the other holds the opinion that total remuneration payable to the employees (including indirect expenditure) should be shown as distribution of value added to employees. This difference of opinion seems to be meaningless in the light of the disclosure practices of value added statement. Since the objective of preparing value added statements is to show the distribution of value added by the firm among its different stakeholders, the total expenditure relating to the employees should be treated as employees' remuneration including the indirect expenditures on employees as the application of value added.

3.3. Value Added Statement: Need for Standardization and Statutory Requirement

The Published statement of value added has been characterized by ambiguous terms and dissimilar treatment of items. The advantages or benefits offered on the value added statement are, therefore, jeopardized by great diversity in practice. Rather than shedding light, reducing conflict etc., value added statement appears to be equally conducive to confusion, doubt and suspension. This state of affairs problematizes not only the social reality of value added but also its technical rationality. In the absence of uniform principle, policies and practices as regards to the preparation and presentation of value added statement such statement distorts the different information and ratios and also it prevents proper inter-period as well as inter-firm comparison.

The Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Scotland concluded in favour of value added reporting but added the caveat that "Standardization of practice is a necessary precondition to any formal requirement so as to bring comparability to Value Added Statements and so safeguard the confidence of readers in the statement."

Simdy (1980) concluded that “Value Added Statement” has reached the state where some standardization is necessary. He also argued that Value Added Statement has proved its usefulness and that an attempt should therefore be made to minimize variation in its compilation to give users maximum benefits. In some European Countries, Value Added Statement has become a “Statutory requirement”. But in India and other different countries, there is no statutory requirement for incorporation of such statement in the published accounts of the companies. So an amendment should be made in the respective Companies Act of those countries to make it obligatory to include this statement in the Annual Report and a “format” should also be prescribed in the companies act of these countries.

4. CONCLUSION

The Value Added Statement is presented voluntarily by companies in Continental Europe (i.e., Germany, Sweden, The Netherlands, Norway, France) as well as the United Kingdom and certain countries in the British Commonwealth (i.e., Australia, New Zealand, South Africa). The complete absence of the Value Added Statement in the United States and its recent decline in the United Kingdom suggest the dominance of the shareholder wealth maximization philosophy in these countries. In such a climate, companies do not feel the need nor presume to provide a statement that focuses on employees and their relatively large state in the company. By contrast countries where labour wields greater political clout lead to be the ones where the role of employees as stakeholders tends to be emphasized via the Value Added Statement.

At present, although, there is no statutory requirement for incorporating such statement in the published accounts in India some companies, both in public and private sectors, of our country are preparing this statement and publishing the same through their Annual Report. An International and national level, value added reporting be considered for mandatory disclosure in addition to income and cash flow statement. Accordingly, the relevant Laws and Acts of respective countries be amended. This reporting be made compulsory for small, medium, large, multinational, transnational companies at least for current and previous year for comparison purposes. Value added reporting also be made mandatory for the private limited, public sector undertakings, etc. For listing purposes, stock exchanges in the national as well as regional level should make companies to submit value added reporting data over the past three to five years. From this data, stock exchanges could know and asses the performance track record over the previous years.

Though Value Added Statement is very much useful to judge the performance and productivity of an enterprise for managerial decision-making, but till now it is at the infancy state in the arena of financial management. The main reason behind the fact that it is very difficult to unseat any age-old idea deeply entrenched not only in practice but also in allied usages and also in legal set up. That is why, in spite of some obvious limitations of traditional financial statements, Value Added Accounting and Reporting has failed to score enough in its favor either to replace or to supplement the traditional one. Thus, it is required to strengthen the concept by promoting common practice and by clearly

defining the various technical terms used in VAS for calculating the amount of Value Added (i.e., Gross Value Added and Net Value Added). It is necessary to develop a standard practice for value added measurement, so that the performance of different enterprises can be judged in a meaningful way and inter-firm as well as intra-firm comparison will be possible. As required by the listing agreement while companies making public issue and the stock exchanges where the listing is required, all listed companies have to publish their half yearly and quarterly results in national newspapers. It is suggested that the stock exchanges should amend the listing agreement making it obligatory for the companies to publish such results in value added accounting also. It is worthwhile to mention further that the academicians and professional bodies of accountants should come forward to focus the significance of Value Added Statement with a view to popularize the statement amongst the users of financial statements and to produce accounting standard for the standardized presentation of data in this statement.

REFERENCES

- Badhani, K.N., and Saxena, R.M., 1989, Corporate Report – Social Accounting in Public Enterprises of India, III Progress Report, Unpublished, Nainital, Kumaun University, pp. 30.
- Bag, B. H., and Bao, D. H. 1996. The time series behavior and predictive-ability results of annual value added data. *Journal of Business Finance & Accounting*, 23(3), pp. 449-460.
- Bannister, J. W., and Riahi-Belkaoui, A. 1991. Value added and corporate control in the US. *Journal of International Financial Management & Accounting*, 3(3), pp. 241-257.
- Bhattacharyya, S.K., 1991. Value Added Concept of Income: Rethinking Needed for Corporate Growth, New Delhi, The Journal of Chartered Secretary., pp.23 – 25.
- Burchell, S., Clubb, C., and Hopwood, A. G. 1981. A message from Mars'-and other reminiscences from the past. *Accountancy*, October, pp. 96-100.
- Burchell, S., Clubb, C., and Hopwood, A.G. 1985. Accounting in its social context: towards a history of value added in the United Kingdom. *Accounting, organizations and Society*, 10(4), pp.381-413.
- Brooman, F. S., and Jacoby, H. D. 1970. *Macroeconomics: an introduction to theory and policy*. Aldine Pub. Co.
- Burritt, R. L., and Clarke, F. 1984. What are the prospects for corporate value added statements in Australia. *The Chartered Accountant in Australia*, pp.36-39.
- Catturi G., 2003. *The Universal Business Entity, The Idea, The Morphology and the physiology*, Cedam, Padova.

- Chander, Subhas., 1989 – Corporate Reporting: Disclosure of Value Added Statement, Delhi, The Indian Management, September., pp.22.
- Deegan, C. 2013. Financial accounting theory. McGraw-Hill Education Australia.
- Freeman, R. E. 2010. Strategic management: A stakeholder approach. Cambridge University Press.
- Ganesan, K.P., 1994. A Study of Value Added Trends in Textile Mills in Tamil Nadu, Ph.D. Thesis, Madurai Kamraj University, February.
- Gillchrist, R. R. 1970. Company appraisal and control by added value analysis. *Certified Accountants Journal*, pp. 573-580.
- Gray, S. J., and Maunders, K. T. 1980. Value Added Reporting: Uses and Measurement: a Research Study. London,, UK: Association of Certified Accountants.
- Gray, R., Kouhy, R., and Lavers, S. 1995. Corporate social and environmental reporting: a review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, 8(2), pp.47-77.
- Gray, R. O., & Owen, D. D. and Adams, C.1996. Accounting and accountability: Changes and challenges in corporate social and environmental reporting.
- Karpik, P., and Riahi-Belkaoui, A. 1989. The relative relationship between systematic risk and value added variables. *Journal of International Financial Management & Accounting*, 1(3), pp. 259-276.
- Lewis, P., and Pendril, D. 2004. *Advanced Financial Accounting*, 2nd Ed., London, Pitman Publishing Limited
- Maddison, A. 2005. Measuring and interpreting world economic performance 1500–2001. *Review of Income and Wealth*, 51(1), pp. 1-35.
- Meek, G. K., and Gray, S. J. 1988. The value added statement: an innovation for US companies. *Accounting Horizons*, 2(2), pp. 73.
- Malgwi, C. A., and Purdy, D.E. 2009. A Study of the Financial Reporting Dichotomy of Managers' Perceived Usefulness of the Value Added Statement. *Business and Society Review*, 114(2), pp. 253-272.
- Mathews, M. R., and Perera, M.H.B. 1996. *Accounting theory & development*. Nelson.
- Mathews, M. R. 1997. Twenty-five years of social and environmental accounting research: is there a silver jubilee to celebrate?. *Accounting, Auditing & Accountability Journal*, 10(4), pp. 481-531.
- Maunders, K. T. 1985. The Decisions Relevance of Value Added Reports, In *Frontiers of International Accounting: An Anthology*, (eds.), Frederick D. Choi and Gerhard G. Muellerl, Ann Arbor, Mich., UMI Research Press, pp. 225-245.

- Moni, V.S. 1991. How to Add Value? New Delhi, The Management Accountant, December, pp. 967-968.
- Morley, M. F. 1979. The value added statement in Britain. Accounting Review, pp.618-629.
- Pavlik, E., and Riahi-Belkaoui, A., 1994. The effects of ownership structure on value added-based performance. Managerial Finance, 20(9), pp. 16-26.
- Ponzanelli G., 1967. Metodologia Contabile, Parte seconda (Accounting Methodology Part II): Institute di Ragioneria, Universita di Siena.
- Rahman, M. Z., 1990. The local value added statement: a reporting requirement for multinationals in developing host countries. International Journal of Accounting, 25(2), pp. 87-97.
- Rao, N., 1991. Disclosure Practices of Value Added Statement in Public Enterprise, India. The Management Accountant, February, pp. 330-331.
- Rispoli, M., 1983. The value added in controlling corporate strategy, Finanza Marketinge Produzione, n.4.
- Riahi-Belkaoui, A., 1978. Financial ratios as predictors of Canadian takeovers. Journal of Business Finance & Accounting, 5(1), pp. 93-107.
- Riahi-Belkaoui, A., and Picur, R.D., 1994. Explaining market returns: earnings versus value added data. Managerial Finance, 20(9), pp.44-55.
- Riahi-Belkaoui, A. 1996. Performance results in value added reporting. Greenwood Publishing Group.
- Rollier, J., 1978, Elimination of depreciation charge entirely at the time of calculating value added income. Accountancy, October.
- Ruggles, R., and Ruggles, N.D., 1956. National income accounts and income analysis. New York, NY: McGraw-Hill.
- Rutherford, B.A., 1980. Published statements of value added: A survey of three years' experience. Accounting and Business Research, 11(41), pp.15-28.
- Shakuntalamoni. 1987. Trends in Added Value, M.Phil., Dissertation, Coimbatore., pp. 130
- Sharma, K.K., and Agarwal, R.K. 1987. Application of Value Added Concept in Road Transport, New Delhi, The Management Accountant, May., pp.337.
- Shankaraiah, K. 1991. Value Added Control Ratio Analysis: A Tool for Corporate Performance Appraisal, New Delhi, Management Accountant, December, pp. 943.
- Sharma, R.G. 1991. Value Added: A Stretch out Concept, New Delhi, the Management Accountant, pp. 169.
- Shimizn, M., Waini, K., and Kazuo, N. 1991. Value Added Productivity to Measurement Improvement, Tokyo: Asian Productivity Organization.

- Smith, A. 2009. *The Wealth of Nation*, Digireads. Com Publishing, 1st published in 1776.
- Simdy, P. 1980. *Let's Standardize Value Added Statements*, Accountancy, November.
- Sinha, G., 1983. *Value Added: A Measure of Business Performance*, Calcutta: Research Bulletin of the Institute of Cost and Works Accountants of India, 2 (1), January.
- Suojanen, W. W., 1954. *Accounting theory and the large corporation*. *The Accounting Review*, 29(3), pp. 391-398.
- Sutherland M.S. 1956. *A report on techniques leading to control and measurement of performance*. *Cost and Management*, October
- Van Staden, C., 2003. *The relevance of theories of political economy to the understanding of financial reporting in South Africa: the case of value added statements*. *Accounting Forum*, 27(2), pp. 224-245.
- Zappa, G. 1927. *Tendenze nuove negli studi di ragioneria: discorso*. Istituto editoriale scientifico.