

Value-Added Statement – A Better Performance Indicator in Corporate Sector in India

Pradip Kumar Das

Jagannath Kishore College, Purulia
Affiliation under Sidho-Kanho-Birsha University, Purulia
E-mail : pradip57.prl@rediffmail.com

Abstract—Value-added Statement enables an enterprise to indicate its performance at macro-level without considering the owners' interest. The conventional financial statement is prepared on the premise that an enterprise exists for the benefit of the owners or shareholders. By contrast, the value-added statement emphasizes that the performance of an enterprise represents the collective efforts of employees, management and providers of capital and to what extent an enterprise during a specific period adds value to the various parties. The present paper highlights the usefulness of the preparation of value-added statement as a more effective performance indicator for corporate sector in India.

Keywords: Value-added Statement, Conventional Financial Statement, Performance Indicator, Providers of Capital, Collective Efforts.

1. INTRODUCTION

Value-Added Statement (VAS) constitutes the difference between the monetary value of output and its input of goods and services. VAS shows the performance of an enterprise as the collective efforts of capital, management and employees and how benefits of the efforts of an enterprise are shared among its different claimants and economic performance of the entity. Social responsibilities of a modern form of business organisations are tremendous. But, social reporting in India is still in nascent stage. VAS provides a basis to measure the wealth of an enterprise contributing to the society. Very often, the corporate sectors are criticised that they are not satisfying the trust which the nation has placed in it. In spite of investment of huge resources, the resultant is not up to expectation. It is to be kept in mind that these corporate have been assigned to fulfil economic as well as social obligations assigned to them.

VAS is an effective tool to examine the performance of an enterprise since it provides the absolute figures as well as their relativity in terms of percentages. The present paper highlights the usefulness of the preparation of VAS as a better performance indicator of corporate sector in India through a case study.

2. AN INTRODUCTION TO HERO MOTO CORP LTD.

Hero Moto Corp., the world's single largest two-wheeler company was set up in 1984 as joint venture of Hero Group, India with Honda Motor Company of Japan. During the 80's, Hero Honda became the first company in India to prove that a vehicle is possible to drive without pollution. It has consistently grown at double digits since inception and has become the first company in the country to introduce four-stroke motorcycles and set the standards for fuel efficiency, pollution control and quality. Hero Honda bikes currently roll out from its three globally benchmarked manufacturing facilities. This company has been continually working towards consolidating its position in the market place with the firm belief that changing demographic profile of India, increasing urbanisation and the empowerment of rural India will add millions of new families to the economic mainstream. This belief would sustain the company in the years to come. Since its inception, Hero Moto Corp Ltd. won many prestigious awards including Corporate Social Responsibility Award in 2006.

3. OBJECTIVE OF THE STUDY

The basic objectives of the study are -

- i. To analyse the usefulness of the preparation of Value-Added Statement.
- ii. To examine the Value-Added Statement as a performance indicator for the selected reputed company in India.

4. RESEARCH METHODOLOGY

The researcher, being an external analyst, has to depend mainly on published annual reports and accounts, the secondary data for the examination of usefulness of value-added statement of the corporate sector in India through a giant company i.e. Hero Moto Corp. for the period from 2013 to 2017. The latest year for which data are available is 2017.

The analysis, therefore, confines itself for the period from 2013 to 2017. Editing, classification and tabulation of the financial data collected from the aforesaid source have been done as per the requirement of the study. Company selected are chosen purposely either to serve a particular object or because it is felt it possesses all the characteristics of the parent population.

5. LIMITATIONS OF THE STUDY

Limitations are always a part of any kind of research work; as the annual report is mainly based on secondary data, proper care must be taken in knowing the limitations of the required study.

1. The study of the selected company is just for the last five years, ending 2017. Hence, any uneven trend before or beyond the said period will be the limitations of the study.
2. The major limitation of the present study is that the analysis is restricted to one particular unit.
3. The study is based on monetary information; study of the non-monetary factors is ignored.
4. The inherent limitation is secondary data. The published data is not uniform and not properly disclosed. Hence, this may be taken as another limitation.
5. As per the requirement of the study, some data have been grouped and sub-grouped.
6. There is non-availability of sufficient literature and information from the company.

6. LITERATURE REVIEW

Value-Added represents the total return of the firm earned by all providers of capital plus employees and the Government. A number of studies has been undertaken on VAS. A few notable studies are given below -

The study undertaken by Dr. Nageshwara Rao has made an attempt to evaluate the performance of public enterprises by applying the value-added approach as a tool. The study shows that the contribution in terms of value-added by public enterprises is massive (Rao, Nageshwar & Kumar Ramesh).

The study undertaken by Dr. Sharma, K.K. and Agarwal, R.K. has made an attempt to evaluate the performance of State Road Transport Corporation of India in the perspective of value-added concept. The study has concluded that the value-added concept is highly useful method to evaluate the operational efficiency of these transport corporations (Sharma, K.K. & Agarwal, R.K.).

The case study undertaken by Prof. Sharma, R.G. to evaluate the performance of Tata Tea Limited has established that the value-added is a basic and broad standard of judging the performance of an enterprise (Sharma, R.G.). The study conducted by Dr. Badhani, K.N. and Saxena, B.M. in India in 1989 shows that since the corporate sector occupies an important place in the national economy, there is an

imperative need to disclose the value-added statements (Badhani, K.N. & Saxena, R.M.).

Other studies examining the usefulness of value-added include Karpik and Belkaovi (Karpik, P. & Belkaovi, Ahmed), Maunders (Maunders, K.T.), Mcleary (Mcleary, S.), Riahi Belkaovi (Riahi-Belkaovi, Ahmed & Riahi-Belkaovi, Ahmed) and Bannister (Bannister, James). More and more research on its relevance is also required.

7. VALUE-ADDED STATEMENT - CONCEPT

VAS is a modified version of the profit and loss account. Like profit and loss account, VAS reflects the operating performance of a company at a given point in time using both accrual and matching procedures. However, VAS does not aim to provide a profit or loss figure as in the case of profit and loss account but a figure or return to a larger group of capital and labour providers, other claimants or interested parties (Lele, R.K. & Jawaharlal). The term value-added means the market price of the output of an enterprise minus the price of goods and services acquired by transfer from other firms (Porwal, L.S.). The spread is known as the value-added and this spread is distributed among the various parties who have contributed in the conversion process. Symbolically,

Value-Added (VA) = Value of Outputs – Value of bought in materials

i.e. $VA = \text{Sales Revenue (SR)} - \text{Cost of bought in materials (CBM)}$

or, $VA = SR - CBM \text{ ---- (a)}$

or, $SR - CBM = \text{Wages (W)} + \text{Rent (R)} + \text{Depreciation (D)} + \text{Taxes (T)} + \text{Interest (I)} + \text{Dividends (Div.)} + \text{Retained Earnings (RE)}$

i.e. $SR - CBM = W + R + D + T + \text{Div.} + RE \text{ -- (b)}$

Substituting Equation (b) in (a),

$VA = W + R + D + T + I + \text{Div.} + RE \text{ ---- (c)}$

So, value-added is the contribution that a business corporate makes towards the factors of production. The contribution includes wages, rent, depreciation, taxes, interest, dividends paid to shareholders and retained income. VAS is a voluntary statement, with the traditional accounts, which provides information in such a manner so that a layman can measure the performance of corporate in a broad sense. The study of VAS attempts to throw a little more light on the accounting-society inter-dependence and measures the performance of corporate sectors for social and economic well-being of entire communities closely.

VAS concept has long been recognised in country in measuring and reporting national income, output and growth rate and applied in corporate performance appraisal besides applying the management accounting tools and techniques. VAS prepared by a business unit helps to evaluate the

performance of a business undertaking (Agarwal, A.N.). Hence, optimising value-added is more meaningful than optimising profit (Wood, E.G). Besides, value-added could be more appropriate criterion while preparing plans and fixing targets of the company (Brown & Howard). Therefore, the inclusion of value-added statement in the corporate sector is becoming popular of late. It, therefore, has a potential role in the management of the national economy since a major goal of economic policy is economic growth and development. VAS is used to examine commercial as well as economic performance of corporate sectors from this perspective and enables an enterprise to indicate their performance at macro-level without considering the owners' interest.

8. GENERATION OF VALUE-ADDED

Value-added data can be used by the management for monitoring its performance over a period of time as well as for comparing the performance of its competitors.

Table 1: Generation of Gross Value-added of Hero Moto Corp. Ltd. (Rs. in Cr.)

Particulars	2013 Rs.	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.
Gross Revenue (Sales and Other Income)	24133.69 (100)	25713.49 (100)	27952.97 (100)	28997.24 (100)	28934.25 (100)
Less Cost of Materials & Service :-					
a) Raw Materials	17470.73 (72.39)	18320.46 (71.25)	19890.84 (71.16)	19424.80 (66.99)	19997.79 (69.11)
b) Power & Fuel Cost	129.18 (0.54)	137.46 (0.53)	158.47 (0.57)	122.13 (0.42)	112.62 (0.39)
c) Miscellaneous Expenses	2030.00 (8.41)	2339.09 (9.10)	2850.91 (10.20)	3292.62 (11.35)	2270.59 (7.85)
Gross Value-Added	4503.78 (18.66)	4916.48 (19.12)	5052.75 (18.07)	6157.69 (21.24)	6553.25 (22.65)

Source: - Annual Reports and Accounts – Results Computed.
N.B. – Figures in bracket indicate percentage.

A perusal of VAS in Table - 1 shows that the amount of value-added by Hero Moto Corp. has registered an increase from Rs. 4503.78 crores (18.66%) in 2013 to Rs. 6553.25 crores (22.65%) in 2017. An increase of 45.51% has been shown over the period of study. On an average, the increase is 16.62% p.a. Value-added has an increasing trend in all the years of study. This is useful for both external and internal decision-making purposes. Gross Domestic Product (GDP) and contribution of economic operations of the corporate can be easily known through VAS only.

9. DISTRIBUTION OF GROSS VALUE-ADDED

Distribution of value-added has been computed and exhibited in Table - 2 to know the contribution of economic operations of the company at a glance. It represents the total return of an enterprise earned by all providers of capital plus employees and the Government. VAS shows not only the wealth generated by the corporate operations but also its division among the various claimants. Thus, it is closely linked with the social responsibility of corporate sector and aligns financial reporting with national income accounting.

Table 2: Distribution of Gross Value-added of Hero Moto Corp. Ltd. (Rs. in Cr.)

Applications	2013 Rs.	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.	\bar{X}
Employees	820.92 (18.23))	930.04 (18.92))	1172.87 (23.21))	1319.56 (21.43))	1396.01 (21.30))	20.62
Providers of Loan (Financial Institution) (Interest)	11.91 (0.26)	11.82 (0.25)	11.09 (0.22)	2.15 (0.03)	6.05 (0.09)	0.17
Contributor of Capital (Shareholders-Dividends)	1198.13 (26.60))	1299.13 (26.42))	1198.12 (23.71))	1437.75 (23.35))	1737.34 (26.51))	25.32
Government (Tax)	614.66 (13.65))	978.96 (19.91))	1166.94 (23.10))	1554.90 (25.25))	1635.03 (24.95))	21.37
Expansion & Growth:-						
Depreciation	1141.75 (25.35))	1107.37 (22.52))	539.77 (10.69))	441.40 (7.17)	492.73 (7.52)	14.65
Retained Profit	716.41 (15.91))	589.16 (11.98))	963.76 (19.07))	1401.93 (22.77))	1286.09 (19.63))	17.87
Gross Value-Added	4503.78 (100)	4916.48 (100)	5052.75 (100)	6157.69 (100)	6553.25 (100)	

Source: - Annual Reports and Accounts – Results Computed.
N.B. – Figures in bracket indicate percentage.

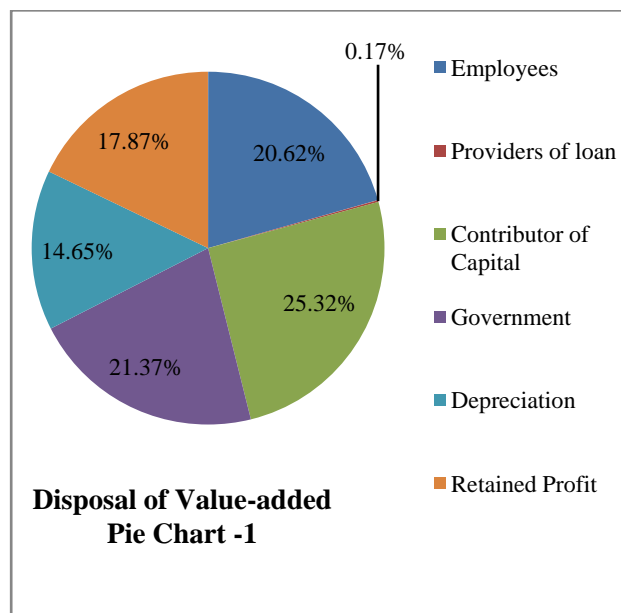
The share of bought in costs of materials and services has increased from RS. 19629.91 crores in 2013 to Rs. 22381.00 crores in 2017 indicating an increase of nearly 14.01% while revenues from sales and others have increased from Rs. 24133.69 crores in 2013 to Rs. 28934.25 crores in 2017 which

indicates an increase of nearly 19.89% as compared to 2013. Thus, increase in cost of materials and services is more than the increase in sales revenue and others causing increase in the amount of value-added in 2017.

An analysis of the applications or the disposals of value-added statement shows that there are five groups viz. Employees, Providers of Loan, Contributors of Capital, Government and Amount Retained for Expansion and Growth. Value added applied to employees has increased from Rs. 820.92 crores in 2013 to Rs. 1396.01 crores in 2017. The share of value-added to employees ranges between 18.23% in 2013 to 21.43% in 2017. The changes are not much significant except in the year 2015 when it is observed to be 23.21%, the highest during the period of study. A depth analysis shows that a revision of salaries and wages might be the reason of this highest increase in employees' share in 2015. The share of providers of loan e.g. financial institutions, banks and others has shown declining except 2017 when it has slightly increased. Interest on loan has decreased from Rs. 11.91 crores in 2013 to Rs. 6.05 crores in 2017 indicating company's less reliance on debt sources. The share of contributor to capital has increased from Rs. 1198.13 crores in 2013 to 1737.34 crores in 2017. A more or less stable dividend rate is almost followed by the company during the entire study period. The share of government in the form of duties and taxes has exhibited constant increase from Rs. 614.66 crores in 2013 to Rs. 1635.03 crores in 2017. As a percent of value-added, the share has also gone up year after year except the year 2017 when it has slightly declined as compared to previous year. Value-added applied for expansion and growth of the company has decreased from 41.26% in 2013 to 27.15% in 2017; in 2016, the share has slightly increased. This increase might be due to increase in depreciation in this year. Amount of retained or the growth is a dependent variable, which in turn, is effected by profit after tax (PAT). Retained profit has increased every year except 2014 and 2017 although the rate of retained profit has shown increasing from 15.91% in 2013 to 19.63% in 2017. Highest increase is found in the year 2016. The share of depreciation has decreased from Rs. 1141.75 crores (25.35%) in 2013 to Rs. 492.73 crores (7.52%) in 2017. This share has constantly decreased every year except the year 2017 when it has slightly increased.

Thus, out of five applications of value-added, Expansion & Growth together remains at top position on an average over the period of five years followed by Contributor of Capital, Government, Employees and Providers of Loan. Components of Expansion & Growth taken together are major applications of value-added. Value-added, therefore, gives an instant position of important components, which is necessary for internal and external reporting purposes. Disposal of value-added evidences that percentage of value-added to different parties outside the business, namely to employees, government, creditors and equity shareholders has increased from 58.74% in 2013 to 72.85% in 2017. The increased contribution can be taken as the best social service of the

company under study. It can be inferred that the selected company under study has been utilising major portion of value-added towards its expansion and growth. VAS, thus, is considered as a superior performance measure for comparison of performance, productivity measurement, resource allocation, incentive schemes to employees. Value-added approach shows how the corporate pie is divided among the various contributors.



Disposal of value-added has been depicted in the form of Pie Chart – 1 which is more informative than the above vertical statement.

10. PERFORMANCE APPRAISAL

There are different parameters of evaluation of performance through value-added viz. value-added per employee, value-added in terms of net worth, value-added in terms of percentage of revenue, value-added per rupee in fixed assets, operating profit to value-added, etc. Useful productivity measurement and measures can be devised in corporate value-added. With the aid of VAS tool, the personal manager of a corporation can suggest value-added incentive scheme to the management when introduced will motivate employees to better performance.

Table 3: Performance Indicators in terms of Value-added of Hero Moto Corp. Ltd.

Particulars	2013	2014	2015	2016	2017
Value-Added per Employee	0.77	0.84	0.86	1.05	1.12
Value-Added to Net Worth	0.90	0.88	0.77	0.78	0.65

Value-Added to Revenue (%)	18.66	19.12	18.08	21.24	22.65
Value-Added to Fixed Assets	1.47	2.19	1.73	1.60	1.49
Operating Profit to Value-Added (%)	72.93	72.00	70.10	72.22	70.73

Source: - Annual Reports and Accounts – Results Computed.

Table-3 depicts the performance indicators in terms of value-added of the company. Table-3 shows that there is almost increase in terms of the above parameters except the parameter namely, value-added to net worth, which has decreased in the year 2017 as compared to 2013. A perusal of VAS in Table-3 shows that the share of operating profit has decreased from 72.93% in 2013 to 70.73% in 2017. This amounts to a decrease of nearly 3.02% in the operating profit to value-added as compared to 2013. Both operating profit and value-added have increased but the rate of increase in value-added is higher than the rate of increase in operating profit resulting decrease in operating profit to value-added.

Value-added per employee indicates labour productivity. As compared to traditional ways of computing labour productivity, employees would attach much importance to this ratio, as it is a better indicator of their efficiency and effectiveness. Value-added to net worth indicates the amount of value-added generated per rupee of capital invested or net worth. Greater the ratio, higher will be social contribution. Value-added per rupee of revenue shows the contribution of an enterprise's revenue towards value addition. An effective sales management strategy enables a company to enhance this percentage. VAS informs better about quality of reporting to various groups of parties and, thus, has been powerfully advanced as performance measurement of any corporate. More and more companies are now showing interest to include VAS in their annual reports and accounts because of their feelings that VAS represents a move in a different direction for financial accounting, operating expenses than profit-making etc. VAS is, therefore, distinguishable from traditional accounts as the former focuses on all contributors to the corporate wealth while the latter emphasizes value set apart for the shareholders. The study evidences the rationale behind introduction of VAS in inter-firm comparison, decision-making, monitoring and controlling, wealth generation, and benefits to nation, social reporting, ratio analysis, welfare schemes of employees, information technology, employee morale, wage revision, efficiency improvement, performance index, bonus to workers, etc. Although enough of significance has acquired but sufficient response in India has not yet reached. Recently some companies both in private sector and public sector have started exhibiting VAS as a supplementary statement.

11. CONCLUDING OBSERVATION

Value-added concept is used by every major country as a basis for measuring national output. VAS provides a better way of describing the performance of business enterprises in terms of labour productivity and capital productivity and this has a potential role in the management of the national economy since a major goal of economic policy is economic growth and development. The scope of value-added and the approaches with an illustrated company show the contribution of the selected company to the society in more effective way that influences a large sections of society and have a general economic and social importance besides the limited interests of the shareholders. Expressing VAS in terms of percentages or times, it enables the management for inter-product, inter-department, inter-firm and inter-period comparisons. Management can also take better decisions in respect of the company. Moreover, the development of corporate reporting does not cope with the development in the environment under which a company functions. With the advent of tremendous changes of political, economic and legal environment, capital market, product market, corporate awareness about societal roles and other users, size and profitability of enterprise globally, corporate reporting practices feel the necessity of inclusion of supplementary accounting information like value-added accounting in India and abroad which is expected to provide necessary accounting and financial information required for evaluating the performance of corporate in a better way by decision makers. Although the amount of value-added has been increasing over the years of the selected company i.e. Hero Moto Corp., but the study indicates that lot needs to be done by the company to improve its performance in terms of application of value-added over the years. However, value-added as a socio-parameter in terms of socio-economic efficiency is the key success of corporate sector in India.

12. ACKNOWLEDGEMENT

This paper is dedicated to Almighty God who shows His kindness to me always.

REFERENCES

- [1] Agarwal, A.N. *Corporate Performance Evaluation*, India, Pointer Publishers, Jaipur, 1991, p. 214.
- [2] Badhani, K.N. & Saxena, R.M. *Corporate Report – Social Accounting in Public Enterprises of India III Progress Report*, Unpublished, Nainital, Kumaun University, 1989.
- [3] Bannister, James and Riahi-Belkaoui, Ahmed, "Value-added and Corporate Control", *Journal of International Financial Management and Accounting* (Fall), 1991, pp. 241-257.
- [4] Brown and Howard, *Managerial Accounting and Finance*, London: The English Language Book Society and Macdonald and Evans Limited, 1982, p. 820.

-
- [5] Karpic, P. & Belkaoui, Ahmed, "The Relative Relationship between systematic risk and Value-added Variables", *Journal of International Financial Management and Accounting*: Autumn, 1989, pp. 259-276.
 - [6] Lele, R.K. & Jawaharlal, *Accounting Theory*, Himalaya Publishing House Pvt. Ltd., Bombay, 1996, p. 319.
 - [7] Maunders, K. T., *The Decision Relevance of Value-Added Reports*, In *Frontiers of International Accounting: An Anthology*, F.D. Choi and G.G. Mueller (Eds.), Ann Arbor, MI: UMI Research Press, 1985, pp. 225-245.
 - [8] Mcleary, S., "Value-Added: A Comparative Study", *Accounting Horizons and Society*, 8, 1, 1983, pp. 31-56.
 - [9] Porwal, L.S. *Accounting Theory*, Tata McGraw Hill, New Delhi, p. 138.
 - [10] Rao Nageshwar and Kumar Ramesh, "Value-added Approach for Performance Evaluation of Public Enterprises", New Delhi, *The Management Accountant*, Feb., 1989, p. 78.
 - [11] Riahi-Belkaoui, Ahmed, "The Information Content of Value-Added, Earnings and Cash Flow: US Evidence", *The International Journal of Accounting*, 1993, pp. 140-146.
 - [12] Riahi-Belkaoui, Ahmed, *International and Multinational Accounting*, Academic Press, London, 1994.
 - [13] Sharma, K.K. & Agarwal, R.K. "Application of Value-Added Concept in Road Transport", New Delhi, *The Management Accountant*, May, 1987, p. 337.
 - [14] Sharma, R.G. "Value-added – A Stretch out Concept", New Delhi, *The Management Accountant*, March, 1991, p. 169.
 - [15] Wood, E.G. *Added Value Key Prospective Europe*, Business Books, Communica, 1978, p. 5.