CHAPTER-1

INTRODUCTION

1.1 PREAMBLE

The modern trends in accounting practices moving from calculation of financial gains and profits of companies to better methods and analysis of the valuation of the companies in turns of their overall contributions to the development of society. The concept of modern accounting systems and practices are taking into an account of the employment generation and payment to its employees, wealth creation and contribution towards government as tax which goes for the development of a society or a nation is considered as the value added from the corporate to the society. These concepts move from the traditional concept of accounting system which focused on “giving financial gain and profits to shareholders” to a better and matured focus of “total contribution from company towards all stakeholders”. This matured focus is the subject matter of this research. This gives the academicians, researchers and corporate to redefine their concept of “profit” and “contribution of company towards the society” beyond cash profits and goods and services produced by the company. So it is necessary to examine the value added reporting in the Indian context.

The conventional accounting models challenge the notion that accounting is an objective, neutral, value free, and technical enterprise that simply attempts to capture a picture of reality—much like a disinterested photographer snapping a picture of an event. In Critical perspectives a question arises what is to be included and what is to be left out in accounting and look for the reasons and the consequences (Morgan 1988). Furthermore, the critics of conventional accounting have prompted an interest in alternative forms that broaden the scope of the issues to be addressed and, by so
doing, have sparked a variety of initiatives to assess the extent to which companies contribute to the achievement of social and environment goals—hence, building a better society (Boyce 1998; Gray1992). It has been argued that conventional accounting does not simply take its cues from the profit-oriented reward structure but actively contributes to it. By emphasizing profit based on historical-cost transactions, conventional accounting favors shareholders and company executives at the expense of workers and the environment (Greider).

**Graphic Illustration of Profit in Conventional Accounting**

![Graphic Illustration of Profit in Conventional Accounting](image)

Value added is a measure of the total return generated in a firm through the utilization of its productive capacity, i.e., labor and capital in the broad classical sense. In a macroeconomic view, value added represent a firm contribution to the nation’s domestic product and it is measured by the extent to which the value of a product is enhanced between the point at which it is acquired by the firm and the point at which it is sold or made available for sale by the firm. A value added statement is used to disclose the computation of this value enhancement on either a gross, net basis or its distribution among all the stakeholders. In this sense, the value added statement is viewed as a report on the return to a larger group of “Stakeholders”- providers of debt and equity capital for interest and dividend, employees for current and deferred
the compensation, the reporting entity itself for capital replenishment of the growth and government taxes.

Value added is a measure of economic performance of an entity which has a fairly long history of application in economics. It has been regarded as increase in wealth of an economic entity. Thus it is a particular concept of income measurement. It has its traditional roots in macroeconomics, especially regarding the calculation of national income which is measured by the productive performance of a national economy and which is called National Product or Domestic Product. These notions represent value added of a national economy during a specific period. Other than this universally common use of the value added concept it has also discussed and practiced as a useful economic and performance indicator in different areas of economics and business administration.

The fact that it represents the result of a calculation means that the value added concept is related very much to accounting. But in contrast to the traditional income calculation one of its major characteristics is that it can be and has been used not only in one or two accounting areas but in all three types of systems: National accounting, Financial accounting and Managerial accounting.

This results from the fact that the phenomenon of value added is an inherent part of all economic activities. The objective to added value is the driving force for every economic aim because it represents the creation of wealth.
1.2 Research Gap

There is no much research have been undergone in this spectrum of “Value added concept” in India while some research have been conducted in abroad. This shows the ample opportunities in this sphere for research. So there is a need for the present study to understand the value added reporting and to know the conceptual issues involved in its preparation, analysis of generation, distribution and ratios of net value added and the impact of net value added variable on stock price.

1.3. Research questions

The following research questions emerged from the review of literature.

Definition of Output:

- Are only sales or total production the basis of calculation?
- Are intangible items included?
- Are only operating revenues relevant or income from other activities such as rent and investments,… etc. considered?
Definition of Input:

- Is depreciation treated as input?
- Are duties for public service treated as input?

Limits to Inclusions:

- Are extraordinary items to be included?
- Are indirect taxes and subsidies to be included?

Definition of the Share of Value Added Appropriation:

- What are the components of the employee’s share?
- What are the components of the government’s share?
- What are the components of the capital provider’s share?
- Should there be a share “retained in business”?

Usefulness of Value Added Information:

- To find out what the value added statement has been used for,
- To find out what shortcomings are being experienced with the value added Statement,
- To find out what future uses the value added statement could have,
- To find out what information needs can be met by the value added statement and what decisions are being influenced by this information.

1.4. Objectives of the Study

The specific objectives of the study are:

1. To study the conceptual issues of the value added reporting.
2. To measure the net value added generated by the listed companies.

3. To study the distribution of net value added among the stakeholders of listed companies.

4. To compute and compare the value added ratios on the basis of ownership and demographics of the listed companies.

5. To examine the impact of net value added on market price of the stock.

6. To study the perceptions of stakeholders with respect to qualitative characteristics of value added reporting.

1.5. HYPOTHESES OF THE STUDY

1. There is a significant difference in generation of net value added.

2. There is a significant difference in distribution of net value added among the listed companies.

3. There exists a positive correlation between the generation of net value added and distribution of net value added.

4. There exists a positive correlation between net value added and market price of firm’s stock.

5. There is a difference in the perception of qualitative characteristics of value added information among stakeholders.

1.6. Research methodology

1.6.1 Sample of Companies

Sample of companies for the study includes sixty listed companies in India. They are segregated into public and private sector companies and are also segregated into large, medium and small on the basis of their size of market capitalization.
1.6.2 Sample of Stakeholders

A sample of 502 stakeholders from the listed companies is selected by using convenient sampling method for the collection of primary data. It mainly consists of employees, Investors, government, shareholders etc.

1.6.3 Research Instrument

A reliable and valid research instrument is prepared to collect the perceptions of different stakeholders on qualitative characteristics of value added reporting of the listed companies’ annual reports in India.

1.6.4 Data Collection and Analysis

Primary data is collected from different stakeholders of listed companies in India, having used the research instrument developed for this study. Secondary data is collected from the annual reports of sampled companies for seven years by using convenient sampling method. Descriptive Statistics, ANOVA and Correlation analysis are used to analyse the Primary and Secondary data.

1.7 Major Findings

A very few of the listed companies in India have disclosed the value added reporting voluntarily. The degree of generation and distribution of net value added among the stakeholders varies between public sector companies and private sector companies; as well as among large size, medium size and small size companies. The study evidences that, there is a difference of opinions among stakeholders on qualitative characteristics of the value added reporting. The study found that the value added variable doesn’t impact on the market price of the stocks effectively whereas the net value added impacts much on the productivity of the companies.
1.8 Limitations of the study

The sphere of this study is limited to the value added reporting of selected sixty companies from the population of listed companies in the Bombay Stock Exchange and National Stock Exchange in India. The results of the study are based on the data collected from published annual reports of sample companies and stakeholders. The results are specifically applicable to sample companies and generalizations were made with caution.

1.9 Structure of the Study

The thesis is structured into ten chapters. The first chapter focuses on introduction to the thesis covering preamble, research questions, need for the study, objectives and hypotheses formulated for the study and limitations of the study. Second chapter is devoted for extensive review of literature on previous research studies on value added reporting in order to determine research gap. Third chapter focuses on the conceptual framework of value added reporting. Fourth chapter focuses on research methodology adopted in this study covering population, sample, method of data collection and analysis. The fifth chapter focuses on measurement of net value added of sample companies. The sixth chapter focuses on the distribution of net value added among the stakeholders of the sample companies. The seventh chapter focuses on the impact of value added distribution on stakeholders and on market price of the shares. The eighth chapter highlights the perceptions of stakeholders with respect to the qualitative characteristics of value added reporting. The ninth chapter summerises the major findings and suggestions of the study. Tenth chapter provides conclusion and limitation of the study. Bibliography followed by appendices is presented at the end of the thesis.
1.10 Summary

This chapter presents the preamble, research questions, need and scope for the study, and objectives of the study, research hypotheses, and methodology which is an inclusive of drawing sample companies, adaptation of research instrument and data collection and analysis. It is also puts forth the structure of the study and its limitations.