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Accounting for a disappearance: A contribution to the history of the value added statement in the UK

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ACCOUNTING FOR A DISAPPEARANCE: A CONTRIBUTION TO THE HISTORY OF THE VALUE ADDED STATEMENT IN THE UK

Abstract: Burchell et al's [1985] historical analysis of value added in the UK attributes its rise and fall to societal circumstances which initially encouraged the voluntary disclosure of the Value Added Statement (VAS) by companies and then, following societal change, influenced its disappearance. This paper supplements Burchell et al's thesis by arguing that a fuller explanation for the disappearance of the VAS can be found by also considering the contents of the statement itself. An empirical study of the information in the VASs of UK companies shows that they were unlikely to give support to the economic interests of the employee user group who had been promoted as an important beneficiary of the VAS. The study demonstrates that the social and economic nature of accounting means that change analyses which take account of both aspects of the discipline's character are likely to be more convincing than those which focus solely on one or the other.

INTRODUCTION

Although earlier reference can be found to value added (VA) in the accounting literature (e.g. Suojanen [1954], Ball [1968]) it was the influential advocacy of this measure in *The Corporate Report* [ASSC, 1975] that coincided with the emergence of a practical financial accounting interest in VA in the UK. At this time VA reporting began to attract the attention of corporate management, employees and trade unions, the accounting pro-

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fession, accounting academia and government. Each of these groups exhibited a substantially favorable disposition towards the preparation of VA information by accountants and its explicit public disclosure by UK companies. This consensus led, during the late 1970s and early 1980s, to the voluntary inclusion of a Value Added Statement (VAS) in a considerable number of annual shareholder reports. However, the VA phenomenon in the UK proved to be short-lived and by the mid-1980s interest in it had waned and the VAS quickly disappeared from corporate financial reports. Subsequently no significant practical interest has been shown in the VAS and it therefore remains a brief episode in the recent history of UK financial reporting.

This paper explores the reasons both for this rapid disappearance and for the VAS's continuing absence as a practical financial accounting issue. It does so on the basis of an empirical analysis of the utility of the information content of UK corporate VASs. This analysis is designed to ascertain whether the new disclosure served the interests of the employee stakeholder group who were identified as the major beneficiary of the VAS. This group comprised company directors, who controlled the voluntary disclosure of the VAS, other employees and trade unions. A positivist approach is employed to provide an explanation of a significant change in financial accounting [Watts and Zimmerman, 1979]. In this instance the positive approach is not used as a basis for predicting behavior but to explain behavior retrospectively by reference to the possible economic consequences [Zeff, 1978] of the information contained in the VAS for those responsible for its supply and demand. The analysis suggests that the information content of the VAS was likely to have been prejudicial to the interests of the company employee stakeholder group that it was intended to benefit. In addition, information deficiencies in the VAS compromised its ability to meet some important aspects of the purposes on which its advocacy had been based. These findings are used to supplement an existing social history of this period of accounting engagement with VA in the UK [Burchell et al, 1985]. The findings also provide an explanation of the VAS's failure to subsequently reappear on the UK financial accounting scene.

The paper is structured as follows. First, a summary is given of the development of interest in the VAS in the UK from 1975 to 1980, a period during which its popularity reached a zenith. Second, a review is undertaken of the existing historical study [Burchell et al, 1985] that traces the societal influences that can be implicated in the rise and fall of the VAS in the UK. A case is made for extending this analysis to encompass an examination of VA information, from the producer and user perspectives, both for this period and afterwards. Third, empirical data on the content of the VAS is presented both from the late 1970s (from voluntarily disclosed VASs) and also from a later period in which there was no explicit disclosure of VA information by UK companies (the information was reconstructed from accounting information obtained from commercial corporate databases). This data is then used to argue a positive case, reflecting information user self interest, for the initial abandonment and non-reappearance of the VAS in the UK. In this way the explanation for the disappearance of the VAS is enhanced. Finally, some conclusions are drawn on the explanation for this change in financial reporting.

THE VAS IN THE UK

The Corporate Report [ASSC, 1975] provided an impetus for the UK accounting profession to engage with both the concept and practice of VA. It defined VA as sales income less materials and services purchased that results in a measure of "the wealth the reporting entity has been able to create by its own and its employees' efforts" [ASSC, 1975, p. 49].

It also contained a pro forma VAS (see Appendix 1) and advocacy of the VAS based on the notion that it would complement the existing financial statements (particularly the profit and loss account) by providing a stakeholder as opposed to a shareholder perspective on performance:

> The simplest and most immediate way of putting profit into proper perspective vis a vis the whole enterprise as a collective effort by capital, management and employees is by presentation of a statement of value added . . . profit is a part only of value added. From value added must come wages, dividends and interest, taxes and funds for new investment. The interdependence of each is made more apparent by a statement of value added [ASSC, 1975, p. 49].

Four of the UK's leading professional accounting institutes commissioned studies of VA shortly after the *The Corporate Report's* promotion of the VAS (Morley [1978] for The Institute of Chartered Accountants of Scotland, Cox [1979] for The Institute of Cost and Management Accountants, Renshall et al [1979] for The Institute of Chartered Accountants in England and Wales and Gray and Maunders [1980] for The Association of

Certified Accountants). At least one accountancy firm produced a publication on the topic [Binder Hamlin and Fry and Co., 1978]. With the exception of Cox [1979], who focused on the internal use of the VA measure, there was much overlap in these texts. They all provided practical assessments of the use of VA as a measure of corporate performance to be reported externally by accountants. Their main focus was on two aspects of VA. The first was an identification of its main advantages and disadvantages and the second covered the technical measurement issues raised by its computation.

Morley's [1978] comprehensive listing of the VAS's benefits was largely supported by the other accountancy institute studies. A summary of benefits is contained in Table 1. It mirrors *The Corporate Report* advocacy and extends this by emphasizing the value of the disclosure of VA distribution to individual stakeholders and its worth as a corporate size indicator, a national income measure and a foundation for productivity based incentive schemes.

TABLE 1

Summary of the Advantages of the VAS

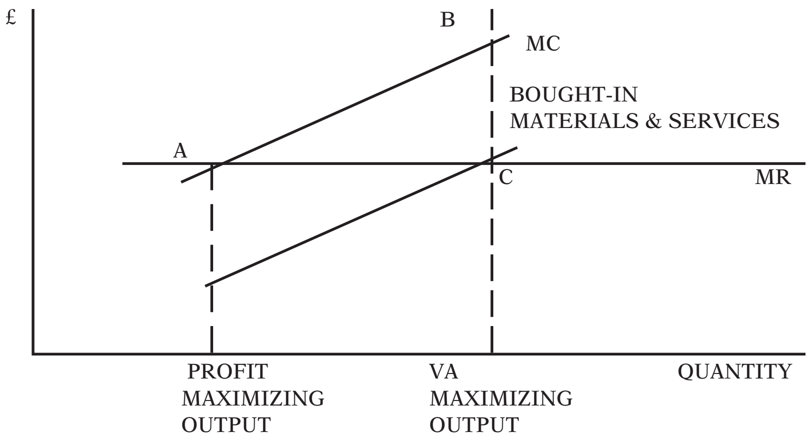
1. VA reflects a broader perspective on corporate performance than profit and will therefore encourage a more co-operative outlook among stakeholders.
2. The facilitation of VA based incentive schemes to reward employees when productivity (as measured by VA and VA based ratios) is improved.
3. Disclosure of employees' share of VA that may combat belief in the exploitation of labour.
4. Disclosure of government share of VA facilitates an assessment of the fairness of taxation.
5. Disclosure of the share of VA for maintenance and expansion of investment directs attention to managerial policy in this important area.
6. VA is a superior measure of company size. It avoids the disadvantages of alternatives e.g. sales inflate size where there are many bought-in materials and services, capital employed favours capital intensive firms and number of employees favors labor intensive firms.
7. VA reports the individual firm's contribution to national income and may therefore play a role in the management of the national economy.

Source: Based on Morley [1978, pp. 19-25].

While all four of the institute's reports were predominantly in favor of VASs and reflected the main positive expectations held about VA at the time, it would be unfair to say that their supportive views were expressed without reservation. It was recognized that VA and profit could result in contrasting indications of performance. For example, the former could have a positive value while the corresponding profit was negative due to a distribution of more than the total VA generated to employees in remuneration. Moreover, the pursuit of VA as an objective could lead to the sub-optimization of profit (see Figure 1).

FIGURE 1

Contrasting Profit and VA Maximization



VA maximization would mean a profit loss represented by triangle ABC.

VA measurement issues incorporated many of the existing weaknesses of financial accounting, as the VAS was a derivative of the existing profit and loss account. However, there were also some specific measurement problems relating to VA. The most significant of these was the treatment of depreciation. It could be considered a distribution of VA and reported under the heading, maintenance and expansion of investment. Alternatively it could be viewed as a component of bought-in materials and services (representing the cost of services obtained from bought-in fixed assets). Thus depreciation could be treated as a distribution of VA or as a part of the computation of VA, depending upon whether its accounting effect or its inherent nature was given priority in coming to a decision on the manner of its accommodation in the VAS. This flexibility gave rise to a dual possibility in the measurement of VA as both gross VA (former treatment) and net VA (latter treatment) could be calculated.

Other issues, likely to be less significant than depreciation, were also identified. They included the option of computing VA on either a sales or a production basis, the treatment of nontrading income (additional to VA as a source of stakeholder rewards which could be treated as a deduction from the cost of bought-in materials and services or as an add on to VA), minority interests (which could be shown as a distribution to investors or as a part of retentions), extra-ordinary items (which could be submerged in bought-in materials and services or divided under different headings if say some portion of it were a labor cost and therefore a distribution to employees), and the government distribution (which could be reserved for corporation tax alone or incorporate road tax, national insurance, employee income tax and local authority rates etc).

Professional journals in Britain reflected the contemporary institutional attention given to the VAS. For example, the journal *Accountancy* included regular papers on the VAS between 1975 and the early 1980s. Initially, these provided guidance on and examples of the preparation and presentation of VASs [Lafferty and Neely, 1975; Pendrill, 1977; Roullier, 1978; Rutherford, 1978]. Later they dealt with more varied issues including modification of the VAS to a cash basis [Burns, 1978], issues in its standardization [Smiddy, 1980; Purdy, 1981], how to take account of inflation when preparing it [Burns, 1980; Rutherford, 1982], and its use in employee reporting [Burchell et al, 1981; Hussey, 1981].

In parallel with the professional accounting interest in the VAS the Labour government, 1974-1979 also signaled their support and encouragement for the accounting profession to pursue its interest in VA. A consultative document issued for comment by the Department of Trade in 1976 stated that priority should be given to added value for further consideration as a candidate for statutory disclosure. This proposal was reinforced one year later when it became the basis for the government Green Paper on *The Future of Company Reports* [Department of Trade, 1977a] that contained a specific suggestion for the inclusion of a VAS.

Other user groups of accounting information confirmed that the 1970s interest in VA was broad based. While Burchell et al [1985] do provide evidence of its use in stockbrokers' reports the main demand for VA information was as information for managers, other employees and trade unions. For these groupings VA received advocacy from employers, the TUC, academics and from practicing accountants who incorporated it in their employee reports. Exposure to the VA measure for these parties came in the form of productivity schemes and incentive reward schemes to which VA was central [Gilchrist, 1971; Smith, 1978; Cox, 1979]. Woodmansay [1978] estimated that between 200 and 300 UK companies were operating VA based schemes of this type during the 1970s. While these did not necessarily require the disclosure of a VAS in the annual report it is likely that their existence stimulated interest in VA both among those operating the schemes and those subject to them. The importance instilled in the VA measure through these schemes underpinned its economic significance for the firm and consequently the importance of its public disclosure.

Further employee familiarity with VA came through the burgeoning 1970s' practice of employee reporting in which VA reports featured strongly [Goodlad, 1976; Parker, 1976; Hilton, 1978; Purdy, 1981; Lewis et al, 1984]. Once again the availability of VA information to the workforce enhanced its importance and hence the case for its wider dissemination. Burchell et al [1985] suggest that the economic importance of VA could also be attributed to its use by both trades unions and employers trade associations although they present little evidence of its active role in the process of collective bargaining. In 1974, the TUC recommended that VA had a role to play in explaining company performance to employees and one prominent employers' association (the Engineering Employers' Federation) suggested that VA information could serve as a guide to management in formulating wages policy.

Within accountancy education the VAS soon became an established topic featuring in several leading texts (e.g. Lewis et al [1981], Glautier and Underdown [1982], Fanning and Pendlebury [1984]). In addition to their major contribution to the professional institutes' assessments of the VAS academics had also engaged in a range of research work on the topic. Rutherford [1977] and McLeay compared the accounting concept of VA proposed in *The Corporate Report* with economic approaches to its measurement. Morley [1979] repeated much of his analysis for the profession in a form suitable for an academic audience. Gee [1977, pp. 72-73] advocated the use of VA based ratios in directing divisional investment inside the firm. Foley and Maunders [1977, pp. 168-170] outlined the role that VA could play in collective bargaining as a 'divisible fund' of relevance to negotiators. They argued that VA, in this role, could promote constructive conflict by assisting in prompt information-derived settlements accepted by both parties to a dispute as fair. Burchell et al [1985] used the UK's experience of VA to propose a model explaining how accounting practice developments were susceptible to influence by the society in which they occur. Their ideas are reviewed more fully in the next section of the paper. However, little systematic empirical research was carried out. One exception was Rutherford [1980] who surveyed the VASs of firms in *The Times* Top 250 published between 1975 and 1978. He found considerable variety in their presentation, terminology and measurement although the guidance proposed in *The Corporate Report* was highly influential. Surprisingly, no studies of the actual information contents of published VASs were undertaken and this omission has restricted assessment of actual user benefits obtained from this novel form of disclosure.

The interest in and enthusiasm for the VAS in the UK was translated into practical action by a considerable number of companies. Rutherford [1980] found 60 instances of the VAS in the annual reports of companies in *The Times* Top 250 UK companies for the year July 1977 to June 1978. A survey of the companies in the FT All Share Index by Platt [1978] found 96 VAS disclosures. Burchell et al [1985] list the number of companies that were recorded in the contemporary surveys of UK published accounts as reporting on VA. A peak of 90 occurred in 1979/80. Thus Morley's [1978] assertion that around 20% of the UK's leading companies were disclosing a VAS is likely not to be too far off the mark.

EXPLAINING THE RISE AND FALL OF THE VAS IN THE UK

Burchell et al's [1985] historical analysis of the VAS in the UK was a seminal contribution to the accounting research literature. In part its importance rests on the clarity of focus it offered on a highly unique and specific change in accounting practice i.e. the widespread interest in and prominence of VA in the UK during the late 1970s. The practical accounting manifestation of the VA phenomenon in the UK was particularly unusual. It is a rarity for companies to voluntarily disclose a novel financial statement. In addition, Burchell et al's study is distinguished by being one of the earliest analyses demonstrating accounting as a social practice. Its significance is enhanced by the absence of other histories of VA development in the UK, by the recognition of its importance by accounting historians (see for example, Parker and Yamey [1994, p. 9], who reproduce the paper and describe it as having "brought into accounting history concerns not previously considered") and by its influence on subsequent research including the development of the genealogical approach to historical research in accounting [Miller and Napier, 1993].

Burchell et al [1985] used both the popularity of VA in the UK in the 1970s and its decline in the 1980s as empirical evidence to illustrate and substantiate their ideas. They attributed both the emergence of VA, its rapid development and its short life to prevailing societal circumstances. The rise and fall of the VAS was an exemplar of how aspects of the social environment could interact with accounting at a technical and practical level. The VAS provided an opportune example to explore the neglected relationship between accounting and the society in which it exists:

> . . . the social can influence the technical practice of accounting and that that in turn, can mobilise and change the world of the social . . . little is known of how the technical practices of accounting are tethered to the social, of how wider social forces can impinge upon and change accounting, and of how accounting itself functions in the realm of the social, influencing as well as reacting to it [Burchell et al, 1985, pp. 381-382].

The social factors, which Burchell et al [1985] associate with the voluntary disclosure of the VAS by some UK companies, are represented as a conjunction of three arenas. Although they are separately presented and described, they possessed inter-connections that compounded their power to influence accounting practice.

The first social factor concerned the situation of the accounting profession. The 1970s found the profession in a struggle over standardization and great efforts to avoid the threat of government intervention and preserve its powers of self-regulation. This followed the adverse publicity on the issue of accounting flexibility that had been raised by the GEC/AEI and Leasco-Pergamon takeovers [Stamp and Marley, 1970; Leach and Stamp, 1981; Stamp, 1985]. The Accounting Standards Steering Committee, the body responsible for overseeing the new accounting standards program, had commissioned *The Corporate Report* as a discussion document. The profession was keen to be seen as proactive in both regulating and developing its discipline. The VAS represented an initiative which would not only help achieve this but would also show the profession as sensitive to developments in the other two relevant social arenas of the time.

One of these was the nature of the prevailing system of industrial relations. The period 1974-1979 saw a Labour government promote the interests of the employee. Industrial democracy was given prominence as a solution to many of the UK's industrial ills [Department of Trade, 1977b]. Politically, it was felt that redefining the balance of power between employer and employee would lead to improved industrial relations and more responsible collective bargaining. A key component in the achievement of these aims was the provision of information to employees and trades unions. In 1971, under a Conservative government, statutory duties were laid upon management, for the first time, to disclose information to workers [Industrial Relations Act, 1971, s.56]. However, six years and a political change occurred before a code of practice for this purpose was produced [ACAS, 1977]. The VAS with its more neutral perspective on corporate performance was, in many ways, a perfect fit to these developments.

The third societal arena influencing the progress of VA reporting also lay in the political realm and was related to the management of the national economy. During the 1970s incomes policies were a prominent and recurring feature of the political landscape [Behrend, 1973; 1978]. Norms for wage rise were set on both voluntary and mandatory bases. However, these incomes policies allowed wage rises in excess of the norm where justified by productivity improvements. This fostered an important role for VA as VA itself and VA based ratios provided a convenient means of measuring productivity change. VA therefore assumed an importance for employee remuneration schemes at the level of the firm and this reinforced the relevance of the VAS to both the employee and employer.

These circumstances, so conducive to the VAS's rise to prominence, did not endure for long. In 1979 a right wing Conservative government was returned and the above professional, political and economic elements of the societal contexts were radically altered. The three arenas, which had offered a combined support to VA reporting, were "ruptured and transformed" [Burchell et al, 1985, p.405]. As a result of their absence during the 1980s, the corporate voluntary disclosure of VASs rapidly declined and the VAS eventually disappeared from the UK financial reporting scene.

In their analysis of the UK corporations' flirtation with the VAS, Burchell et al [1985] have quite overtly emphasized the societal as the dominant influence on financial accounting change. This explanation does much to address the actions taken by those companies who voluntarily published a VAS during the 1970s. However, it does not accommodate the distinction between these companies and the large majority of UK companies who did not disclose a VAS in their annual report. Why did the same social pressures result in a change in accounting practice in some companies but not in others? Moreover, the VAS did not reassume prominence when the social context changed once again in 1997 with the return of a Labour government. Although extended disclosure requirements in the late 1980s allowed the user to reconstruct the VAS (as we have done in this study), the cessation of its explicit presentation in corporate reports has continued and its profile as an additional financial statement has remained low. The evidence suggests that while social factors were important they did not compel VAS disclosure. They were not the only factors implicated in either the cross-sectional or longitudinal patterns of voluntary VAS disclosure and non-disclosure by UK companies.

The Burchell et al [1985] study overcame the neglect of the social apparent in the research literature until that time. However the evidence presented here will suggest that, through their exclusive emphasis on the social, the significance of the technical aspects of accounting as a change-driver of VA reporting has been largely ignored. There is an absence in their analysis of any consideration of the information content delivered by the VAS and its match to user expectations and needs. Accounting is a social and technical discipline and the interaction of both of these twin aspects is relevant to an explanation of change (or, indeed, of no change) in accounting practice. Any analysis omitting consideration of either of these aspects of the discipline's character may be viewed as partial.

This paper focuses on the impact of the information contained in the VAS on corporate employee stakeholders, including company directors who control its voluntary disclosure. The possible effects of the VAS on employees are examined as a factor influencing its demise. It is thus intended to supplement the Burchell et al [1985] analysis by bringing the technical aspect of accounting information content more to the fore as an explanatory factor in accounting change. In this way, the evidence of differential action by companies and the non-reappearance of the VAS can be more convincingly addressed. The analysis is based on a premise that continuation or cessation of the supply of the VAS, once begun, would be influenced by the experiences of those in receipt of the information. Did the VAS live up to expectations? Did it fulfill its expected purposes? Did it prove to be of value to users? Without addressing these questions, explanation of the VAS's disappearance is unlikely to be complete. Burchell et al's [1985] societal thesis is more convincing when applied to the introduction of the VAS as, at the stage of first introduction, it would have represented novel intelligence for many information users. Its actual content would have been an unknown to most employee recipients and therefore it would have been less influential in the decision to disclose. After exposure to the VAS, however, users' attitudes to it and demand for it would be colored by their actual experience of it. Consequently, in addition to the broader societal influences prevailing, explanation of the demise of the VAS merits specific consideration of the content that it had actually offered to its users.

The additional outlay cost of supplying a VAS is small. All of its contents are readily available and the statement itself adds little to the size of the annual report. From a cost-benefit perspective, therefore, it would appear that the majority of companies had either anticipated few benefits or had identified hidden costs associated with the new statement as they had decided not to include a VAS in their annual report. Moreover, for those companies who did publish a VAS, their prompt abandonment of it indicated that few benefits were realized by its provision. The examination of the contents of the statement can help to explain the apparent lack of benefit attaching to its disclosure.

If VAS information did, in fact, prove useful to the employee recipients of accounting information then it is logical to expect that this utility would be a powerful force for its retention and indeed its extension through making its provision mandatory. Moreover, if a supply of useful information has been stopped, then, even in the changed societal circumstances of the 1980s, some dissent by those affected would have been expected. Unlike other financial accounting changes at this time such as current cost accounting [Pong and Whittington, 1996], in the case of the VAS, disappearance appears to have been both quick and quiet [Burchell et al, 1985] and subsequently there has been no apparent pressure in the UK for its reinstatement. For example, scrutiny of key professional accounting journals (*Accountancy*, *Management Accounting* and *The Accountants' Magazine*) for the period 1985-1990 reveals only one indexed reference to VA [Report and Accounts, 1988]. This comprises a short editorial piece commenting on the disappearance of the VAS and attributing its decline to the changing political and economic climate, the current prosperity of UK companies as compared to the 1970s and the increasing bulkiness of company reports. No reference is made to any great information loss from its demise but it is suggested that a return to more difficult economic conditions could revive interest in it. The manner of the VAS's disappearance is therefore consistent with its content lacking any enduring appeal to key potential users. To investigate this possibility an empirical analysis of the information content of UK corporate VASs is presented in the following section.

THE INFORMATION CONTENT OF THE VAS IN THE UK

Two sets of empirical data were gathered on the content of VASs in the UK. The first relates to 1978 when the voluntary disclosure of the VAS had become established. This analysis was based on the VAS contents of half of the companies identified as voluntary VAS disclosers by Platt [1978] in his survey of firms in the 1978 FT All Share Index. The second relates to the period 1994-2003. This choice was possible and desirable for a number of reasons. First, the Companies Act, 1985 (Schedule 4.56(4)) required companies to disclose the total annual remuneration earned by employees for the first time. Access to this figure and other annual report information enabled the VAS to be reconstructed[1] after this date. This period also allowed research access to corporate databases (in this case Fame and Datastream)

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[1] This was achieved as follows:

VA is computed as, $S_t - B_t = VA_t$
where,
S_t = Sales for the year t.
B_t = Bought-in materials and services for year t.
VA_t =Value added for year t.

As B is not disclosed by companies, VA cannot be computed in this way. However, as shown below VA is also equal to the summation of its distribution to stakeholders.

$VA_t = W_t + T_t + Div_t + I_t + P_t + Dep_t$
where,
W_t = employee remuneration for year t.
T_t = taxation for year t.
Div_t = dividend for year t.
I_t= Interest for year t.
P_t = profit retained for year t.
Dep_t = depreciation for year t.

As W, T, Div, I, P, and Dep are all required disclosures in the annual report, VA can be computed from their summation and B is therefore identifiable as a missing figure. Morley [1978, p. 50] suggests that this approach to VA measurement was adopted by corporate VAS preparers, ". . . in practice the VAS is prepared using bought-in items as the balancing figure". Rutherford [1977] confirms this, describing bought-in items as a "sink" used by those reporting VA for all the items difficult to classify elsewhere.

that facilitated the gathering of the appropriate accounting variables for both longitudinal and cross-sectional analyses. The period chosen therefore permitted the VAS to be considered over a period at the mid point of which a significant political change occurred with the return of a Labour government in 1997. All UK quoted companies (excluding investment trusts) who survived for the whole of this period are included. The following data analysis is therefore based on 409 companies.

VAS Content, 1978: Table 2 reveals the average amount of VA earned by the 48 companies studied and shows how the VA created by them was distributed. The distribution categories largely match those suggested in *The Corporate Report* (ASSC [1975], see also Appendix 1) although minority interest is identified as a separate category and the company directors' share is distinguished from that of other employees. At just under 70% on average (directors 0.5% and other employees 68.4%), the employees' share was by far the largest. This confirms Morley's [Morley, 1978, p.21] opinion that, in the 1970s, employees typically obtained around 70% of their company's VA. Other individual stakeholders all received less than 10% of the VA generated.

TABLE 2

Value Added Distribution in the UK, 1978

Year	Average Firm VA (£m)	Directors %	Other Employees %	Share-holders %	Lenders %	Minority %	Govt. %	Depre-ciation %	Retained Profits %
1978	205.9	0.5	68.4	3.4	3.6	0.4	8.4	7.4	7.9

VAS Content, 1994-2003: The results of reconstructing the VASs of UK companies are summarized in Table 3. They reveal a considerable growth in VA over the period. Although the two sets of companies are not matched, the VA distribution is, in many respects, similar to that of the companies studied in 1978. The employee group has remained, with an average share of almost 70% (directors 4.2% plus other employees 64.6%), the major recipient of VA by quite some margin. In fact, they have even made a small proportional gain over the period. Shareholders and lenders average 8.5% and 7.2% of VA respectively and in both cases their shares have been reasonably stable. The 'losers' have been government and particularly the maintenance and expansion category. The latter is despite a substantial increase

TABLE 3

VA Distribution in the UK, 1994-2003

Year	Average Firm VA (£m)	Directors %	Other Employees %	Share-holders %	Lenders %	Minority %	Govt. %	Depre-ciation %	Retained Profits %
1994	146.8	4.3	61.4	7.3	7.3	0.6	7.1	8.3	3.7
1995	166.0	4.2	61.8	8.2	8.3	0.4	7.4	8.7	1.0
1996	173.2	4.2	60.2	8.3	7.0	0.7	7.3	9.1	3.2
1997	195.2	5.4	68.5	8.4	9.7	0.6	5.8	11.3	(9.7)
1998	206.1	3.8	62.4	8.3	7.2	0.3	7.4	9.1	1.5
1999	231.7	3.9	63.3	10.1	6.6	0.3	6.8	10.3	(1.3)
2000	298.7	4.3	64.6	8.4	8.4	0.3	7.0	12.4	(5.4)
2001	274.9	3.8	59.9	8.3	4.6	0.5	6.1	11.5	5.8
2002	299.3	3.9	64.6	8.5	6.9	0.5	6.1	12.6	(3.0)
2003	320.6	4.7	74.5	8.3	7.7	0.5	4.3	15.2	(15.2)
Aver-age	231.3	4.2	64.6	8.5	7.2	0.5	6.4	11.3	(2.7)

in depreciation that could not compensate for the marked deterioration in retained profits.

EMPLOYEES AND THE VAS

The preceding literature review indicates that, within the UK, one of the major objectives proposed for the VAS was to provide a counter balance to the proprietary orientation of conventional financial statements. Consequently, company employees were intended to be the prime beneficiary of the VAS. This section assesses the extent to which the contents of the VAS would support the economic interests of employees. It is based on the presumption that there are two main purposes underlying employee demand for accounting information of the type contained in the VAS. These are (1) the evaluation of employment security and (2) the attainment of an acceptable level of remuneration [ASSC, 1975; Maunders, 1984].

The first area of employee concern relates to the ongoing financial viability of the company and its prospects for employment growth or downsizing. Like the other financial statements in the annual report the contents of the VAS are historic in nature and consequently are not designed to directly indicate future performance. Moreover, it is profitability and liquidity that are the financial characteristics most closely linked to corporate survival and growth and it is the profit and loss account, balance sheet and cash flow statement that contain information most relevant to these dimensions of corporate performance.

Indeed, a pre-occupation with the pursuit of VA may even compromise profitability (see Figure 1). In any case, the VAS adds little information to that already available in the annual report. In the 1970s it was only the segmentation of cost into bought-in materials and services and employee remuneration that was new information in the VAS. Since 1985 all of the components of the VAS can be obtained from the annual report. New insights into the future prospects of the company were therefore unlikely from the VAS. Even the strong advocacy of the VAS in the 1970s did not claim any suitability for this particular purpose.

It was the second area of employee information use that was seen as particularly apposite by the advocates of VAS. However, this may be to take an optimistic view of the statement's worth for even during the 1970s when the advocacy of VA was at its strongest, the main arguments used in collective bargaining by trade union wage negotiators were based on the cost of living and on comparability with others [Glendon et al, 1975]. Compared to these factors, aspects of corporate financial performance were not highly rated as a basis for obtaining wage rises.

In theory, employees can make use of the VA distribution to assess the level of corporate benefits obtained and use this intelligence to substantiate a bargaining case for increased remuneration. This can be done by comparing the employees' share of VA with those of other stakeholders and by monitoring, over time, whether they are losing out in the share out of VA. If, for example employees' share of value added appeared low relative to other stakeholders or was diminishing over time then this information could be used to underpin their case for higher wages.

The above data presented on VAS in the UK content shows that employees obtained, on average, by far the largest portion of VA. It may therefore be difficult to make a case for increased wages on the basis of an unfair attribution of VA when around 70% is already being obtained. If the alternative net measure of VA were to be used the employee percentage is raised to an average of over 75% of VA. The dynamics of VA distribution offer no additional support to the employee case for remuneration enhancement either. If Morley's [1978] claim that "In general the employees' share of VA of British companies has risen steadily over the past three decades and is now at a much higher level than in many competing nations, notably Japan" is true then the high share of VA attributed to employees in the 1970s was the culmination of a period of consistent increase [Morley, 1978, p. 21].

Moreover, the recent 1994-2003 data reveals that employees have maintained and, indeed, marginally enhanced their share of VA. Taken at face value, the information content of the VAS shows that employees, far from being disadvantaged or exploited, are the main winners in the VA share out. The content of the VAS actually provides ammunition to the other stakeholders for a re-distribution in their favor.

One further reason why the VAS is lacking in appeal to employees as a bargaining tool lies in an important deficiency in its content. In a period when share values have increased, the employees' return relative to that of shareholders can be exaggerated by the VAS to the detriment of the employees' case for a greater share. The VAS shows shareholders as benefiting only from dividends. Their return in the form of the capital appreciation of their shares is excluded, as corporate accounting systems do not incorporate capital gains on shares. This factor can be significant enough to make a considerable impact on the comparative benefits enjoyed by employees and shareholders. For the companies used in the 1994-2003 analysis the capital gains obtained by shareholders were as shown in Table 4. Although considerable variation is apparent, in all sectors capital gains considerably exceeded the dividend return shown in the VAS. Overall capital gains have a weighted average that is 3.6 times that of dividends. Thus the main element of shareholder return

TABLE 4

Capital Returns to Shareholders, 1994-2003

USSIC	Average of Change in Market Value (£m)	Average of Dividend Receipts (£m)	Ratio of Capital Gains To Dividends
Agriculture, Forestry And Fishing	12,757.50	6,869.72	1.86
Mining	419,290.00	165,201.27	2.54
Construction	280,311.20	76,485.04	3.66
Manufacturing	892,709.08	309,630.39	2.88
Transportation, Communications Electric, Gas and Sanitary Services	3,055,200.94	667,689.71	4.58
Wholesale Trade	214,767.69	135,213.04	1.59
Retail Trade	812,648.21	417,504.44	1.95
Finance, Insurance And Real Estate	285,599.02	94,192.36	3.03
Services	234,509.15	67,868.04	3.46

has been omitted from the VAS and consequently, the statement results in the employees appearing more favored in terms of the relative benefits received by these two groups. Taking account of capital gains on shares the average relative benefits of employees and shareholders in 1994-2003 would change from a VAS based ratio of 8.1:1 to one of 1.8:1.[2]

It is a sub-set of the employee group, company directors, who control the voluntary disclosure of corporate accounting information. From an agency theory perspective [Jensen and Meckling, 1976], their pursuit of self-interest creates a 'moral hazard' for their shareholder principal. The information advantage held by directors restricts the control that shareholders can exercise over them. By facilitating improved monitoring of the agent (e.g. through the publication of a VAS) this information advantage can be diminished. Company directors are therefore likely to be sensitive to disclosures that reduce their information advantage. The resistance to the strong societal forces promoting the VAS in the 1970s, evident in the 80% of UK companies not disclosing a VAS, is indicative of this trait. In the UK, corporate sensitivity to disclosure has been heightened by the prominent profile accorded to high levels of director remuneration and corporate governance issues over the past decade. Criticism on these issues has come from the investment community (e.g. BBC [2002]), from trade unions (e.g. ePolitix.com, [2003]) and from financial commentators (e.g. HRM [2004], Manifest [2004]). Typical of the strength of feeling aroused by the issue of director remuneration are the following comments from prominent trade union leaders:

> Fat cat directors have shown no ability to self restraint so far . . . shareholders, the public and the government have all expressed their disgust at the current excess [Kevin Curran, GMB General Secretary, ePolitix.com 03.06.03].

> There has to be some link to the pay of workers generally within the company. Pleading for cost restraint, increasing unachievable targets, paring staff numbers to the bone, cutting back on benefits and increasing

[2] The average shares of VA of employees and shareholders, in the period 1994-2003, were 68.8% and 8.5% respectively (see Figure 4). This represents a ratio of 8.1:1. When the capital appreciation on shares (which is, on average, 3.6 times the level of dividend return) is also treated as a part of the value created by the companies studied then the relative shares are 52.7% (employees) and 29.9% (shareholders). This represents a ratio of 1.8:1.

hours are not acceptable when balanced against 20/30 per cent pay increases, increased pension provision and guaranteed bonuses for executives [Dai Davis, Director of Communications for UNIFI, ePolitix.com 03.06.03].

Table 5 shows that, in the companies studied from 1994-2003, this issue is particularly pertinent as director remuneration increased by a substantially larger amount than the wage of the average employee and the rate of general inflation.

TABLE 5

Relative Rates of Increase in Employees' and Directors' Remuneration, 1994-2003

Year	Average Employee Wage (£)	% Rate of Increase	Average Board Renumeration (£)	% Rate of Increase	% Rate of Annual Inflation
1994	20,207	–	856,683	–	–
1995	21,897	8.4	949,715	10.9	3.4
1996	23,134	5.6	1,045,141	10.0	2.4
1997	24,146	4.4	1,124,467	7.6	3.1
1998	24,821	2.8	1,154,803	2.7	3.4
1999	27,155	9.4	1,328,258	15.0	1.6
2000	29,541	5.1	1,446,066	8.9	2.9
2001	30,303	2.6	1,483,808	2.6	1.8
2002	31,377	3.5	1,536,934	3.6	1.6
2003	32,607	3.9	1,556,697	1.3	2.9
Overall	61.4	81.7			

The impression given by the VAS of the employee group being the main corporate beneficiary from value created is unlikely to be one that the directors want to convey to company owners. Combined with the poor level of provision for maintenance and expansion of investment from the retained profits source, the VAS does not reflect well on the directors' performance in corporate governance. Finally, the emphasis on stakeholders' relative shares created by the VAS leads to the likelihood that the share of VA obtained by company directors will be scrutinized. Table 5 reveals that although this is a fairly small, but variable, percentage of VA it does represent, on average, a very substantial proportion (63.5%) of the dividend return to shareholders. Again, the absence in the VAS of the capital gains accrued to shareholders exaggerates this comparative percentage to the detriment of the directors. It is also noticeable that the directors' share of VA in the voluntary VAS disclosures in 1978 was less than one-eighth of the share obtained on average in the companies studied from 1994-2003. This may be indicative of voluntary disclosure occurring in those companies where further analysis of the contents of the VAS was relatively more favorable to the directors' position.

We claim, therefore, that analysis of the contents of the VAS can contribute substantially to a possible explanation for its initial voluntary adoption by a minority of companies, why it was soon dropped and why there has been no enthusiasm for its return. The information in the statement does not serve well the needs of the employee group that it was designed to serve and, far from acting as a mechanic to engender co-operation between stakeholders, it may well encourage competition and disagreement among them over the relative levels of reward that they obtain.

CONCLUSION

Accounting change can be complex in nature. Much of this complexity derives from the great range of, often interacting, socio-technical factors that influence its occurrence. The diversity of accounting research on change reflects this complexity with diffusion theory, contingency theory, information systems theory, institutional theory, positive theory and various social and philosophical theories all having been applied in pursuit of explanations of accounting change in both historical and contemporary contexts. This work has, among other factors, implicated fashion following, mimicry, legitimacy, labor exploitation, economic self interest, political advantage, power relations, market dynamics, social circumstances, warfare and technological development in the accounting change process. It is thus unlikely that any individual study will identify all of the issues and influences that impinge on a particular accounting change. Over time, therefore, research on specific change involves the gradual process of individual studies adding incrementally to the explanation and understanding of it.

This study's contribution is of this type. It involved introducing some factors, relating to the accounting content of the VAS, which can be used to supplement an already existing socio-contextual explanation [Burchell et al, 1985] of the rise and fall of the statement as a practical proposition in the UK. It has shown that information on the distribution of VA among stakeholders can be used to enhance the explication of this temporary accounting change. In comparison with Burchell et al's [1985] study of VA in the UK, the paper suggests that different factors are likely to play different roles in the change process. Information content will be a consideration influencing both the supply of and demand for information on VA. At the level of the individual firm, information content affects directly those who take decisions on voluntary disclosure policies and it is an important determinant of the utility of the information to those creating the demand for it. Thus, this factor specifically contributes to an understanding of the partial (among companies) and temporary nature of the change.

Changes in financial accounting are made by those involved in its production and its use. However, its development does not involve recourse to an immutable body of theory or set of governing principles. Historically, the human influence on accounting has been described as driven by the clash of vested interests where winners determine the justifying theories in vogue and the practices found in the real world [Watts and Zimmerman, 1979]. The selection of accounting methods to be applied in practice therefore takes place in a transient "market for excuses". Societal circumstances influence the views and actions of groups with vested interests in accounting but this will be tempered by the content of accounting and its perceived impact on the self-interests of the parties involved. The contents of the VAS in the UK did not provide the enduring attraction required to maintain support either from those voluntarily supplying VASs (company directors) or those expected to be its major source of demand (other employees and their trades union representatives). This key absence of support is likely to have contributed significantly to the VAS's disappearance.

In contrast, the role of the three societal arenas referenced by Burchell et al [1985] appears to have been more significant in profiling the VAS as an issue of the time and placing it on the agenda of those who made corporate disclosure decisions, as opposed to directly driving a universal change in practice. Societal factors raised the matter of VAS disclosure as an issue for corporate consideration but did not act as an inevitable determinant of companies' ultimate disclosure practice on VA. Accounting change is dependent on factors, both external and internal to the firm. Investigating how their combination leads to different outcomes will help to elucidate the process of development in the accounting discipline.

The actuality of the VAS in the UK contrasted with its advocacy, which, on reflection, can be considered somewhat idealistic. The information contents of the VAS did not suggest that it was a mechanism suitable for resolving the disputatious nature of collective bargaining. From an examination of relative shares of VA, employees generally appeared to be the favored stakeholder and this neither helped the case of trades union negotiators nor would it have reflected well on management when held to account for VA distribution by company owners. The disclosure of how VA was distributed was not necessarily a basis for stimulating stakeholder co-operation. It had the propensity to foster competition among self-seeking stakeholders by revealing their relative shares in VA and how these were changing over time. The relevance of VA information to employees can also be questioned by the low emphasis given by trade union negotiators to specific company performance intelligence as an element in their arguments for greater benefits. In addition, in practice the VAS suffered from measurement and presentational variation that may have led to user suspicions about its susceptibility to manipulation. The VAS also omitted major stakeholder benefits (capital gains on shares and share option awards) that limited its suitability for its intended purposes. It is also the case that by the second half of the 1980s, although explicit disclosure of the VAS had ceased, the annual report contained all of the information required to reconstruct a VAS. Given that the user could then access VA information as required, the VAS could be viewed as technically redundant. Many of those factors run counter to the positive social pressures of the 1970s in the UK for VAS disclosure. They are all, therefore, likely contributors to the relatively low level of the voluntary adoption of the VAS by UK companies and to its prompt demise and non-return.

This study also indicates some avenues for future research. First, it appears that UK companies differed in the way in which they dealt with the issue of voluntary disclosure. It would therefore be insightful to identify why the social forces of the 1970s, identified by Burchell et al [1985], to which all companies were exposed, proved to have more practical impact on some than on others. Although all companies eventually dropped the VAS, some decided to assess the change by experimentation through adoption while others opted for a non-adoption decision based on some form of a priori reasoning. Neither this study nor that of Burchell et al [1985] was designed to conduct an in-depth inquiry into the detail of how the internal disclosure decisions were taken. Who took the decision to disclose? What factors do decision makers claim were influential? How was the decision to cease explicit disclosure of the VAS taken? Can disclosers and non-disclosers be differentiated in any systematic way? Case studies, designed to capture the first hand experiences of key personnel in both VAS adopters and non-adopters would enrich understanding of the issues raised by these questions and shed more light on the roles and relative importance of both societal factors and VAS information content in VAS disclosure policies. The topic is one where oral histories could still be obtained.

Second, the VAS provides an opportunity for researchers to pursue the idea of comparative international accounting history proposed by Carnegie and Napier [1996, 2002]. While the UK's experience with the VAS was short-lived and voluntary in nature, in other countries events have unfolded differently. In continental Europe there is evidence of a more enduring incorporation of the VAS in financial reporting [Maitre, 1978; Jaggi, 1980; Dijksma and Van der Wal, 1984; Rundfeldt, 1985]. In the USA, despite some advocacy for the VAS [Meek and Gray, 1988] it has not emerged as a prominent practical feature. Studies of the synchronic, parallel and diffusion types [Carnegie and Napier, 2002] would all be possible on the VAS and would enhance explanation of the significance of both societal circumstances and information content in the historical development of financial reporting.

Third, a more analytical study of the market relevance of UK corporate VA information may repay further investigation. No market based analytical work has been done on VA in the UK but the same is not so of the USA [Riahi-Belkaoui, 1996]. While the voluntary disclosure of the VAS had not been a significant feature of financial reporting in the USA, it is possible to reconstruct the information in much the same way as data was produced in this paper. The results of VA based research of this type in the US have shown that:

> . . . a value added-based model has a better association with stock returns than an accounting profit-based model . . . market return is better explained by value added than either earnings or cash flows . . . value added accounting information can supply considerable explanatory power of market risk beyond that provided by earnings or cash flow measure, especially at the individual firm level . . . [Riahi-Belkaoui, 1996, pp. viii-ix].

Similar analyses would now be possible using VA for the UK data reconstructed from corporate annual reports in the manner adopted in this paper for the period 1994-2003. If the measure proves to have significant predictive worth then it may be that users will renew their interest in the explicit disclosure of the VAS and a new chapter will open on the history of the VAS in the UK.

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APPENDIX 1

The Value Added Statement

	£	£
Sales		x
Bought-in materials and services		(x)
Value added available for distribution		x
Applied in the following way		
To pay Employees		
Wages and related employers' costs		x
To pay Providers of Capital		
Interest on Loans	x	
Dividends to Shareholders	x	
		x
To pay Government		
Corporation Tax		x
To Provide for Maintenance and Expansion of Assets		
Depreciation	x	
Retained Profits	x	
		x
Value Added		x

Source: Based on the format illustrated in *The Corporate Report* [ASSC, 1975]. A gross basis of VA computation is used.