The voluntary disclosure of the value added statement in annual reports of Italian listed companies

Dobrovolné zvěřejňování výkazu o přidané hodnotě v italských registrovaných společnostech

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Abstract: The paper examines some of the theoretical issues regarding the publication of the value added statement as a voluntary disclosure in the process of accounting communication. The social and economic motivation to use value added reporting is linked to the general process of disclosing financial information in a certain business and cultural environment. In this framework, a question arises about the possible role of the value added statement as a way of accounting communication in the global economy. A survey of 211 published financial statements for the fiscal period 2003 of Italian listed companies shows that the publication of the value added statement in the annual reports is a marginal phenomenon. However, the industrial and services firms voluntarily present in their annual report and income statements rearranged to expose the (industrial) value added by only looking at the production perspective, with a possible interpretation in terms of cost efficiency.

Key words: value added statement, annual reports, voluntary disclosures, Italian listed companies

Abstrakt: Práce zkoumá některá teoretická východiska týkající se publikování výkazů o přidané hodnotě jako dobrovolné informace vycházející z účetnictví podniku. Socio-ekonomická motivace využití výkazů o přidané hodnotě je spojena s obecným procesem zveřejňování finančních informací o určitém podniku a s kulturním prostředím. V rámci tohoto zkoumání je diskutována otázka o možné úloze výkazu o přidané hodnotě jako součásti účetní komunikace v globální ekonomice. Přehled 211 publikovaných finančních zpráv italských registrovaných společností za účetní období roku 2003 ukazuje, že zveřejňování údajů o přidané hodnotě je v rámci výročních zpráv pouze marginální záležitostí. Průmyslové podniky a podniky služeb nicméně dobrovolně předkládají své výroční zprávy a výkazy o příjmech upravené tak, aby ukazovaly přidanou hodnotu z produkčního hlediska s možnou interpretací z hlediska nákladové efektivnosti.

Klíčová slova: výkaz o přidané hodnotě, výroční zprávy, dobrovolné zveřejňování, italské registrované společnosti

The concept of value added historically can be traced back to the theoretical and technical attempts to measure national income[1]. Therefore, the origin of that measurement is in the context of national accounts emphasizing the production side of the whole economy: the sum of the value added in different sectors (agriculture, industry, and services) net of duplication[2]. If we accept the idea that one of

[1]"Prior to the World War II, economic statisticians in the major industrial countries developed three different but related methods for measuring national income. These were termed the (1) net product, (2) net income, and (3) final sales methods. ... The net product approach depended for the most part on data relating to production by industrial activity. Thus, data on agricultural output, prices, and costs were used to generate the net output produced by agriculture. Similarly, censuses of manufacturing were used to determine the value added in manufacturing industries" (Ruggles 1992: 3).

[2]"Standardized national accounts provide a coherent macroeconomic framework covering the whole economy, which can be crosschecked in three ways. From the income side, they are the total of wages, rents and profits. On the demand side, they are the sum of final expenditures by consumers, investors and government. From the production side, the sum of value added in different sectors (agriculture, industry and services) net of duplication" (Maddison 2005: 2).

the objectives of the economic system is to generate a high level of production of economic goods and services to satisfy human needs, then the value added is one the tools available for measuring the accomplishment of that objective. In this sense, the value added can be considered a performance indicator of a country's economic success: the gross national product. The gross national product can be used as a surrogate appraisal of the level of satisfaction of human needs in a specific economic system, the level of well- being in a society, in connection with the concepts of economic progress and growth. However, the shortcomings of gross national product are well known, and several researchers have proposed alternatives that address them (Stiglitz et al. 2009).

If we shift our attention from the macroeconomics perspective to a single business unit, it appears reasonable that a firm's accounting language could use value added reporting in symmetry with national accounts. "If accounting is to measure the contribution of the enterprise to society, in addition to its profitability, many of the concepts developed in the national income analysis can be used to advantage in the preparation of value added statement. ... What is proposed is a statement, to be prepared by the enterprise, to provide more information to the various participants than they obtain at the present time from either the income statement or the balance sheet, which would still be prepared as they are presently" (Suojanen 1954: 395–396). The underlying idea is that the enterprise is an institution aimed at satisfying human needs (Zappa 1927: 30). "Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. ... He intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention". This classical quote, extracted from Adam Smith's *The Wealth of Nations* (Smith 2009: 264), suggests that the publication of a value added statement could be interpreted as a symptom of awareness in pursuing a public interest by the enterprise. The concept of value added would be adapted to the single business unit, which in this way could have an additional tool for the management control and financial reporting. This paper intends to discuss the theoretical motivation for publishing a value added statement. Moreover, an empirical analysis is conducted on the annual reports of Italian listed companies to appraise the use of the value added measurement in the Italian accounting language.

THEORETICAL MOTIVATION FOR DISCLOSING THE VALUE ADDED STATEMENT

The debate on the role of value added among accounting measurements has received attention in the last fifty years, with a particular emphasis in the 1970's and 1980's (Van Staden 2003: 228–229). The analysis of value added can be classified in at least three fields of research: management control (internally oriented), financial reporting (externally oriented), and social reporting (externally oriented) (for a review, see Evraert and Riahi-Belkaoui 1998).

The first field emphasizes the role of value added as an indicator of efficiency among the tools to appraise the "economic productivity" (Sutherland 1956; Ponzanelli 1967: 186). Therefore, the value added measurement is used as one of the performance indicators in the management control system, particularly in the industrial sector, with the main purpose of controlling costs and the performance of productive factors, especially labour. It is of interest to note that an empirical research conducted in a developing country (Nigeria) on the perceived usefulness of the value added statement shows its main role to be in measuring productivity (Malgwi and Purdy 2009). In this context, the expression "industrial" value added can be appropriated, with the potential use also in the business strategy supporting the corporate decision making process (Rispoli 1983).

The second field of analysis looks at value added reporting as additional information to the traditional income statement, which is focused on earnings and net profit. In this area, we see that the published financial statements orient toward several stakeholders (or the society in general) instead of only the stockholders (Cassandro 1992: 143–144). An externally oriented value added statement can synthesize the contribution of the whole business in different sectors, not only the industrial one. In this context, one suggestion is to add the value added statement to the traditional (prescribed by the accounting standards) income statement in annual reports (Meek and Gray 1988). Another approach goes further, suggesting the adoption of a value added accounting system in conjunction with a concept of the enterprise as a centre (or a community) of interests and human beings (Ardemani 1986; Catturi 1994). The value added measures of performance can explain the firm value on the market better than the earnings and cash flow measures (Riahi-Belkaoui 1996).

The third approach considers the value added statement as an embryonic form of social reporting (see, for example, Matacena 1984). It is worth noting that the label "value added statement" in the English version of the International Accounting Standard (IAS 1) (2004) is translated into Italian by the words "*bilancio sociale*" (social reporting). It is a means of communication that in the overall business reporting process is added to the traditional and official annual report.

The empirical analysis presented in this paper considers the presence of value added measurements in the certified annual reports required by the regulation. This means that the value added statement is interpreted as additional information to give a true and fair view of financial performance, even though there could be "social motivation" for voluntarily disclosing such information in annual reports.

This motivation can be linked, as explained in the introduction, to the social economic root of the value added concept as one of the indicators of the wealth produced and distributed to achieve, in theory, a general well being. If we adhere to such an idea, the reasons for publishing the value added statements could be found in social theories. In this context, we can mention the "stakeholder theory" and the "legitimacy" theory (Gray et al. 1995: 52–56; Van Staden 2003).

The reference to the stakeholder theory implies a vision of management that, from the strategic perspective, tries to satisfy the expectations of several stakeholders that contribute in different ways to the survival and growth of a business entity (Freeman 1984; Coda 1988: 11–21). There is a link with each group of interest, including the public at large that expects some form of respect and remuneration. Thus the managing problem is to find a way of "dialogue" between a business entity and its stakeholders. This theoretical construction can also be seen as changing of terminology: the "straggle" and "conflict" observed in the everyday business life can be changed to the "dialogue" and "convergence" of conflicting interests for the theoretical construction (Masini 1979: 720).

The legitimacy theory suggests that organizations change their behaviours to influence the perception of the organization in the eyes of the stakeholders. In this way, the business entity can obtain the support without which it would be more difficult to survive and grow (see, for example, Patten 1995). In this context, companies can be analyzed under a political dimension (subject to public pressure) in an attempt to address the eventual threats to their legitimacy. For example, during the 1970s, the Italian state-owned companies led to the vision of value added as a performance measurement with social impact, thus legitimizing their role in the Italian economy (Catturi 1971).

From the two social perspectives mentioned above, it follows that the business unit or the management has a "duty" or an "interest" to report to several interest groups. As stated in the IAS 1 (2004: par. 7), "the objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flow of an entity that is useful to a wide range of users in making economic decisions. ... This information ... assists users of financial statements in predicting the entity's future cash flow and, in particular, their timing and certainty". From this definition, there follows a particular orientation of the business entity toward the "financial participants" or providers of finance (lenders and shareholders). Implicitly, other interest groups find a minimum of information to satisfy their needs in the financial statements.

A value added statement can be seen as an attempt to explicitly widen the interest group audience for business performance. This statement describes how the wealth produced has been distributed among different interest groups: workers, capital providers (lenders and shareholders), public administration including the public at large, and the organization (company) itself considered as an autonomous entity.

Among the different groups of interest that have received attention in connection with the publication of the value added statement, workers play a prominent role. This idea is also expressed in the International Accounting Standard (IAS 1, 2004: par. 10), which states that "many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group". It is worth noting that in the 1997 version of the IAS 1 (1997: par. 9), "enterprises are encouraged to present such additional statements if the management believes they will assist users in making economic decisions". In the following version of the IAS 1 (starting from the revision of 2004), this encouragement disappeared, specifying that the environmental reports and value added statements presented outside financial statements are outside the scope of the International Financial Reporting Standards (IFRSs). In this sense, the publication of the value added statement is "pushed" outside the official annual reports toward the corporate social reporting.

A significant experience regarding the publication of the value added statement is represented by the UK. In 1975, the Accounting Standard Steering

Committee (ASSC) published The Corporate Report containing the suggestion for British companies to present the value added statement in addition to the traditional profit and loss account. The motivation was explained in this way: "the simplest and most immediate way of putting profit into proper perspective vis-à-vis the whole enterprise as a collective effort by capital, management and employees is by presentation of a statement of value added (that is, sales income less materials and services purchased). Value added is the wealth the reporting entity has been able to create by its own and its employees' effort. This statement would show how value added has been used to pay those contributing to its creation. It usefully elaborates on the profit and loss account and in time may come to be regarded as a preferable way of describing performance. … We accept the proposition that profits are an essential part of any market economy, and that in consequence; their positive and creative function should be clearly recognised and presented. But profit is a part only of value added. From value added, there 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: 49). In this way, the annual report would be enriched by a wider perspective more suitable for dialoguing with different stakeholders, mainly the workers, which would be an attempt to open financial statements to different users. In general, in the European context, at the end of the 1960s and 1970s, there is a growing interest in business entities by the public, as witnessed by the debate about the corporate social responsibility. As a consequence, external accounting information is perceived more and more as a "public good", leading to a general process of renovation and constitution of the accounting rules and institutions in different countries (see, for example, Di Pietra 2002).

The relationship between accounting and its context, with reference to the UK, is described by Burchell et al. (1985), who analyze the role played by the value added statement. The basic question goes beyond the calculation problem of value added and involves the motivations behind the great interest in the value added statement in the UK at the end of the 1970s. One of the reasons lies in the growing debate about "efficiency", "productivity" and the participation of workers in the business life of the company. The conjugation of "efficiency" and industrial "democracy" seemed possible through the change of language and the change of focus: from profit to value added, and from shareholders to stakeholders. Thus a political and social background creates the space for the emergence of the value added statement. In a similar way, the political change in the UK leads to the decline of the role played by the value added reporting in the social relationship[3]. The UK experience seems to support the thesis of a political and legitimacy-based analysis in explaining the publication of the value added statement. If there are no problems of the "legitimacy" and "political costs", the British experience tells us that companies stop disclosing the value added statements.

Following this argument, in general, the future of the value added statement as an additional information or as the main performance statement is linked to the evolution of the political, social and economic context.

Giving a social meaning to financial accounting, Burchell et al. (1985: 388) state that "value added therefore does not simply represent the company as a cooperating team; it also is seen as playing a positive role in the creation of this cooperative harmony. … In such a context, accounting is seen as a means of vision. A change in accounting implies a change in what is seen and hence a change in action. Social harmony might therefore not so much be revealed by value added as constituted by it". Following this mental trajectory, the use of the value added statement could facilitate the affirmation of a business unit opened to the public at large, trying to satisfy the needs of different interest groups (Catturi 2003: 542). Moreover, in the growing global economy, there is literature that has argued that multinational companies should produce a local value added statement in their host country (Rahman 1990). For example, Rahman and Scapens (1986) show a clear indication of the over-pricing of pharmaceutical imports from related sources by multinationals in Bangladesh; in this way, profits (or in our approach the value added) could be reduced in the host country through a manipulation of transfer prices (for whatever reason).

[3]"With the election of a new Conservative Government in 1979, the three arenas of the value added constellation were suddenly ruptured and transformed. Different policies were introduced for the management of the national economy. Industrial relations came quite quickly to be seen and conducted in fundamentally different terms. And albeit with a lag, the specification of accounting standards was no longer seen to be subject to so real a possibility of government intervention. In these ways, the specific significances which had been attached to value added were no longer salient. With its context so radically changed, the functioning of value added in social relations started to approximate to its technical marginality. Value added started to become a phenomenon of the past" (Burchell et al. 1985: 405).

VALUE ADDED CREATION AND DISTRIBUTION

In general terms, value added was defined as the wealth created (or contributed to) by the firm through the utilization of its key productive resources (Suojanes 1954; Van Staden 1998). However, this definition does not give a detailed enough description of the method to calculate the value added. Empirical analysis conducted in different economic and social contexts shows that there are differences in the calculation process and in the formal representation of the value added (Morley 1979; McLeay 1983).

Different methods of calculation and representation are among the factors that limit the emergence of such forms of the performance reporting. For example, the ASSC (1975) advised that a minimum of eight items be included in a statement to consider it a value added statement: sales (S), bought-in materials (B), depreciation (Dep), dividends (Div), interest (I), salaries and wages (W), taxation (T), and retained earnings (R). Therefore:

Value added = S – B

The distribution of value added
= Dep + W + I + T + Div + R

The basic idea is to consider the incremental contribution (in value) by a firm over the goods and services received from outside (intermediate goods). As a consequence, from the total costs incurred by a business entity, subtracting the costs for (external) material and services, we should have the value added by the firms. From this perspective, the profit is just one of the costs, even though it is determined in a residual way. The basic question in this calculation process is the criterion needed to classify a "key productive resource". The traditional distinction is between external and internal factors. Another way to address this issue is the distinction between the structural (key) factors and non-structural resources (Catturi 1994). This distinction is based on the destination that a resource has in a business entity. Structural resources are those permanently (or in the long run) linked to the firm, regardless of the legal formal property (prevalence of substance over form). These resources constitute the organization's structure that is activated (utilized) by putting the non-structural factors (raw materials and services) in the production process.

This reasoning leads to the value added measurement in a direct way, through the sum of the remunerations of structural resources (earnings or cost approach in the macroeconomics language). A first structural resource can be found in the fixed tangible and intangible assets; its "remuneration" can be considered in the annual depreciation and amortization and interpreted as the portion of value added retained by the company. In this respect, it is worth noting that we can measure the net value added excluding depreciation and amortization of the fixed assets. Moreover, as already mentioned, following the principle of substance over form, what counts is the substantial destination of the asset as a structural element of the business organization.

Another structural (key) resource is the contribution of the employees who through their abilities and knowledge add value in the production process. In consequence, salaries, wages and other benefits can be seen as a distribution of value added devoted to that key resource.

A business entity can operate in a certain context beside the general environment surrounding the local or global economic activity because of the legislative and institutional setting. In this sense, we can see the role of the state, local public entities, and other public institutions as a proxy for the "public environment" (including political, social, and cultural factors), which is a key productive resource for a firm. Accepting this approach, taxes and other payments to the public administration can be seen as a distribution of value added. In the case of voluntary donations for cultural and social purposes, the share of value added devoted to the public sector would be further increased.

The financing sources of a firm come mainly from lenders and shareholders, so these two groups supply the capital considered to be a key resource. Providers of finance receive remunerations (financing costs) with different names, both interest payments and dividend distribution depending of the nature of the suppliers. However, the conceptual meaning is in the value added distribution to the providers of finance, or, in other words, the financial participants in the cooperative effort of value creation. Regarding the question of the retained earnings, by treating the company as a participant in the allocation of value added in its own right, the retentions can be interpreted as devoted to the company itself.

In another perspective (flow of product approach in the macroeconomic language), value added can be defined as the value created by the activities of a firm and its employees (key productive resources), i.e., sales less the cost of bought goods and services (non-structural resources). With this issue, there is the question of when to recognize the new value: when it is realized or during the process of production (McLeay 1983: 41–46). This calculative problem is not addressed in this paper, with the awareness that "it is possible that firms view the value added statement not as a report on another economic aggregate but merely as a rearranged version of the profit and loss account from which accounting conventions have been uncritically transferred to the value added measurement" (McLeay 1983: 43–44). This choice is motivated by two reasons: (a) the value added statement as a mere rearrangement of the traditional income statement is a first step in the emergence of the value added reporting, and (b) the use of the conventional accounting standards for financial reporting justifies the empirical analysis of the published accounts, without adding a new set of accounting measurements. In this framework, the idea of emphasizing sales instead of the value of production is considered preferable because the value creation needs to be recognized by the market. In other words, the value added needs an economic and social legitimization (Catturi 1994: 172).

The activities contributing to the creation of value added are naturally linked to the core business, but also, if applicable, to the secondary business, financial investment and, eventually, extraordinary business events. The new wealth created, regardless of the activities in the given period, can be considered a "global value added": a wider concept considering only industrial production (industrial value added). The informative advantage of this approach is in the total measurement of value creation from the core business and other activities. The theoretical limit of this approach is that not all items considered in the calculation resemble the value creation process as traditionally defined, utilizing the key productive resources. The global value added shows the whole value available for distribution to different stakeholders (the structural key resources), including the company as a participant in the allocation of value added in its own right.

DISCLOSING THE VALUE ADDED STATEMENT IN THE ITALIAN CONTEXT

This empirical analysis is employed to show the use of the value added measurement in the current practice of financial reporting in the Italian context. For this purpose, we examined the consolidated annual reports as of December 31, 2003, including the financial statements, the notes to the accounts, and the mandatory Report of the Board of Directors (Operating and Financial Review or Management's Discussion and Analysis) of the Italian listed companies. The sample consisted of 211 firms, all Italian quoted companies in the Italian stock exchange. From data available on the web site of the Italian stock exchange (www.borsaitaliana.it), the total number of listed companies as of December 30, 2003 is 225, including 6 foreign and 5 suspended and 3 firms with unavailable annual reports. Excluding these companies, we obtain a sample of 211 companies, representing 99.79% of the market capitalization. Moreover, for 17 companies, we analyzed separate financial statements because the consolidated statements were not available, and in 11 cases, the closing date of the annual report was between September 30, 2003 and June 30, 2004.

The first issue under investigation is the presence of a value added measurement in the annual report. Table 1 shows that the majority of Italian companies (about 62%) do not leave traces of value added in their annual reports, meaning that they did not mention the value added concept as supplementary information to give a true and fair view of their financial performance. It is worth noting that five companies operating in the banking and insurance sector showed a reference to a concept of value added different from the definition accepted in this paper; as a consequence, those cases were classified as ones not presenting the value added information. The concept of value added in these banking and insurance companies is linked to the "embedded value" and its annual increment. As stated in the Report of the Board of Directors accompanying the annual report of the *Banca Fideuram* (December 31, 2003: 29), an embedded value is an actuarially determined estimate of the value of a company, excluding any value attributable to a future new business. Embedded value earnings, defined as the change in the embedded value over a period, after adjustment for any capital movements such as dividends and capital injections, provide a measure of the company's performance during the period in terms of its ability to generate value. Moreover, a part of the literature refers to the concept of "economic value added" as a performance indicator (see, for example, Biddle et al. 1998).

Table 1 shows that about 38% of the companies refer to a value added measurement, however, this does not mean that they published the value added statement, as previously discussed. Indeed, the cases in which the value added was mentioned in the annual report can be classified as follows:

- value added among other financial performance ("financial highlights") or without representation in a statement;
- value added as one of the results in a rearranged income statement;
- value added statement, showing the wealth created and its allocation to the stakeholders (key productive resources).

Table 2 shows the different ways of reporting the information about the value added, including the cases in which no information was disclosed. From that table, we can see that the prevalent practice is to present an income statement in which the value added is only one of the items exposed (34.13%). Moreover, it is evident that the value added statement, properly defined, is marginal (1.42%) in comparison with the findings of other international surveys. For example, in 1997 in South Africa, about 50% of the quoted companies in the industrial sector presented a value added statement in their annual reports (Van Staden 1998). In the UK, during the period of high diffusion in 1980, up to 40% of major companies published the value added statement; this percentage declined to 6% in 1991 (Gray et al. 1995: 11).

Regarding the rearranged income statements (to show the value added), the title of the statement uses the term "value added" explicitly only in one case, while expressions such as the "condensed consolidated income statement", the "consolidated rearranged income statement", the "synthesis of income statement", and the "table synthesizing earnings" are used in the other cases. Statements using these terms on their performance statements do not put emphasis on the value added measurement. However, beyond the question of terminology, the rearranged income statement shows the value added as one of the items in the performance representation. This statement contains the following information for a company operating in the industrial and service sectors:

– Sales
– Value of production
– Bought-in materials and services
– Value added
– Salary and wages (Labour costs)
– Operating gross margin (Ebitda)
– Depreciation, Amortization, and Provisions
– Operating margin (Ebit)
– Financial income and charges
– Extraordinary income and charges
– Profit (loss) before taxes
– Taxes
– Net profit (loss)

This model of presenting the results of operations is substantially similar to the financial statements proposed for industrial firms by the National Commission for Companies and the Stock Exchange (Consob) in 1987 (Consob Resolution No. 2838 of 8 April 1987) for the report on the company's performance in the first half of the year. This resolution (superseded in 2004) has been criticized with reference to that performance statement because the value added is incidentally exposed as one of the items (Gabrovec Mei 1992: 242).

It is evident that this exposition does not resemble a value added statement, properly defined. However, we can see that the Italian quoted companies show the industrial value added in the gross configuration (before amortization and depreciation). This evidence is further supported by analyzing the company' behaviour depending on the sector of activity. Table 3 shows the behaviour of companies operating in the financial macro sector, following the classification of the Italian stock exchange, including banking, insurance, real estate, and financial services companies. The same table shows the behaviours of firms operating in the industrial and services macro sector, following the classification of the Italian stock exchange,

Table 1. Disclosure of value added measurements in the annual reports of Italian listed companies

	No.	%
Companies not disclosing value added measurements	130	61.61
Companies disclosing value added measurements	81	38.39
Total	211	100.00

Table 2. Ways of disclosing the value added in the annual reports of Italian listed companies

	No.	%
Companies not disclosing the value added	130	61.61
Value added among other financial performance information (financial highlights) or without representation in a statement	6	2.84
Value added as one of the results in a rearranged income statement	72	34.13
Value added statement	3	1.42
Total	211	100.00

including food and beverage, car industry and motor, chemical, buildings and construction, electrical, plant and equipment, media, oil and minerals, public utilities, textile, transportation, and tourism. In the comparison, it is clear that the value added statement rearranged to show the value added is typical of the industrial sector, with about 56% of companies presenting some kind of information about the value added. This evidence supports the idea that the practice of disclosing a rearranged income statement showing the value added is historically linked to the Consob Resolution of 1987 mentioned previously.

Turning to the value added statement, we observe that this information is inserted in the Directors' Report, specifically, in the section devoted to the social and sustainability information. Even thought there are only three cases, it is of interest to highlight some differences in the value added reporting:
- in one case out of three, the net value added available for allocation is shown;
- in two cases out of three, social contributions for employees' pensions are allocated to the State (public sector) instead of as a component of the labour remuneration;
- in one case out of three, only the distribution of the wealth created for different stakeholders, and thus only the lower part of the value added statement, is shown;
- in one case out of three, information provided covers three accounting periods;

Table 3. Ways of disclosing the value added in the annual reports of Italian listed companies on a per macro sector basis

	Financial		Industrial	
	No.	%	No.	%
Companies not disclosing the value added	70	93.33	60	44.12
Value added among other financial performance information (financial highlights) or without representation in a statement	0		6	4.41
Value added as one of the results in a rearranged income statement	4	5.34	68	50.00
Value added statement	1	1.33	2	1.47
Total	75	100.00	136	100.00

Table 4. Value added and stakeholders (extracted from Telecom Italia Annual report 2003)

	€ millions
Sales	30,850
Value of production	31,595
Bought-in raw material and services	(13,018)
Value added	*18,577*
Capital grants for telecommunication activities	56
Other revenues and costs	(1,206)
Adjusted value added	*17,427*
Allocation of Value added	
Employees	3,376
State	2,506
– social contributions for employees' pensions	1,308
– direct taxation (corporate income tax)	1,014
– indirect taxation	128
– capital grants for telecommunication activities	56
– dividend to the Ministry of Economy	0
Shareholders (excluding the Ministry of Economy)	1,049
Providers of loan capital	3,146
Retained by the company (depreciation, amortization, provisions)	7,350

– in one case out of three, the percentage repartitions of the value added are displayed in the statement.

These elements confirm the issue of missing standards for the value added statement, with consequences in terms of comparison. For example, there is a difference in the calculation of the percentage distribution of the value added, as in the case of the *Banca Popolare di Cremona*. The company's annual report (December 31, 2003: 68) shows that 77.5% of the net value added is allocated to the employees, but the same percentage calculated on the (gross) value added declines to 51.7%.

Moreover, the value added measurement in the rearranged income statement is quantitatively different from the global (or in other words, "adjusted") value added exposed in a value added statement appropriately defined, including the effects of the secondary, financial, extraordinary, and sector activities, as shown in the extract from the *Telecom Italia* annual report 2003 (see Table 4).

With respect to the value added exposition, starting from the value of production or from sales, Table 5 shows the prevalent practice of referring to the value of production. With respect to this behaviour, it is of interest to note that the income statement prescribed by the Italian civil code starts from the value of production; consequently, for companies operating in the industrial sector, the exposition format is more likely to show the value added in the rearranged income statement starting from the value of production. Considering the matching principle, this difference could be interpreted just as a choice of emphasis and not as a difference in quantitative measurement.

Finally, the marginal role of the value added statement in the annual report of Italian companies does not exclude the fact that, in some cases, this document is provided outside the official annual report, in the context of a separate "social reporting" ("sustainability reporting" or other similar labels). In some cases, the annual report invites the reader to look at a separate social report. This behaviour is not investigated in this paper. However, some evidence shows that in 2005, from a sample of 218 Italian listed companies, 24 (11%) published a kind of social or environmental report, of which 6 (2.75%) disclosed this in the annual financial report (AA.VV. 2006: 8–9).

Table 5. Value added reporting starting from the value of production or sales

	No.	%
Value of production	53	65.43
Sales	22	27.16
Not disclosing a statement	6	7.41
Total	81	100.00

CONCLUSIONS

The interest in the value added accounting could have different motivations: management control, financial reporting, and social reporting. In different periods and countries, such motivations have emerged in connection with the cultural, political and social contexts.

This paper addresses the issue of the voluntary disclosure of the value added statement in annual reports. In the Italian context, 50% of the listed companies in the industrial sector present an income statement rearranged to expose the industrial value added as one of the items in the performance statement. This performance indicator is usually used as an efficiency measure, in particular for the employees. Indeed, this behaviour is substantially absent in the banking and insurance companies; consequently, the previous percentage declines to about 34% when referring to the whole sample.

The value added statement showing the wealth created and its allocation to the key productive resources is marginally exposed in the annual reports (1.42%). Italian companies do not use the value added reporting to improve the true and fair view of their financial position and the results of the year or for describing their performance during the period. This evidence does not exclude that the value added statement could be disclosed in a separate social or sustainability reporting, sometimes recalled by the report of the board of directors. Even though this behaviour was not addressed in this paper, disclosing the value added statement outside the official annual reports, for example, in a separate social report, is in line with the implicit suggestion of the IAS 1 (2004). This newer version, compared to that of 1997, does not encourage the presentation of a value added statement in addition to the traditional financial statement if the management believes it will assist users in making economic decisions.

At the same time, it is worth noting the content of the European Directive 2003/51/EC of June 18, 2003, which amended accounting directives and provided for a change in the Directors' Report: "to the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters". These non-financial key performance indicators could generate high administrative costs, so the Member States may choose to exempt small companies from the obligation regarding non-financial information. In this context of a growing requirement of disclosure, the value added statement might provide an informative advantage with limited marginal costs because this performance report can be disclosed with figures already recognized in the income statement. In this way, an additional financial performance statement with social motivation would be available for the reader of annual reports, contributing to the vision of a business entity as a cooperative effort of several stakeholders or key (structural) productive resources. In the case of multinational companies, the next step could be the publication of the local value added statements in the companies' host countries (Rahman 1990).

Giving social meaning to financial accounting and following the stakeholders and legitimacy theories, this paper shows a low level of the "legitimacy" problems and "political costs" for the Italian listed companies, at least using the value added statement as an indirect indicator of those features. Following this argument, the future of the value added statement as additional information or as a main performance statement is linked to the evolution of the political, social and economic context.

Among the limitations of this paper is that the observations are from one single year; moreover, further investigations of the firms' characteristics and international comparisons could contribute to a better understanding of the possible role of the value added statement in accounting language, both in the national and international context.

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