

VALUE ADDED STATEMENT (VAS) OF MINING AND METALLURGICAL COMPANIES IN POLAND

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The article presents the concept of value added and value added statement. That report may provide an additional source of information for the company's stakeholders such as employees, capital donors, State Budget and the company itself. According to the theory of stakeholders and corporate social responsibility the objective of the company is to deliver value to all stakeholders, not just shareholders. Hence the need for disclosure of information about the value added generated for all stakeholders. For internal analysis and for comparison purposes, several indicators based on value added should be elaborated. Calculations were carried out on the example of two Polish companies of the metallurgical and mining sectors for the years 2011-2013. This allowed for the evaluation of these two companies, to show the differences in the distribution of value added for stakeholders and evaluation of selected indicators.

Key words: metallurgy, mining, stakeholders, value added, corporate social responsibility, Poland

INTRODUCTION

The value added represents the contribution of an entity to the National Product of a country and thus the income generated by the entity and its stakeholders. Value Added (VA) generated by a company or more specifically Value Added Statement (VAS) presents the distribution of Value Added among the company's stakeholders.

Business management strategies of traditional industries, like mining and metallurgy are constantly changing. The objectives of the performance of enterprises in these sectors evolve from theory of maximizing accounting profit to stakeholder theory, according to which sustainable growth of the company can be achieved by meeting the needs of all stakeholders.

Stakeholders are groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions. The concept of stakeholders is a generalization of the notion stockholders, who themselves have some special claim on the firm [1].

These companies have to construct and understand strategy for each group of stakeholders and must assess this strategy in real terms. For each major stakeholder, those managers responsible for stakeholder relationship must identify the strategic issues that affect that stakeholder and must understand how to formulate, implement and monitor strategies for dealing with that stakeholder group [2].

The main stakeholder groups of metallurgical and mining companies include employees, financial partners (banks, insurance companies and financial services), local community and civil society in general, government, clients, suppliers etc. These groups require reliable and detailed information on the realization of strategic objectives in the area of social, economic and environmental situation.

Currently published financial statements do not cover the information needs of all stakeholder groups and in this circumstances are insufficient as a source of information.

All companies including those from metals and mining sectors need additional appropriate systems to measure and control their performance and to show their attitude to Corporate Social Responsibility in order to assess whether they are responding to stakeholder concerns in an effective way and in order to communicate and demonstrate the results achieved. These new evaluation and reporting systems should have the purpose of broadening, integrating and improving the traditional financial/economic approaches to the corporate performance measurement, taking stakeholder needs and requirements into due account [3].

The purpose of this paper is to present the financial aspects of integrated reports on the example of the surveyed companies. In particular, the value added as a measure of the value generated for the main stakeholders group has been shown. The article contains a methodology for estimating the value added, construction of value added statement and several useful indicators that allow Boards to make optimal and effective managerial decisions. Calculations are made for two Polish companies from metallurgical and mining sectors.

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CORPORATE SOCIAL RESPONSIBILITY AND VALUE ADDED STATEMENT

The relations with stakeholders are one of the aspects of Corporate Social Responsibility (CSR). There are many definition of CSR. One of them defined by EU says that it is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders [4].

In 15-th April 2014 the European Parliament adopted Directive modernising the disclosure of relevant and useful non-financial information by large companies. Companies concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on boards of directors.

The Directive gives companies significant flexibility to disclose relevant information in the way that they consider most useful, or in a separate report. Companies may use international, European or national guidelines which they consider appropriate (for instance, the UN Global Compact, ISO 26000, or Global Reporting Initiative GRI). More on this subject in the article [5].

According to the GRI 2000-2011 mining and metals sector supplement Version 3.0/ MMSS the economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The Economic Indicators illustrate:

- flow of capital among different stakeholders and
- main economic impacts of the organization throughout society.

Financial performance is fundamental to understanding an organization and its own sustainability.

Disclosure on Management Approach contains following Economic Aspects:

- Economic Performance;
- Market Presence;
- Indirect Economic Impacts.

Economic performance contains four indicators presented in Table 1.

Table 1 **Indicators of economic aspects according to GRI 3.0 [6]**

	Aspects - Economic Performance
EC1	Direct economic value generated and distributed
EC2	Financial implications and other risks and opportunities for the organization's activities due to the climate change
EC3	Coverage of the organization's defined benefit plan obligations
EC4	Financial assistance received from government

Direct economic value generated and distributed include revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments [6]. Equivalent to the direct economic value is the concept of *Value Added*.

Information about value added (VA) provides not only economic but also social information by identifying the portion of output which goes to each participant of the process of a company, say its stakeholders. Thus, VA is a much broader performance measure than net income, because it is not focused on and biased by the viewpoint of the equity-capital provider but it reveals the "income of the entity" which belongs to, and has to be distributed to, all stakeholders. Therefore the underlying "concept of the firm" is a coalition of various stakeholders [7].

Knowledge of only the value added is insufficient. Meeting the needs of stakeholders requires to disclose their participation in the distribution of VA. Statement of value added meets these requirements, because it shows not only the level of VA but also its distribution among the main groups of stakeholders, namely employees, donor of capital, State Budget and the company itself.

Value Added Statement (VAS) is now being considered as a supplementary measure of judging the corporate performance than conventional measures based on traditional accounting system of an enterprise. VAS provides an additional information in respect of the wealth (value) generated by an enterprise during an accounting period and distributed among the different stakeholder groups [8].

VALUE ADDED STATEMENT OF MINING AND METALLURGY COMPANIES IN POLAND

Value added can be calculated through the modification of retained profit formula, which is obtained after subtraction from sales bought-in-materials and services, depreciation, wages, interests, dividends and taxes [9]:

$$R = S - B - Dep - W - I - Div - T \quad (1)$$

where:

R – retained profit,

S – sales,

B – bought-in-materials and services,

Dep – depreciation,

W – wages,

I – interest,

Div – dividends,

T – taxes

Hence Value Added is calculated according to the following formula:

$$S - B = W + I + Dep + Div + T + R \quad (2)$$

or

$$S - B - Dep = W + I + Div + T + R \quad (3)$$

Depending on the approach, the VA calculated according to (2) is called *gross value added*, and according to (3) *net value added*. In this paper, the calculations are carried out on the basis of gross value added, which, it seems, is more commonly used.

VAS is obtained by modifying the profit and loss account. Equation (2) reflects the format of the VAS. Left side of (2) images the upper part of the VAS, where

the value of purchased materials and services is deducted from sale revenues, which shows gross VA obtained by the unit (Table 2). The right-hand side of this equation corresponds to the lower part of VAS (Table 3); it shows the distribution of the created value added between participants that generate this value.

Although the investigated companies are from different sectors, in both the same tendency can be seen, VA decreases in subsequent years (Table 2). This is due to the overall situation in Poland. Both GDP and Domestic VA for Poland have had decelerating growth in these years.

Table 2 Value Added of mining (A) and metallurgical (B) companies in Poland

	2011/mln. EUR		2012/mln. EUR		2013/mln. EUR	
	A	B	A	B	A	B
Sales	2 123	5 005	2 158	6 532	1 840	5 814
Material costs	544	164	655	1 416	618	2 277
Value added	1 579	4 841	1 502	5 116	1 222	3 536

Table 3 Distribution of Value Added for mining (A) and metallurgical (B) companies in Poland

Value Added Distribution	2011/mln. EUR		2012/mln. EUR		2013/mln. EUR	
	A	B	A	B	A	B
VA	1 579	4 841	1 502	5 116	1 222	3 536
Employees	718	838	871	1 118	834	1 134
Capital providers	75	686	162	1 422	94	506
Interest	8	12	8	36	22	33
Dividend	67	675	155	1 386	71	473
State Budget	186	606	121	980	56	784
Income tax	134	521	71	402	7	290
Taxes and other charges	52	85	50	577	49	495
The company	600	2 711	348	1 597	238	1 112
Depreciation	191	191	261	422	290	381
Retained earnings	409	2 519	87	1 175	-52	731

Table 4 Participation of stakeholders in Value Added of mining and metallurgical companies in Poland

Value Added Distribution	2011/ %		2012/ %		2013/ %	
	A	B	A	B	A	B
VA	100	100	100	100	100	100
Employees	45,45	17,31	58,01	21,85	68,26	32,06
Financial capital providers	4,75	14,18	10,80	27,80	7,66	14,30
State Budget	11,78	12,52	8,02	19,15	4,59	22,18
Company	38,02	55,99	23,17	31,21	19,49	31,46

Table 3 shows the “lower part” of VAS in monetary units (Euro). However, it seems that more clear to stakeholders and at the same time allowing comparisons to be made is the form of this report in the percentages of shares. This is illustrated in Table 4.

In Figure 1 it can be seen that the investigated companies have different policies. This is particularly evident in the case of employees. In the mining company generated value added for employees is at the level of 45,45 % in 2011 to 68,26 % in 2013. However, in the metallurgical company values are nearly halved; from 17,31 % in 2011

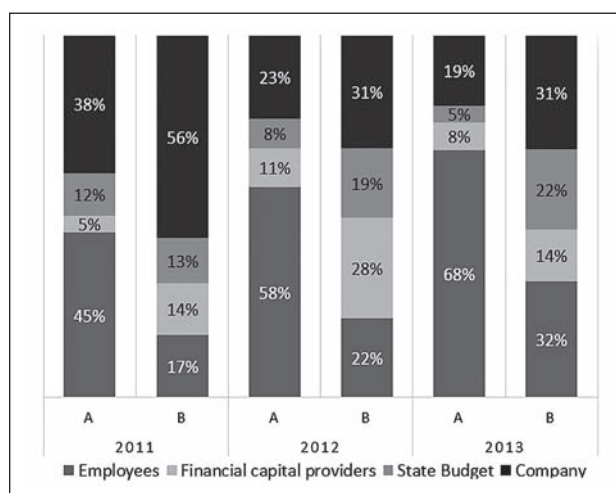


Figure 1 Distribution of value added in mining (A) and metallurgical (B) companies

Table 5 Structure ratios of Value Added

Structure ratios of Value Added	2011/ %		2012/ %		2013/ %	
	A	B	A	B	A	B
VA/Sales	74,39	96,72	69,62	78,32	66,40	60,83
Wages/VA	45,45	17,31	58,01	21,85	68,26	32,06
Depreciation/VA	12,10	3,95	17,37	8,24	23,71	10,77
Net profit/VA	25,91	52,05	5,80	22,96	-4,22	20,68

to 32,06 % in 2013. In both companies, despite the differences in the values, the trend is growing. We may notice that this happens at the expense of the value added generated for their own business (mainly in the form of retained earnings). In this situation, we see a downward trend.

Not the value added by itself but more particularly ratios which put value added in relation to other items are regarded as useful indicators and analytical instruments [10]. The most important structure ratios are presented in Table 5. The first one – VA/Sales (ratio of vertical integration) the bigger the better. In both companies the downward trend is seen. Three other indicators are used to evaluate parts of the different factors in production. They represent the relative intensity of different productive factors of a company.

Two examples of productivity ratios are shown in Figure 2. In spite of observed downward trend, metallurgical company have better values.

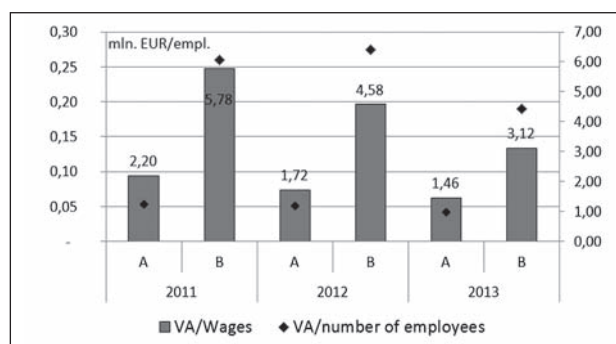


Figure 2 Ratios of productivity in mining (A) and metallurgical (B) companies

SUMMARY

Until recently, financial statements were the primary source of information about the financial condition of the company and its value. However, they do not take into account and do not show the participation of all stakeholders in the generated value. Hence the concept of calculating the value added and value added statement have returned. Such report reveals how the value generated by the company is distributed to its stakeholders. Additional information could be relevant indicators built on the basis of value added. It is expected that in connection with the dissemination of the theory of stakeholders and the need for corporate social responsibility reporting, more and more companies and businesses, including the metals and mining sector will publish the mentioned information.

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Note: The responsible translator for English language is Official Translator certified by the Ministry of Justice Agata Matuga. Katowice, Poland