

Managerial Finance

The Usefulness of the Value Added Statement in South Africa

by C.J. van Staden, *Professor, Department of Accounting, University of the Western Cape, South Africa*

Abstract

The value added statement is published by about 210 of the 400 companies listed in the industrial sector on the JSE. It appears from a literature review that the usefulness of the statement has never been tested in depth from the perspective of the users. The importance of this study stems from the increased incidence of publication of the statement in South Africa and the lack of evidence substantiating its usefulness. This study sets out to determine if the value added statement is used by South African users of financial statements. This was done by way of a questionnaire survey among respondents representing all the users of external financial reports as identified in the accounting literature. A sufficient response was obtained from all the respondent groups covered by the survey. The results indicate that the respondents do not make significant use of the value added statement and that the statement has severe shortcomings that impact on its usefulness. When present use is compared to past use a declining trend is observed.

Key Words: Usefulness of value added, Value Added Statements, Users survey value added.

Data Availability: The data used in this study is available from the author upon request.

I. Introduction

The value added statement is published by about 210 of the 400 companies listed in the Industrial sector on the Johannesburg Stock Exchange. As such it is the highest incidence of publication of the statement reported in the literature. A review of the literature on the subject reveals that the usefulness of the statement has never been tested in depth from the perspective of the users.

The studies by Purdy (1981), Joubert (1991) and Stainbank in (1991) tested usefulness, but only from the perspective of the preparers. The study by Jordaan (1997) attempted to test usefulness from the perspective of the users but has such serious shortcomings in the selection of the sample and the contents of the questionnaire as to undermine the reliability of the results. In the USA Riahi-Belkaoui tested value added information against market indicators and found that not only were there strong associations but the associations were also stronger than the associations between market indicators and other accounting variables (like earnings and cash flow). He concluded that as he found strong associations, value added information should be useful (Riahi-Belkaoui, 1993; Karpik & Belkaoui, 1990).

The importance of this study stems from the increased incidence of publication of the statement in South Africa and the lack of evidence substantiating its usefulness. This study sets out to determine if the value added statement is used by

South African users of financial statements. This was done by way of a questionnaire survey among the users of external financial information.

The results indicate that the respondents do not make significant use of the value added statement and that the statement have severe shortcomings that impact on its usefulness.

II. Identification of the respondents, selection of the sample and responses

To ensure that the sample covered all the users of financial statements, the study identified all the users of external financial statements as defined in the accounting literature. This included documents identifying users published around the world, for example the International Accounting Framework (IASB, 1989), Objectives of Financial Reporting (FASB, 1978), The Stamp Report (Stamp, 1980) and The Corporate Report (ASSC, 1975). In addition, the stakeholders as identified by the literature on the value added statement were also included (Morley, 1979; Gray and Maunders, 1980).

The association between the users as identified in the accounting literature, the stakeholders as identified in the literature on the value added statement and the respondents selected for the survey is set out in Table 1. The table indicates that most of the users identified in the accounting literature and all the stakeholders of the value added statement are covered by the survey.

As some of the user groups are very big, and no database of their details exists, they present some problems in conducting a survey in the group. These problems include establishing the population, making contact with the respondents and ensuring a sufficient response from the survey. In an effort to solve these problems, representatives were selected for some of the user groups, and the survey conducted among the representatives. Table 1 indicates which respondents were used to represent certain user groups, for example, the trade unions represented the employees and the financial press represented the public.

Table 2 sets out how the sample of 1120 respondents was selected from the various respondent groups. In order for the sample to be representative of the individual user groups that it was selected from, random sampling was used as far as possible. In the case of smaller populations representing a large number of users, the whole population was selected. This was also done for the trade unions. To ensure that the most important organisations in each group were included, additional respondents were selected. This included, for example, the top 100 industrials ranked by total assets and the top 150 market leaders (Financial Mail, 1996) for the public companies and the audit offices with seven or more partners for the audit firms (Gloeck et al., 1997).

Departments dealing with the financial information of companies like Finance, Statistical Services and Revenue were selected for the government group. Prominent accounting academics at South African universities known for their research and/or subject knowledge were selected to represent the academics. Any other parties that may have an interest in the value added statement, for example the National Productivity Institute and the South African Institute of Chartered Accountants were also included.

Table 1
Association between users, stakeholders and respondents

	Users	Stakeholders	Respondents	RG
1	Shareholders Investors Analyst advisor	Shareholders	Portfolio Managers Brokers Public Companies Audit Firms	d d a b
2	Employees Trade unions	Employees	Trade Unions	c
3	Lenders	Lenders	Banks Audit firms	f b
4	Suppliers and other trade creditors		Public Companies	a
5	Customers		Public Companies	a
6	Governments and their agents	Government	Government Departments	g
7	Public		Financial Press	e
8	Management Directors		Public Companies	a
9	Academic researchers Standard setters Regulatory agencies Stock exchanges		Academics SAICA Audit firms Financial Press	h g b e
10	Competitors		Public Companies	a

Note: The column headed RG indicates to which respondent group (as per table 2) the respondent belongs.

The questionnaires were sent out during the second half of 1997. To ensure that the responses represent the different groups in the same proportion as the proportion in which the sample was selected, the questionnaires were identified with numbers in order to know to which group they belong. The follow up process, which included a second request by way of a postcard and telephonic requests, was designed to obtain a response of at least 15% from each of the user groups. This response was obtained from all the groups except for the trade unions, for which only a 2% response was obtained.

As a result of the disappointing response from the trade unions, it was decided to visit them and to conduct an interview, using the questionnaire as basis. A sample was selected to cover the union federations represented at the National Economic Development and Labour Council (NEDLAC). Only unions with more than 200,000 members are represented at NEDLAC. Table 3 contains the membership numbers of the unions visited as well as the percentage of total membership cov-

Table 2
Selection of the Sample

Group	Population		Sample Size			
	No.	Description	Random	100%	Selected	Total
a Public Companies	727	Listed Companies				
	18	Other Corporations	340		119	459
b Audit Firms	2400	Registered firms	100		42	142
c Employees	255	Trade Unions		255		255
d Investors	54	Stock Broking Firms		54		54
	19	Unit Trust Companies		19		19
	88	Portfolio Managers		88		88
e Public	32	Financial Press		32		32
f Lenders	18	Banks Risk Control		18		18
	21	Banks Corporate Finance and Merchant Banks		21		21
g Government	12	Selected Departments			12	12
h Academics	14	Selected Academics			14	14
i Other	6	Interested parties			6	6
Totals			440	487	193	1120

ered. The reason for the percentages excluding public sector unions is that the public sector (government) in general does not publish the value added statement.

The visits were conducted during January 1998. Table 3 indicates that 79% of the unions selected were covered by the visits, which translates into 72% of the union membership, excluding public sector unions.

The final response from the survey is set out in table 4. This table has been adjusted for the visits to the trade unions and for questionnaires returned undelivered as well as questionnaires returned uncompleted. The replies under "other" have been allocated to the group they most closely relate to.

It can be seen from this table that the response rate for each group is higher than 15%, which is regarded as sufficient for a postal survey. The average response rate is 20%. The responses received are therefore regarded as being representative of the various respondent groups that participated in the survey.

Table 3
Selection of Unions from the three Federations for Visits

	Membership	Membership of unions Selected	% selected exci pub sec	Membership of unions visited	% covered
Cosatu	1743172	1336179	90,00%	1000097	74,85%
Fedusa	485000	196445	83,59%	196445	100,00%
Nactu	220000	220000	100,00%	193000	87,73%
	2448172	1752624	90,36%	1389542	79,28%

Percentage of total membership covered 56,76%

Percentage of total membership covered excluding
 Public sector unions 72,38%

Cosatu: Congress of South African Trade Unions

Fedusa: Federation of Unions of South Africa

Nactu: The National Council of Trade Unions

Table 4 Final Response from the Survey

Respondent Group	Sample	Response	
		Number	Percentage
a Public Companies	445	94	21,12%
b Audit Firms	137	25	18,25%
c Trade Unions (employees)	206	34	16,50%
d Portfolio Managers (investors)	159	26	16,35%
e Financial Press (public)	33	7	21,21%
f Banks: Risk Control (lenders)	18	6	33,33%
Banks: Corporate Finance	21	6	28,57%
g Government Departments	14	6	42,86%
h Academics	13	7	53,85%
Totals	1046	211	20,17%

III. Development of the questionnaire

The questionnaire was developed to conduct a survey among all the respondents, as identified, with the following in mind:

- to find out what the value added statement has been used for,

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

The questionnaire was developed from the literature on the subject for the last 40 years. It included most of the uses as well as most of the shortcomings as identified by the literature over the years. The questionnaire contained the following sections:

(a) *The Preliminary Section*

This section dealt with the background information of the respondents. The respondents had to indicate to which user group (or groups) they belong, and their position in the organisation in order to evaluate their seniority in the organisation they represent.

(b) *Section 1 - Functions*

This section dealt with the uses of the value added statement (VAS). The uses, as found in the literature, were described as functions for the purpose of the questionnaire. Respondents were asked to use a scale from A to D to rate the functions, where:

“A” indicates that the respondent or his organisation is currently using the VAS for that particular function, (present use)

“B” indicates that the respondent or his organisation has used the VAS in the past for that particular function, (past use)

“C” indicates that the VAS could be useful to the respondent or his organisation for that particular function, and

“D” indicates that the VAS is of no possible use to the respondent or his organisation for that particular function.

The functions in this section (45) were grouped together in subsections with a heading describing the nature of the functions in that subsection.

(c) *Section 2 - Shortcomings*

This section dealt with the problems experienced when using and/or publishing value added statements. The problems, as found in the literature, were described as shortcomings. Respondents were asked to indicate which shortcomings prevented them from publishing and/or using the VAS, and which created difficulties when publishing and/or using the VAS.

Table 5 Summary of the functions in the questionnaire

Subsection	Examples of Topics Covered
1 Mediation between stakeholders	Wage negotiations Collective Bargaining
2 Financial Indicator/diagnostic tool	Future risk/return Failure/success Future share price
3 Management Tool	Productivity measurement Motivation Strategic planning
4 Reporting and Communication	Social responsibility Communication with unsophisticated users
5 General	Earning points in AFS competitions Diverting attention from profit
6 Indicator of National Significance	Contribution to national wealth Macro economic decisions

The shortcomings in this section (28) all dealt with the problems experienced over the years when publishing and using value added statements. Topics that were dealt with in this section include the standardisation of presentation, the technical difficulties encountered in practice and the fact that there is no benchmark to compare value added information with.

(d) Section 3 - Future uses

This section dealt with the future uses of value added statements. It set out to establish if a respondent that has not published or used value added statements could do so in future if some of the shortcomings, as identified in section 2, could be overcome. If respondents indicated that they would not use value added statements regardless of the overcoming of the shortcomings, reasons were asked for this viewpoint.

(e) Section 4 - Information needs and Decisions influenced

This section attempted to establish the information needs that can only be met by the value added statement, as well as the decisions influenced by this information. Respondents were asked to indicate the information and the decisions in a table, giving for the information required from the value added statement, the decisions influenced by the information.

After the questionnaire was compiled, it was tested by sending it to 20 respondents, representing all the respondent groups, for comment. All their concerns were addressed and any comments made were taken into account.

After testing, the questionnaires were sent out with a letter requesting participation, an example of a value added statement and a return envelope on which the postage was prepaid.

IV. Results

The replies received from each user group to each question in the questionnaire were turned into a usage score using the number of respondents in each user group. The following scale was used to evaluate the importance of the responses:

- (a) A score of less than 25% was regarded as unimportant.
- (b) A score of between 25% and 50% was regarded as having some importance.
- (c) A score of between 50% and 75% was regarded as important.
- (d) A score of above 75% was regarded as very important.

As the responses received were representative of the various respondent groups, the results were analysed separately for each of the eight respondent groups and then for all the groups combined. Combining the groups allowed for the analysis of the responses from a higher number of respondents, which ought to be statistically more significant. The combined results will no doubt be influenced by the groups representing the highest percentage of the total response - see table 6.

(a) Profile

The profile of all the groups combined is analysed in table 6. The profile indicates the percentage that each respondent group represents of the total response received. Table 6 also indicates the position of the person that responded in the organisation. It is clear that the respondents represent a sufficient level of seniority in their organisations.

Respondent group:		Position:	
Public Companies	44%	Director	25%
Audit firms	12%	Manager	35%
Employees (Trade Unions)	16%	Employee	11%
Investors (Portfolio Managers)	12%	Union position	13%
Public (Financial Press)	3%	Partner	12%
Lenders (Banks)	7%	Professor	3%
Government Departments	3%	Other	1%
Academics	3%		
	100%		100%

The symbols used for the user groups in the following tables are as follows:

- a Public Companies
- b Audit Firms
- c Employees (Trade Unions)
- d Investors (Portfolio Managers)
- e Public (Financial Press)
- f Lenders and Creditors (Banks)

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g Government Departments
h Academics
com Combined

(b) Analysis of the functions

In the first analysis of the functions, present use and past use were combined to form a total use category. This was done to find the functions that were used regardless of when they were used.

In the second analysis, the present use and past use were analysed separately in order to consider their significance separately and to analyse the trends in usage from past to present.

In the third analysis, the functions that were most used were determined using as criteria the number of user groups that used the function.

Combined analysis of present and past use

- Very important use (above 75%)

None of the functions were used by respondents to this extent.

- Important use (between 50% and 75%)

The analysis indicates that 12 of the 45 functions were used by more than 50% of the respondents in three of the eight user groups. The financial press has used the statement the most, with seven uses and the highest percentages. Government departments had the second most uses of six, with all of them at 50%. The public companies group had one use at 54%.

The high usage comes from groups with a relative small number of respondents, where the results should be interpreted with care as the responses carry a relatively large weight. When all the groups are combined, no function was used by more than 50% of the respondents.

- Use of some importance (between 25% and 50%)

The analysis indicates that respondents used 32 of the 45 functions to this extent in seven of the eight respondent groups, as well as in the analysis of all the groups combined. No respondents from the employee group used the functions to this extent. The usage varies from a low of three for the lenders to a high of 18 for the financial press.

- Unimportant use (below 25%)

The analysis indicates that 14 functions were used by less than 25% of the respondents. The total functions for the three analyses is more than 45 as there are some functions that overlap between the 50% plus range and the 25% to 50% range. The reason for this is that for some groups more than 50% of the respondents used a certain function while the same function was used by less than 50% of the respondents in another group.

Present and past use analysed separately

- Important use (between 50% and 75%)

In table 7, the highest present and past use scores are analysed separately. None of the scores are above 50%. The highest scores come from the groups with few respondents. The table indicates that the value added statement is not used significantly by any of the respondents, and that the trend of use from past to present is declining.

Table 7 Analysis of present and past use - incidence of use 50% and more

	User Groups								
	a	b	c	d	e	f	g	h	com
Present use	39%				43%		33%		
Past use	15%				43%		50%		
Trend	inc				dec		dec		

In the trend line, "inc" means increasing use from past to present and "dec" means decreasing use from past to present (based on all functions)

- Use of some importance (between 25% and 50%)

In table 8, the highest present and past use scores are analysed separately. It is clear that in most cases the percentages are too low to be of significance. The highest scores come from the groups with few respondents. The trend is also in most cases declining use from past to present. The combined analysis got a usage score of only 25%, which is an insignificant score.

Table 8 Analysis of present and past use - incidence of use 25% to 49%

	User Groups								
	a	b	c	d	e	f	g	h	com
Present use	28%	24%		23%	29%	8%	33%	14%	25%
Past use	19%	24%		23%	29%	33%	33%	29%	17%
Trend	inc	dec		dec	none	dec	dec	dec	none

"None" means no trend in that the increases and decreases balance each other out.

Although most of the trade unions use financial information of the companies employing their members, less than 14% of the unions in the sample have used the value added statement.

Table 9 identifies the functions that received the highest usage score for present and past use. The functions in the table were selected on the basis of either a present or a past use score of 25% and more. For groups with less than ten respondents the criteria was 35% and more to control for the large weighting that responses in these groups carry. The table also indicates which respondent groups used the functions to this extent as well as the highest usage scores obtained.

Table 9
Functions with a present and past use of some importance

Num	Function - Present use	Present use	Past use	a	b	c	d	e	f	g	h	com
1.04	Corporate communication with employees	43%		x				x				
1.27	Communicate to uninitiated and unsophisticated users	43%						x				
1.30	Earn points in AFS awards competitions	39%		x								x
1.34	Indicator of the company's contribution to national wealth (GNP)	43%						x				
Function - Past use												
1.07	Indicator of failure/success (fail if no value is added)		43%					x				
1.11	Measure of size and importance of company (economic significance)		43%					x				
1.12	Predictive - by comparing ratios over time and with other companies		43%					x				
1.21	Assist in strategic planning		50%								x	
1.25	Indicate social responsibility on the part of the company		32%	x					x			
1.26	Reporting to management		50%								x	

Functions used by most respondent groups

Table 10 contains an analysis of the functions used by four and more of the respondent groups. This was selected from the functions with a combined present and past use score of 25% and more.

Table 10
Functions used by four or more respondent groups

Num	Function	a	b	c	d	e	f	g	h	com	Tot
1.04	Corporate communication with employees	x	x		x	x	x	x	x		7
1.07	Indicator of failure/success (fail if no value is added)	x	x	x	x		x		x		6
1.13	Predictive - by analysing trends in Value Added over time	x	x	x	x		x		x		6
1.11	Measure of size and importance of company (economic significance)	x	x	x	x				x		5
1.12	Predictive - by comparing ratios over time and with other companies		x	x	x		x		x		5
1.25	Indicate social responsibility on the part of the company	x	x		x	x			x		5
1.27	Communicate to uninitiated and unsophisticated users		x		x		x		x		4
1.29	Contribute towards building the company's image	x	x		x				x		4

Conclusion

Having ensured that all functions used by the respondents were identified, the analysis of present and past use did not find any function that was used by a signifi-

cant number of respondents (more than 50%). A number of functions were used by between 25% and 50% of the respondents. In an effort to find the functions with the most significant use, the analysis of the present and past use and the functions used by most groups were compared.

Table 11 contains the functions that emerged as being the functions with the most significant use. To be selected, a function must have had a present or past use of some importance and used by four or more respondent groups. Functions that were used with some importance by two respondent groups were also included.

Table 11 Functions with the most significant use

Num	Function	Usage score
1	1.04 Corporate Communication with employees	43%
2	1.07 Indicator of failure/success (fail if no value is added)	43%
3	1.11 Measure of size and importance of company (economic significance)	43%
4	1.12 Predictive - by comparing ratios over time and with other companies	43%
5	I 27 Communicate to uninitiated and unsophisticated users	43%
6	I .30 Earn points in AFS awards competitions	39%
7	1.25 Indicate social responsibility on the part of the company	32%

(c) Shortcomings

The shortcomings got much higher ratings from the respondents. All but three of the shortcomings got a rating of 50% and higher. The shortcomings are therefore not discussed using the importance scale, as most of them are important. There are also seven with a rating of 75% and above, which indicates that they are very important.

The number of shortcomings varies from a low of three for the government group to a high of 20 for the lender group. The listed company group and the combined analysis got five each. There is a strong inverse correlation between the number of problems experienced by a specific respondent group and the number of functions used by that respondent group. The correlation coefficient was found to be -61%. This indicates that the users who had a lot of problems with the value added statement did not use it much and those who experienced few problems, used the statement more.

Table 12 contains the shortcomings experienced by most of the respondent groups. As the percentage of respondents experiencing these shortcomings are also in all cases above 50%, they are therefore the most important shortcomings experienced by the respondents. As the trade union group used the statement to such a limited extent, they could not comment on the problems experienced in using the statement. For those that did comment, the problems that they experienced are indicated using an "x" in table 12. As this represents a small portion of the unions participating, it was not turned into a rating to avoid misleading results.

Table 12
The shortcomings experienced by most of the respondent groups

Num	Shortcomings	User groups										
		a	b	c	x	d	e	f	g	h	com	Tot
1	2.02 It is confusing - technical differences are encountered in practice	57%	60%	x		57%	57%	58%		86%	57%	8
2	2.03 It is not standardised - no statement of GAAP	63%	68%	x		58%	57%	75%		85%	63%	8
3	2.01 The information is not verifiable - therefore under suspicion	50%	56%	x			58%	75%		57%	51%	7
4	2.10 It is not a faultless measure of productivity	60%	60%	x		53%			50%	72%	57%	7
5	2.16 There is no benchmark or other information to compare VA information with	50%	56%	x			58%	75%		57%	51%	7

(d) Future use

The replies to the question whether the respondent would use value added information more extensively in future if some of the shortcomings could be overcome, are analysed in table 13.

Table 13 Future use of the value added statement

Response	User Groups									
	a	b	c	d	e	f	g	h	com	Avg
Yes	46%	42%		38%	57%	50%	50%	57%	45%	48%
No	37%	46%		38%	14%	33%	17%	29%	37%	31%
No response	17%	12%		24%	29%	17%	33%	14%	18%	21%
	100%	100%		100%	100%	100%	100%	100%	100%	100%

In four out of eight cases and on average the yes response was lower than the combined no and no response responses. In two cases they were equal, and in only two cases the yes response was above 50%. It is therefore clear that there is not overwhelming support (average 48%) for publishing and using the value added statement, even if the shortcomings could be overcome. An analysis of the reasons given for not using the statement in future indicates that respondents do not find the statement more useful than the income statement and that they regard voluntary disclosures by management with suspicion.

(e) Information needs

Despite the fact that very little actual use was found in the survey and the major shortcomings of the statement, some respondents did have information needs that they think will best be met by the value added statement. This was mainly for salary and wage information (which is not published by South African companies) and for value added information to use in productivity measures.

An analysis of these needs indicate that most, if not all, of these needs can be met in other financial statements by for example including the salaries and wages information in the income statement disclosure and publishing productivity indicators.

The only figure that will not be apparent from the income statement is the value added figure itself. However, the calculation of value added is not without problems (see table 12) and until the calculation is standardised and regulated by a generally accepted accounting standard, there is little value in publishing this figure. The information needs raised by the respondents in the survey are therefore not a convincing reason for publishing the value added statement.

V. Conclusion

Despite the support for value added statements in the literature and the studies linking value added to external financial indicators, little evidence of actual use was found in this survey. Only seven uses of some significance were found (table 11) and the general trend is to use it less rather than more. More than 50% of the respondents also do not intend to use it in future, even if the shortcomings experienced could be overcome (table 13).

The reason for this lack of use could be the following:

- Most of the respondents experienced major shortcomings when publishing and using the value added statement (table 12). Although these shortcomings have been expounded in the literature for years, they have not been solved.
- The value added statement discloses very little new information. The only information not available elsewhere in the financial statements is the salaries and wages information and value added.
- Users might not be aware of the statement or the benefits in using it.
- Voluntary disclosures by management are often regarded with suspicion by the other users.

A financial statement that is published voluntary, introducing such little new information and open to so much manipulation due to lack of standardisation, has little chance of being useful or used by the users.

It is therefore concluded that if the reaction of the users of external financial statements is used as a criteria for the publication of these statements, the value

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added statement should not be published anymore in South Africa as no evidence of significant use could be found as well as no significant support for future use.

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