Value-added statement as a trigger to organizational unlearning

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Introduction

Organizational unlearning is the ability to question and discard existing knowledge to accommodate new learning. Unlearning is vital because sometimes learning promotes rigidity. Organizations learn by encoding past success formulas into organizational memory which can result in reiteration of those strategies irrespective of changes in the environment.

The unlearning process includes questioning, reflecting, and discarding obsolete knowledge. However, unlearning is easier said than done. There is a dearth of studies that help organizations understand "how" and "when" to start unlearning. Thus, the initial trigger to unlearn is paramount for organizations.

Consider the example of Borders Group. From being one of the largest brick-and-mortar retail bookstore chain, it filed for bankruptcy protection in 2011. Its demise was because of its inability to unlearn the business model of selling books through physical stores (Snihur, 2018). Borders' strategy reflected this misapprehension: "to grow comparable store sales and profitability in domestic superstores [...]" (Annual Report, 2007)[1], and they continued to open new stores worldwide until 2009, ignoring Amazon's digital revolution.

The aim of this paper is to apply a financial metric known as value-added statement (VAS) to help organizations detect the appropriate time to start questioning existing knowledge. The next section introduces VAS followed by discussion on how it can serve as a trigger to organizational unlearning. Then, the rationale for the selection of VAS over other financial indicators is explained along with implications for future research and practice.

Value-added statement

VAS was recommended by the Accounting Standards Steering Committee in 1975 and has been a mandatory part of annual reports for large companies in the UK since 1977. Other organizations across the globe also voluntarily incorporate VAS in their annual reports, including organizations such as Infosys, Bharat Heavy Electricals Limited, Britannia Industries Limited, and Oil and Natural Gas Corporation in India.

Value added is the extent to which the value of an item is enhanced between the time it is acquired and sold (Cox, 1979). It represents the monetary contribution of an enterprise in wealth creation because of services of employees, financiers, government, shareholders, and community. VAS reports how much value is generated during the reporting period by an enterprise and how it allocates the added value among various stakeholders. It is grounded in stakeholders' theory (Freeman and Reed, 1983) and expands a firm's objective from solely shareholder wealth maximization to overall welfare of the

The authors extend our gratitude to Anne Gimson, Editor-in-Chief, and two anonymous reviewers for their valuable comments. The authors also owe our gratitude to Parveen Sharma, Member, Institute of Chartered Accountants of India, for helping us understand the concept of value-added statement.

community. VAS format (as provided by the Institute of Chartered Accountants of India[2]) is divided into two parts:

1. calculation of value added [revenues – cost of inputs]; and
2. application statement of value added to different coalition members of an enterprise [employees, providers of long-term finance, government, and entity].

Relevance of value-added statement as a trigger to organizational unlearning

VAS can act as a trigger to organizational unlearning. If there is a decline in value addition by an organization in a reporting period, it can highlight that present strategies need revision and corrective measures. The decline in value addition implies deterioration in the performance of an enterprise and less contribution made toward stakeholder well-being.

The next step is to interpret the results drawn from preparation of VAS and how this decision relates to unlearning in organizations. In Tables I and II, calculation of VAS is shown in two parts:

1. calculation of gross value added (GVA)/ net value added (NVA); and
2. allocation of value added among stakeholders.

VAS as a "composite" measure (GVA/NVA) can be analyzed by studying the increase/ decrease in its value from previous years or by comparing actual and targeted values, with shortfalls indicating a failure to realize the target value addition. On the other side, organizations can also use the "individual" components of VAS, i.e. how additional value is

Table I Format of VAS (as per the Institute of Chartered Accountants of India): computation of value added

Particulars	*Amount*
VAS For the period ending . . .	
Sales/revenue from operations	XXX
Direct income	XXX
Less: cost of bought in materials and service[a]	XXX
Gross value added (GVA)	XXX
Less: depreciation	XXX
Net value added (NVA)	XXX

Note: [a]Cost of bought in materials and services include *production expenses* (excluding wages and salaries of production staff), *administration expenses* (excluding the remuneration of administrative staff), *financial expenses* (excluding the interest on long-term borrowings such as debentures, loan, etc.), *selling and distribution expenses* (excluding remuneration of selling staff), and *government tax* (portion of tax recovered in sales)

Table II Format of VAS (as per the Institute of Chartered Accountants of India): application of value added

Particulars	*Amount*	*Percentage of value added*
Value added applied to		
To pay employees as salaries, wages, etc.	XXX	XX
To pay providers of long-term finance as interest	XXX	XX
To pay government as taxes, duties etc.	XXX	XX
To pay shareholders as dividend and entity	XXX	XX
To provide for maintenance and expansion of firm	XXX	XX
	XXX	100

allocated among stakeholders. The method of interpretation remains the same as in the case of “composite” measure.

This helps in identifying the symptoms of problems (e.g. inefficient strategies, flawed sensemaking, etc.). After scrutinizing results, strategic think-tank can embark upon possible corrective measures. This sets the process of unlearning in motion followed by decisions such as – diversification of organizations’ business, strategic collaboration with other organizations, experimentation, exploitative learning, and manifestation of tolerance for failures.

VAS cannot be reduced to a mere postmortem analysis of organizational performance. As VAS is prepared using income statements, forecasting is possible by using VAS. With the help of projected income statements, future VAS can also be prepared by organizations. This serves as an early warning system to initiate unlearning process. This will also promote generative learning and serve as an intrigue to question the dominant practices that are proving roadblock to organizational success.

Strength of value-added statement over other financial metrics

There are reasons for recommending VAS over other financial metric for facilitating unlearning in organizations:

- Profit figures are less informative, as they solely represent owners’ share of contribution and ignore other stakeholders. VAS focuses on cohesiveness of stakeholders toward organizational effectiveness.
- VAS disclosures need not entail additional costs to a firm, as it uses the same data and measurement techniques (accrual concept) relating to enterprise financial accounts (Riahi-Belkaoui, 1999).
- Information disclosed by VAS has better explanatory power as compared to income statement or cash flow statement (Riahi-Belkaoui, 1993).
- VAS emphasizes that organizations cannot work in silos and must adapt to environmental changes. Reciprocally, all major stakeholders become aware of organizations’ role in promoting economic development.
- As VAS is less sensitive to differences in accounting environment, tax structure, and capital structure of organization, it is more reliable and is free from undue bias (Haller and van Staden, 2014).
- With increased focus on reporting environmental, social, and governance norms (or ESG disclosures), VAS can help investors gauge organizational effectiveness.

Future implications for research and practice

Future research can test the applicability of VAS in relation to unlearning by designing a longitudinal study of organizations. Additionally, studies can analyze how well organizations interpret the results of VAS and follow up on this evidence. Other tools and methods that help detect the appropriate time to unlearn can be suggested.

Regarding practical implications, this article endeavors to bridge the gap between ostensive and performative aspects of unlearning. As organizations lack reflexive thinking, unlearning facilitates retrospection and learning from failures, which helps avoid future mistakes. Organizations should incorporate VAS in their financial statements, as it does not involve additional cost for preparation and ensures detailed disclosure of relevant information to investors.

Conclusion

This article suggests VAS as a measure to detect the right time to start the process of organizational unlearning. As profit figures are prone to manipulation and lack explanatory power, value added can provide the "real" picture of how an organization realizes the interests of various stakeholders and contributes to overall economic development. Lifelong learning and adaptation requires conscious questioning of present strategies, knowledge, and routines, followed by careful discard of obsolete stock. Unlearning helps in acquisition of new knowledge, and if organizations are not cognizant of right time to challenge the governing variables, unlearning will be difficult.

Keywords:
Organizational unlearning,
Stakeholders approach,
Unlearning process,
Value-added statement

Notes

1. The annual report of Borders Group, Inc. can be accessed online at: http://media.corporate-ir.net/media_files/irol/65/65380/site/includes/pdfs/10k.pdf
2. The Institute of Chartered Accountants of India (ICAI) is a statutory body established by an Act of Parliament, namely, The Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for regulating the profession of chartered accountancy in the country (www.icai.org/).

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Further reading

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