



Research Article

PARTICIPATION OF EMPLOYEES IN THE VALUE ADDED IN THE BUSINESS ENVIRONMENT (STARTING POINTS)

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ABSTRACT

The author discusses basis starting points about the distribution of value added that belongs to all stakeholders, not only to the owners of equity in the company. To do so, the value-added law and its meaning is revealed. The surplus value added is defined and the surplus value-added statement with the creation and distribution of the value added is proposed.

Key words:

Employees, wages, added value, stakeholders, value-added statement.

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INTRODUCTION

In the professional literature, employees are consistently understood as a group of corporate stakeholders, regardless of whether the authors address the theory of shareholders or the principles of social responsibility or even business ethics. (e.g. Freeman *et al.*, 2010, p. 24, Samuel, Louche, 2011, Henningfeld *et al.*, 2006, p. 17, Brooks, Dunn, 2018, p. 192). Unfortunately, employees are often only referred to as stakeholders, without discussion in detail about their interests or rights. These are too often hidden in the general definition of stakeholders as those, "who have an interest and are affected by what the company does" (e.g. Idowu, Louche, 2011, p. 247).

Some more detailed relationships between employees and employers are discussed but mostly from business ethics point of view (e.g. Byars *et al.*, 2018, pp. 159–230). The discussions should be broadened from other aspects also. One of them is certainly the salaries of employees that will be discussed in following.

Some starting points to reasonable wages and revenues

"No reasonable person, regardless of profession or political party, would dispute that employees are entitled to a fair or just wage. Rather, it is in the calculation of a fair wage that the debate begins" (Byars *et al.*, 2018, p. 171). Therefore, the main issue of dispute is about fair wages.

The discussions on this topic mostly start by definitions of minimum hourly wage in different states (e.g. Byars *et al.*, 2018, p. 171). There is of course an important role of trade unions mentioned as well.

There are different approaches to assess a minimum wage (e.g. cost of living, the rate of inflation, arbitrary standards). "Whether we are discussing fair wages, minimum wages, or equal wages the essence of the debate often boils down to ethics" (Byars *et al.*, 2018, p. 176). This is an area that allows for ongoing and unfinished discussions and opens up new difficult issues that usually remain open. Obviously, there is a need to identify the united starting point that should shorten and facilitate the discussions.

It seems that the discussion should start by recognizing the labor as the main employees' contribution to the company. The labor of employees has two main benefits for the company: the creation of value added and the contribution to risk management. In this context the labor can be defined as a conscious, premeditated and rational human activity, which involves the use of an individual's workforce to achieve some goals of both the individual person and the organization in which his or her workforce is used. It means that the labor is organized and useful human activity (Dictionaire Française).

The usefulness possibly stands out among almost all definitions of labor. Another important feature of labor as an activity is the use of human force, which results in the consumption of labor and in the diminishing the capacity of individual worker (like the depreciation of fixed assets). These

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two characteristic of labor are the first starting points for the discussion of fair wages.

Numerous authors emphasize that the corporations are momentarily legally accountable only to shareholders and are strategically accountable also to stakeholders (e.g. Brooks, Doon, 2018, pp. 17 and 247). It means also that profit formally belongs to shareholders, who decide about the use of it. This starting point leads nowhere because shareholders are not the only ones that bear the business risk. Therefore, it is not logically that shareholders have exclusive right to distribute profit.

The next starting point is a contribution of employees to risk management. Employees are also bearers of business risk, especially unemployment risk. They work and create the value added that means also a reserve for amortization of damage that is a result of risky events. This statement can be explained through the operation of value-added law.

The labor as a contribution to the functioning of the organizational system should be understood in its broadest sense, i.e. in all possible forms (e.g. materialized work, such as real and monetary inputs, knowledge, and of course current physical and intellectual work, including guarantees and opportunity costs or losses of individual participants). Mulej similarly speaks about "the effort for the lowest entropy" (Mulej *et al.*, 2000, 269).

Value-added law

In using the system theory, following statements are offered:

1. The basic goal or the desire of human being is its existence, which arises from the instinct aimed at self-preservation, and from it, the human basic needs and interests arise.
2. This is the reason why a person wants to ensure adequate safeness. For this purpose people create various organizational systems also to get the benefits from synergies; the component of the operation of each organizational system is the risk.
3. Combining people into organizational system, each person which operates within it, contributes to a common goal.
4. Where the value added (in the broadest sense) is not (or no longer) the common goal of the participants, is a system in the process of decay.
5. Participants shall manage the risk in accordance with their respective interests within the limits of the possibilities and within the limits set by the environment.
6. In the case of legal or contractual regulation of the mutual relations between the participants in the organizational system, there will inevitably be a re-allocation of risk.
7. If the interests of the participants are adequately met (and the narrow and short-term interests of some individuals do not prevail), the organizational system is in balance.
8. The occurrence of a disproportion between the accepted risk and the yield attributable to an individual participant results in the creation of entropy forces or increases their power in the system.
9. The strengthening of entropy forces threatens the sustainable development of the organizational system.

10. The basic conditions for the effective participation of participants are the appropriate level of knowledge or competence and appropriate information system with an appropriate communication process involved.
11. The inclusion of a greater number of actors in the functioning of the system (in particular in terms of decision-making) can be dysfunctional and inefficient; therefore, solutions are needed in order to use appropriate methods for their creative cooperation and effective monitoring system.
12. Participants in the organizational system are responsible for ensuring the existence and sustainable development of the system, if its sustainable orientation is accepted jointly.

On the basis of the above starting points, we define *the general law of creating and guiding value added* (hereinafter: value-added law). Its dictum includes two aspects:

1. Value added is the net outcome of the organizational system in managing the risk inherent to the system and belonging to risk holders in proportion to their contribution to the functioning of the organizational system (the aspect of creating value added).
2. The disproportionately high or disproportionately low participation of individual risk carriers in the value added (according to their work contribution) increases the entropy of the organizational system and threatens the realization of its sustainable development (the aspect of value-added guidance and its distribution).

The value-added law is general because of its validation in all socio-economic systems (past, present and future), which are oriented towards sustainable development. *The value-added law operates regardless of the wishes or activities of the participants and regardless of the normative organization of the organizational system or its environment.* It is therefore, totally independent of the human will that created the organizational system. The value-added law has various forms of its presence in different economic and political environments and in different types of organization (relations between people) of associations.

On the basis of the value-added law, the entropy of organizational systems is mainly the result of the imbalance between participants' contributions and their participation in value added. This imbalance is devastating because it works against cooperation and mutual trust, which is necessary in the context of interdependence (Judt, 2011, 57 and 80).

The important word in the dictum of value-added law is "net outcome"; because it means the difference between the outcome (recognized by users or market certified) and the estimated costs of operating the system, which are: *basic* labor costs, consumption of natural assets or the cost of their replacement, and costs of environmental conservation associated with the outcome.

The basic labor costs mean only compensation for partly wasting work force (similar to the depreciation of fixed assets). They do not represent a newly created value, so they (in principle) are not a part of the value added. They also do not represent total wages, which belong to workers. They can be named as *basic wages (BW)*¹.

¹Basic wages express a consumption of labor force of employees and are equal for all employees, including management. They are not (or better: should not be) taxed. They

The same approach applies to the opportunity cost of capital (*OCC*) which does not represent a part of value added and also does not represent total participation, which belongs to owners of capital.

The value-added law includes the equality as a fundamental ethical category, which is not only the result of some subjective thinking about ethics or moral norms (e.g. honesty). The ethics is an objectively inseparable component of the value-added law due to the interdependence of people in a society as a system. Therefore, the value-added law can be a basis and an additional starting point for a discussion of fair wages.

The distribution of the value added

By strictly observing the added value law, we can define a new category, namely a *surplus added value (SVA)*. This category is obtained by subtraction of basic wages (*BW*) and opportunity costs of capital (*OCC*) from value added (*VA*). This is illustrated by the following equation:

$$SVA = VA - BW - OCE \quad (1)$$

or:

$$SVA = Epart + SHpart + I + T + ZDVSD + ZDVLK. \quad (2)$$

Surplus added value is therefore composed of:

- employee participation (including remuneration and management bonuses – *Epart*),
- shareholder participation (*SHpart*),
- financing costs (*I*),
- state taxes (*T*),
- retained *SVA*, which is allocated to the employees (*RSVAE*),
- retained *SVA*, which is allocated to the owners of equity (*RSVAO*)

The discussed process of sharing surplus added value is set in principle, but it enables organizations to implement concrete solutions in accordance with the added value law, that is, with the equality of stakeholders while ensuring the sustainable development. This is reflected below in the summary of receipts of employees (and also members of management). These are (*Epart*):

1. minimum wages, taking into account difficult work conditions;
2. basic salaries according to the general act of the organization (which also usually takes into account the variable part of the salary according to the contribution of the individual);
3. the reward from the residual surplus value after the deduction of the retained amount of surplus added value (in this frame, it is also a possibility for rewarding the management with regard to the business success of the company).

The owners of the equity receive (*SHpart*):

1. The compensation for the opportunity cost of capital;
2. Dividends in accordance with the defined dividend policy considering the surplus added value available.

The surplus added value, thus defined, has some important advantages over the traditional added value, namely it:

- means the consistent derivation of a substantively indisputable definition of added value (as a new value);
- means a quantity that is (or is supposed to be) the subject of distribution to the stakeholders;
- constitutes the basis for equal treatment of all stakeholders, thereby removing inequality of labor and capital in the existing socioeconomic system;
- eliminates deceit and apparent justice about participation of employees in value added;
- means a more precise category compared to the known categories such as newly created value and income

Equation 5 does not take into account the so-called "entrepreneurial rent", which means compensation to the founders of the company for their entrepreneurial idea and investment initiative. Such a motivational instrument is undoubtedly economically important for the development of the economy and society as a whole. In equation 5, we did not show it because such a compensation was limited by a certain length of time, since even the legal protection of patents and licenses is limited to a maximum of 20 or even less years.

From discussion above, it is clear that corporations should monitor the creation and distribution of the surplus value added. Therefore, a new accounting statement based on surplus value added (*SVA*), should be created. It is presented in next section.

Surplus value-added statement

In creating a surplus value-added statement (*SVAS*) particularly the following starting points should be considered:

1. The statement should be useful for a wider circle of interested people or organizations.
2. The statement should be useful for creating indicators and improving the organizational climate.
3. The costs of products and services sold include minimum wages as an expression of the consumption of labor in the business.
4. The costs of products and services sold include the opportunity cost of invested financial capital.
5. The category gross *SVA* (with depreciation included) is not meaningful in comparing gross value added as a general known category, therefore it is not shown in the statement.
6. The statement should show the way of creating (sources) of surplus added value (*SVA*) and its distribution.
7. The most important starting point for *SVAS* is the equality of stakeholders in participating in surplus value added, consistently with their contribution to risk management.

It means that both *stakeholders as non-governors* and *stakeholders in the role of governors* should be included.

For the illustration of the surplus value-added statement (*SVAS*) and its comparison with profit & loss statement (*P & L*) in Table 1, the following assumptions are made:

1. There are 100 employees.

are a matter of negotiation between employers and trade unions and based on living costs.

2. Minimum wage per capita is € 800.00.
3. Total capital is € 5,000,000.00.
4. Opportunity cost of capital is 2.5 %.
5. Profit tax is 15 %.
6. Retained profit is allocated to employees and active owners in the ratio between the amount of rewards to active owners and the amount of salaries of other employees (the assumption of the agreement is one to two).
7. For the sake of simplification, we assume that all employees are active co-governors.
8. For the sake of simplification, we did not differentiate between gross and net amounts of remuneration (the difference is, in principle, the state's participation in surplus added value).

5. The largest portion of surplus added value is distributed to employees (€ 1,820), which is the result of the assumption of their active participation. Otherwise, this part would of course be lower for the amount that would be shown among non-active stakeholders.
6. Retained earnings belong both to employees and to active owners in the assumed (agreed) proportion.
7. The surplus value-added statement is useful for creating indicators and analyzing to improve organizational climate.

Table 1 Income statement (P&L) comparing surplus added-value statement (in € 1,000)

ITEMS	P&L	SAVS
A. GENERATING PROFIT AND SVA		
1 Revenues	9,100	9,100
2 Material costs	4,900	4,900
3 Amortization and depreciation	1,280	1,280
4 Labor costs	1,900	
5 Financing costs	400	
6 Costs of minimal wages		80
7 Opportunity cost of equity		125
8 Profit	1,008	
9 Added value (4 + 5 + 8)		3,308
10 Surplus added value SVA (9 – 6 – 7)		3,103
B. DISTRIBUTION OF PROFIT AND SVA		
11 Tax	151	
12 Net profit (8 – 11)	857	
13 Net profit for dividends	525	
14 Net profit for management awards	32	
15 Retained net profit	300	
16 SVA for financiers (interest) I		400
17 SVA for non-active shareholders dividends		400
18 SVA for the state (taxes) T		151
19 SVA for non-active stakeholders (16 + 17 + 18)		951
20 SVA for employees		1,820
21 SVA for management awards		32
22 Retained SVA for employees		200
23 Retained SVA for active shareholders		100
24 SVA for active stakeholders (20 + 21 + 22 + 23)		2,152
25 Surplus value added (19 + 24) = 10		3,103

In accordance with the idea of the extended value added, a broader aspect of the surplus value added could be defined (e.g. Mook, 2007), which is important for presenting of achievements from the social responsibility aspect. Therefore, this part should be included in the notes to the statement of the surplus value added. These explanations would play the similar role as the explanations to the income statement.

From the comparison between the income statement and surplus value-added statement in Table 1 we can summarize in particular the following:

1. *SAVS* (together with explanations) takes into account the equality of stakeholders in accordance with the added-value law and contributes to the disclosure of the corporate social responsibility, orientated to sustainable development.
2. *SAVS* does not mean only a different view of the organization's income statement, but it also shows that profit is not basic piece of information about the operations from the social responsibility point of view, and in terms of sustainable development. Profit as a category in *SAVS* simply does not exist anymore.²
3. *SAVS* takes over a leading role before the income statement. Therefore, it can no longer be regarded as only complementary information to the income statement.
4. *SAVS* is a useful basis for analyzing the efficiency and effectiveness of the operations, since the surplus added value replaces the profit as the underlying organization's goal.
5. *SAVS* is an important piece of information, especially for stakeholders of the organization who carry the risk of operations.
6. *SAVS* can be an important piece of information for investors and business partners, especially in terms of long-term and stable operations.
7. *SAVS* is also an important piece of information for wider public, especially in terms of social responsibility. In particular, information of the distribution of surplus added value is important.
8. Table 1 shows the connectivity of the surplus added value with the income statement, which is otherwise completely unnecessary for the preparation of *SAVS*.
9. This does not mean that P&L should not be prepared. It still contains (in terms of a different view of business) useful supplementary information. This is particularly true for a transitional period until value added is widely implemented.

In Table 1, the surplus added value was allocated to:

1. Non-active (non-governing) stakeholders. They carry a small part of the risk and their common feature is that they cannot directly influence the business decisions, but have a possibility to control the operations.
2. Governing (active) stakeholders who, in addition to bearing the risk, also contribute to risk management.

Table 1 shows in particular:

1. Added value (€ 3,308) is significantly higher than profit (€ 1,008), as it also includes labor costs (€ 1,900) and financing costs (€ 400).
2. Surplus added value (€ 3,103) is equal to added value, reduced by minimum wages (€ 80) and capital costs (€ 400).
3. After deduction of dividends, taxes, and rewards to management, the net profit of € 300 remains retained.
4. Surplus added value is allocated to non-active (€ 951) and to active stakeholders (€ 2,152).

²This is consistent with the findings of many authors who demand a shift of organization's goal from shareholder's value to stakeholder value (e.g., Brennan, 2008).

10. *SAVS* should become an integral part of an integral reporting.

SAVS has some disadvantages, in particular the following ones:

1. In a comparative assessment (benchmarking) or within an activity, comparability is difficult, if there are differences in starting points for determining the minimum wage or assessing the opportunity costs of the financial capital.
2. For the same reasons, *SAVS* may be less suitable for statistical processing at the state level and for comparisons between different countries.

Problems with comparability can be solved satisfactorily with an appropriate standardized statement, which will undoubtedly be the subject of development over a longer period of time in the future.

Due to the urgency of the various criteria, the process of allocation of the surplus added value to the stakeholders in accordance with its principle structure in Equation 2, should be carried out in the individual steps that follow in the appropriate order. Therefore, we can talk about the process of the surplus added value distribution, which includes the following procedures:

1. the identification stakeholders' participation in accordance with applicable regulations (e.g. tax obligations);
2. the determination of the stakeholders' participation in accordance with the accepted contracts or agreements (e.g. interest);
3. the definition of the required amount of retained surplus added value in accordance with the development plan, which must also take into account the company' capital adequacy;
4. the definition of the amount of wages in the planned (agreed) extent (whereby management is included in accordance with the adopted internal rules);
5. the definition of the amount of surplus added value for non-active owners of financial capital in accordance with the defined dividend policy adopted by the active owners together with the employees' representatives;
6. the identification of possible residual surplus of added value, which can be further distributed to employees and management as a reward for successful operations.
7. the determination of the share of employees and share of financial capital owners in retained surplus added value.

The most sensitive parts of the process are undoubtedly points 3, 4 and 5. The order shown is principled, but in practice it depends on the power ratio between management, active owners, and employees. Therefore, the criteria used to define their participation, can vary. From the sustainable development point of view, it is of primary importance to define the retained surplus added value, which is linked both to development opportunities and the ability of a long-term borrowing. The decision on this is undisputedly connected with the corresponding policy wages, including the motivation system, which should also be development oriented.

The decision for the inactive owners' participation (e.g. dividends) is only the result of the definition of development funds needed and the appropriate amount of wages.

CONCLUSION

Fair wages are especially nowadays in corona pandemic time, very important topic. They should be based on the basis of value-added law. The receipts of employees should be properly structured and basic wages should be defined. The retained value added should belong to shareholders and employees as well. Such a system of employees' participation in the value added could be in line with corporate social responsibility and could represent corporate efforts for sustainability future.

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