



## VALUE-ADDED ON THE ECONOMIC OPERATORS IN ALBANIA: AN EMPIRICAL STUDY

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### **Abstract**

*The most significant and persuasive instrument in determining economic and social performances it is considered to be the added-value, whose production on the one hand and distribution on the other constitute two fundamental pillars of the enterprise's property. The added-value can be defined as an excess of the value produced compared to the amount of the value consumed in the activity of the enterprise. The main focus of this study is to investigate if economic operators in Albania have knowledge of the concept “value-added” and how these operators analyze the entity's performance. The value-added should be used by the managers as an information instrument and control, as it is a fundamental component of the indicator that gives a measure of the degree of vertical integration of a productive reality, for, i.e., the report through the value-added and the sales. The study was conducted in Albania through a survey questionnaire distributed to Albanian economic operators. The results indicate that that value-added should be analyzed for unit performance, as: a) expresses the entity's creative ability and its contribution to adding social product through production or profit. b) expresses the entity's creative ability to stay on the market by transferring costs over selling prices. c) The value-added indicates what share of output is realized within the entity and, conversely, if the output is decentralized. d) Value added is not presented directly in the financial account (gains and losses), but we note that this accounting document contains all the elements necessary for determining value-added.*

*Keywords: Entity, value-added, gross value-added, net value-added, balance, economy account*

**Note:** *This article is extracted from the author's doctoral study “The creation and distribution of value-added in the entities. An empirical study of Albania”.*



## INTRODUCTION

The added-value can be defined as an excess of the value produced compared to the amount of the value consumed in the activity of the enterprise. In other words, it is represented as “a difference through the value of elements (materials and services) that an economic unit buys and the value of the goods and/or services produced by it, by using its capabilities, labor and capital.” The value-added should be comprehended in two different but complementary perspectives, one as economic performance and others as a social role. Based on this fact, the value-added is calculated between the two methods.

Against this background, this paper is conducted in Albania through a survey distributed to Albanian economic operators. The main stages of this study are: 1) An overview of the current situation of the problem under study. 2) Formulation of an interpretive model and methodological reference. 3) Formation of the champions (samples) of the entities that will be enabling the identification of their characteristics that operate in the studied environment. 4) Processing of economic and financial information of selected entities. 5) Interpretative analysis of the results obtained in order to identify the structural nature and the relevant trends regarding the modes of production and distribution of value produced in the entrepreneurial system and the impacts it has on the socio-economic system. 6) Summary comparisons between the structure of production and the distribution of wealth in some sectors of the economy

## LITERATURE REVIEW

In the economic doctrine, the value-added is interpreted as a difference through the gross domestic production of the economy and the contributed production from third economies. To indicate this difference, it is used the term *value* or other equivalents as, for, i.e., *overvalue*, *plus value* and *value-added*. The term *value-added* we think it is the most accurate than the term *overvalues* than the term *surplus*, as it implies the process of creating value within the economic unit (entity) and the outcome of that process. *The value-added* shows the outcome of the productive process, therefore, for this reason, the German economic literature has preferred to use the term *wertschöpfung*; while in the Anglo-Saxon literature the phenomenon of *wertschöpfung* is described with the term *value added*; in the French one *valeur ajoutée* and in the Italian one with the term “*valore aggiunto*”.

Critical notes on the distinction between the “entities”. The value-added is a particular configuration of the financial result of which it is attributed to the specific skill to determine the social effects of the entities<sup>1</sup>. Therefore, the determination of this economic outcome means the

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<sup>1</sup> Aldo Amaduzzi, *L'azienda nel suo sistema e nell'ordine delle sue rilevazioni*, Torino, 2009, page 15.

distinction in the “internal” entities that contribute actively in its creation and in “exterior” entities concerning the entity it is provided by goods and necessary services for the realization of the productive combination.

However, it should be noted that this distinction is undoubtedly difficult and complex since the entity carries on an economic activity that is fully realized thanks to the numerous entities that, by providing, in different product forms, participate in its management phenomena according to different levels of engagement or participation.

Induced by the observation of the changing operating reality, the concept of the entity changed over time. Thus, the line of demarcation between the “internal” and “external” entities does not turn out to be very clear and accurate, taking into account the types of possible reports with the entity, sometimes only casual and short-term, other times, long-term and stable.

## **METHODOLOGY**

The problem that we aim to study can be grouped as follows: 1) Interviewees' knowledge of the concept of "value-added" and how to calculate it based on accounting data. 2) The indicators that are calculated, in theory, and that they calculate in their enterprise, based on value-added. Information that is provided by calculation and their interpretation and their usefulness in relation to increases in the level of management of the entity. 3) The value-added, the information instrument on how to integrate the entity.

Based on these problems, in the framework of the full study, but specifically for the chapter "Analysis by indications of the creation and distribution of the value-added" to identify the level of recognition of the concept of "value-added" by economic operators in Albania, we distribute a survey with 25 questions. We distributed one hundred questionnaires on different economic operators in Albania. Most of the questionnaires are completed by financiers, a fact that makes us believe that we have enough information to understand where to focus more on the conclusions in this work. The units were mainly selected based on personal knowledge and willingness of the operators to be included in the study. Also, given that we are dealing with opinions, we think that the number of questionnaires, according to the sector, is sufficient.

For a complete inclusion of the type of activity of enterprises, manufacturing, construction, commercial, banking, agribusiness and service enterprises were studied, with the following structure: the productive enterprises 15%, construction 15%, and commercial 19%, banks 8%, agribusiness 8% and services 35%. The position of interviewed operators, namely their role in the enterprise, is as follows: the administrators 8%, financiers 73% and accountants 19%. Based on activities, we will get the data that we need to analyze further the value-added and its indicators. Also, based on these data, we will conclude who has information on the

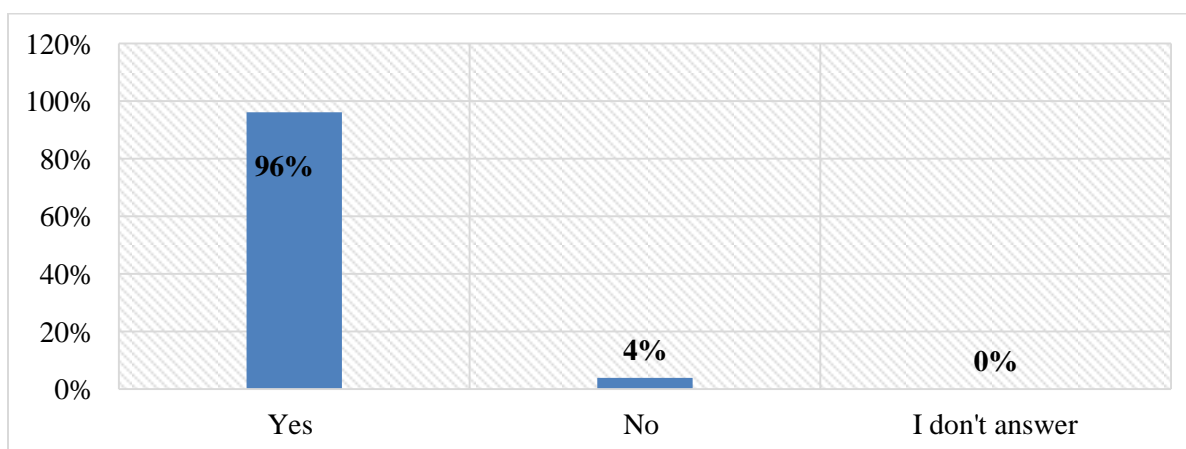
activities of value-added. Based on the fact that financiers fulfilled most of the survey, we believe that we have received sufficient and accurate information to enable us to focus on what problems we should focus on, in order to provide the most practical conclusions and recommendations.

## ANALYSIS AND RESULTS

To realize the work in which, as we noted, the article is based on, we prepared the questionnaire, through which we about the knowledge of the concept of "value-added" and how it is used in the management of their activities, with the ultimate goal of formulating the opinion on where to focus or deepen when dealing with problems. One hundred questionnaires were distributed and, in particular, by sectors: service units 35, construction sector 15, trade 19, agribusiness 8, commercial banks eight, and manufacturing units 15. The questions formulated in the distributed questionnaires were answered. Economic operators under this structure: 8% administrators, 73% financiers and 19% accountant. As we noted, most of the questionnaires are completed by financiers, a fact that makes us believe that we have enough information to understand where to focus more on the conclusions in this work.

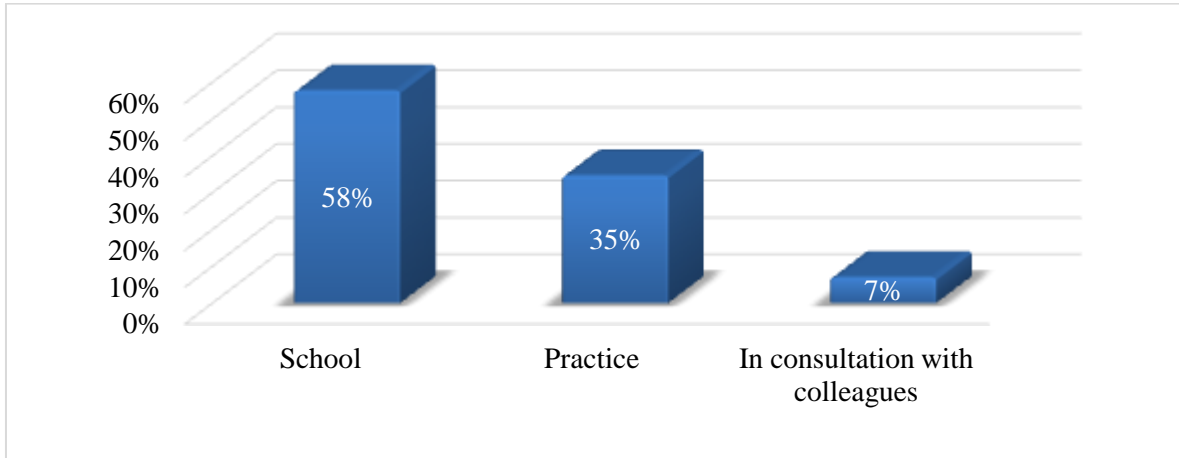
Regarding the question "Do you think about the notion "the value-added"?", 96% answered the question positively, so they have sufficient knowledge for economic size "the value-added," while only 4% claim to not know value-added (figure 1).

Figure 1. Do you think you know about the notion of "Value-added"?



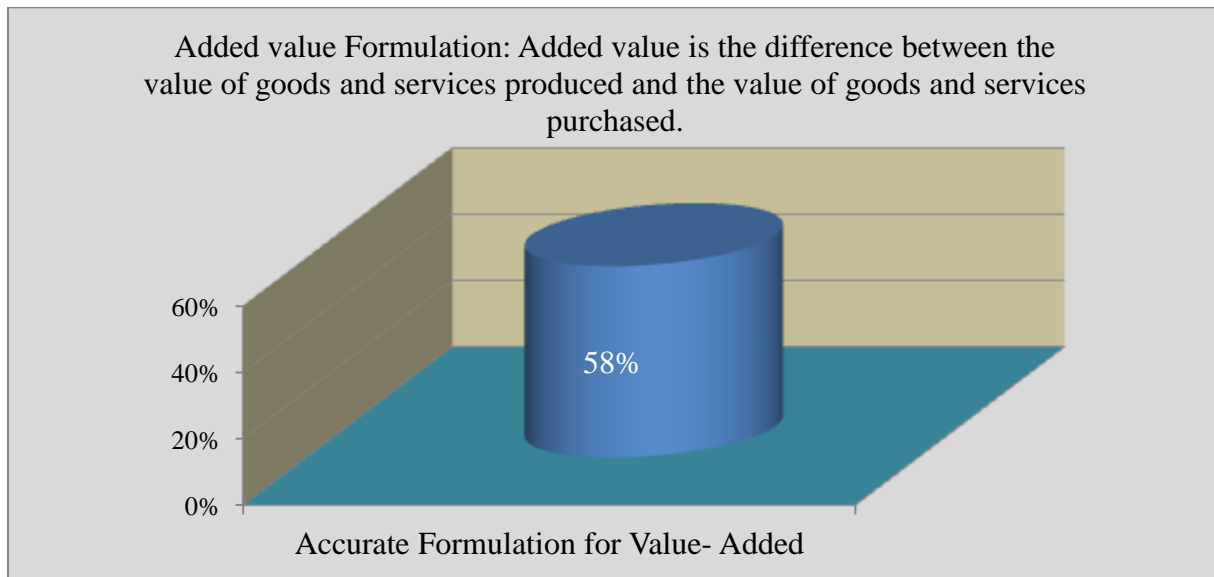
Following this question, the interviewees were asked to indicate how they acquired this knowledge. 58% said that the knowledge they gained from school, 35% from practice and 7% in the consultations with the colleagues during the work (figure 2).

Figure 2. If yes, these knowledge have you acquired from?



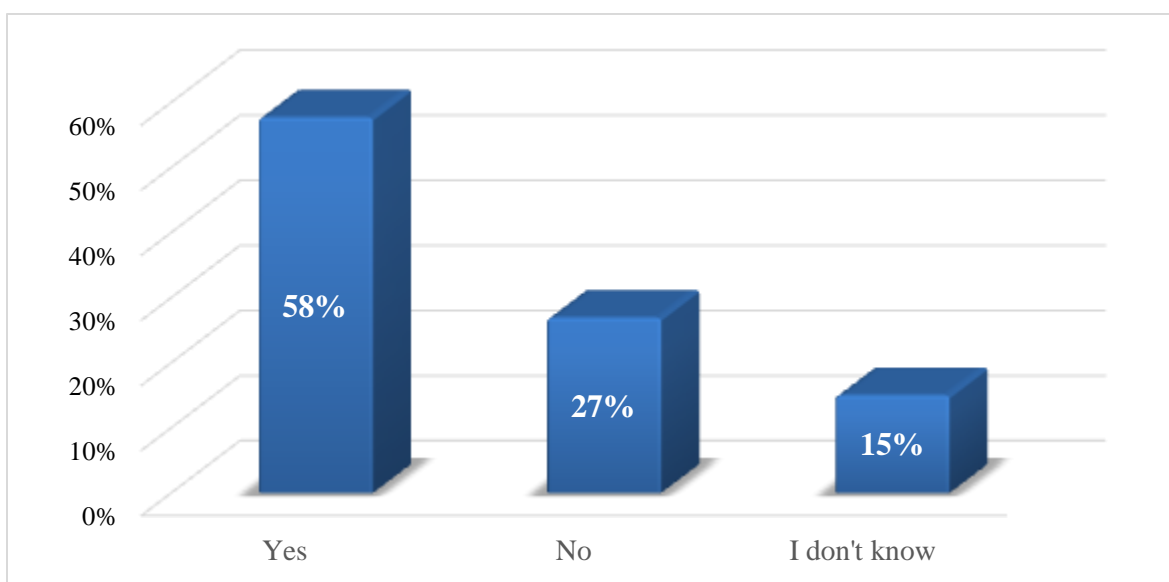
To be sure that the concept of value-added is recognized by economic operators, we asked them through a particular question, to formulate the notion “The value-added” (figure 3) shortly. The accurate formulate for the notion the value-added given 58% of the respondents, which turns out to be the number of persons that have knowledge gained from the school, while the rest formulate the notion ‘the value-added incorrectly’. We recommend that this topic be treated more broadly in the schools, especially in the faculties of economy, since many developed countries study the value-added analytically, both in economic and social terms, as the enterprise is one of the essential elements of an economic system.

Figure 3. Can you briefly formulate the notion of "Added-Value"?



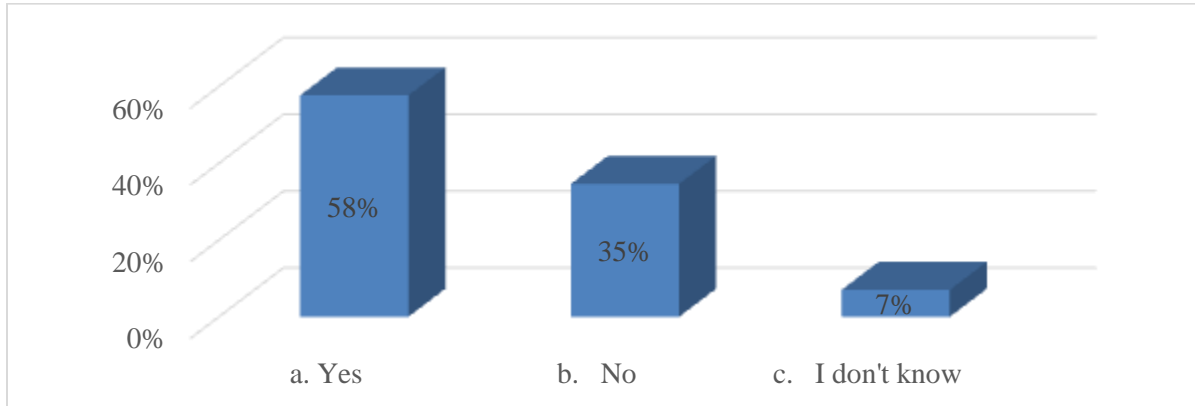
Since the value-added is evidenced by the financial account, reclassified, especially for this purpose, the respondents were asked to respond if they had information that the value-added is identified directly in the "Economic account." 58% were responding that this size is recorded directly in the "Economic Account", 27% respond that this size is not directly recorded and 15% do not know. From this question and give answers, it turns out that although the above stated that they have sufficient knowledge of value-added, it turns out to be ambiguous and inaccurate in response. From this data, we see that although they claim to know the value-added, again, they are unclear (figure 4).

Figure 4. Is the "Value Added" size directly recorded in the "Profit and Loss Account"?



Given the fact that the management level is also analyzed by calculating the many indicators that are based (general denominator) on size of the value-added, the respondents were made precisely this question: "to control the management level of your entity, do you calculate indicators based on the size "value-added"? We emphasize that the composition indicators consist in reporting the partial amount of value-added that was intended for employees, external financiers, public administration, contributors of self capital and enterprise system with the total of value-added, of course, the sum of these indicators, expressed as a percentage must be equal to 100. 65% they that calculate indicators based on value-added size, 19% do not and 15% do not have the necessary knowledge to calculate composition indicators (figure 5). Following the question, they were asked to list some of these indicators; none of the respondents answered this question.

Figure 5. Do you have information on "Value-added" composition indicators?

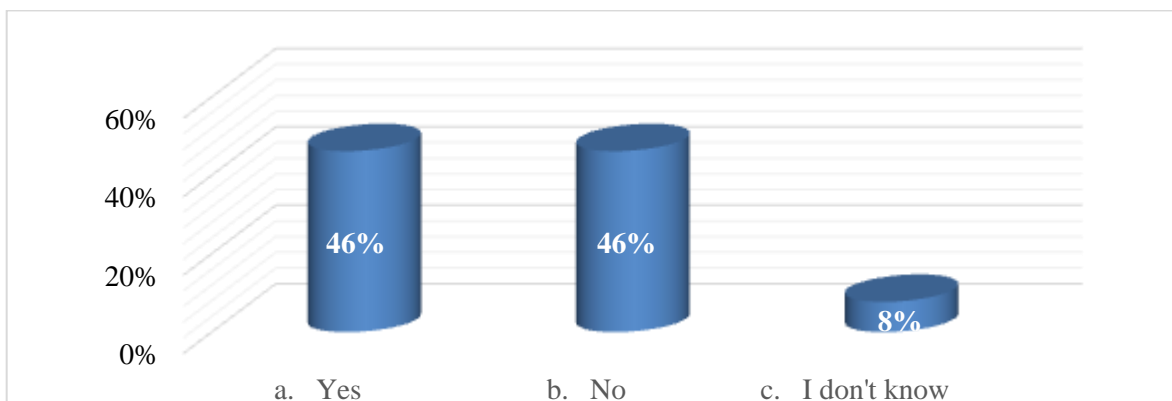


In addition, we asked if they have the knowledge and calculate the indicators of the value-added structure. 58% were answered yes, 35% no and 8% they have no knowledge of the essence of the question.

Of course, having insufficient knowledge for the notion of the value-added, they do not recognize and calculate for their economic entities, the indicators of value-added composition. Based on this fact, insufficient knowledge and use of indicators based on the value-added, at our study, we focus on the indicators of the value-added, on the manner of calculating and interpreting them. This is in order to provide the operators with the methodology of calculating and interpreting these indicators, depending on the activities they perform.

While the question "Have you information on indicators of the value-added efficiency"? we received these answers: 46% of the respondents claim that they have information about these indicators, 46% do not know and 8% have no information related to them (figure 6).

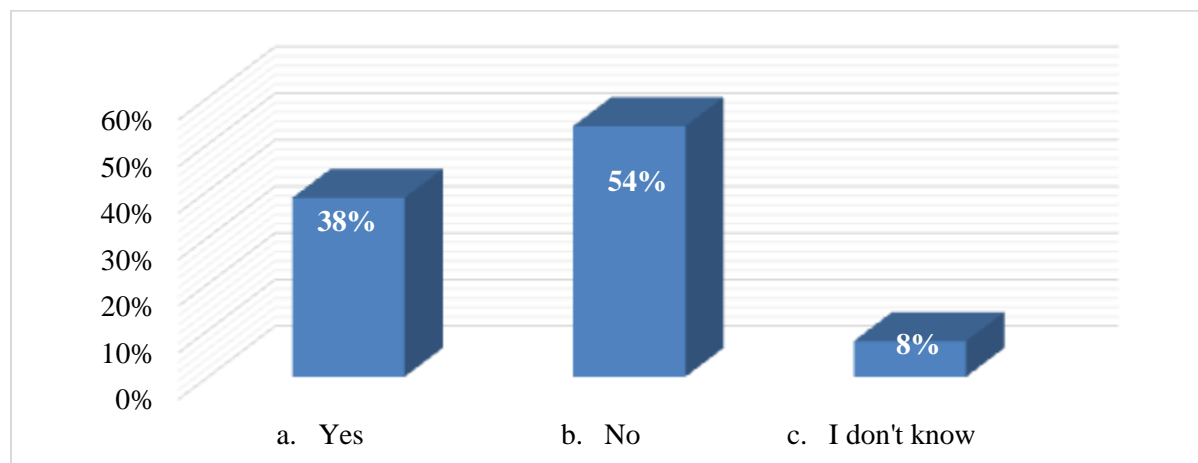
Figure 6. Do you have information on "Value-added" efficiency indicators?



Efficiency indicators are thus named as they are intended to assess the enterprise's ability to produce wealth through rational and economical use of resources. Among them, we can mention the rate of return of sales in terms of value-added.

The question "do you have information on indicators of value-added development"? Respondents responded: 38% claim that they have information about these indicators, 54% do not know and 8% have no information about them (figure 7). Performance of remuneration of domestic subjects is undoubtedly essential, but it should but what must always be kept in mind is that the enterprise is consciously dividing assets not produced by the development of the activity and, above all, that this is not the case in successive years. To distribute unproductive wealth during the exercise is like reducing net wealth and, consequently, to damage the disturbing life of the enterprise itself; on the contrary, carries out profit retention is an important sign of potential development for the enterprise that will make other investments thanks to the financing itself. The development of each enterprise is of interest for all *stakeholders*; in fact, continuity in respect of wealth can only be guaranteed if the company continues to live and produce value. Also, the development of each enterprise is a good sign for external entities, for example, the workforce waiting to be hired, etc.

Figure 7. Do you have information on "Value Added" development indicators?



The question "Have you knowledge of methods of defining the value-added? 31% were answered yes, 62% no and 7% do not know. The value-added may be calculated through two methods: direct and indirect methods, the value-added can be considered as the algebraic sum of the components placed above it (in the financial account reclassified with the value-added) and arithmetic components placed above it. We emphasize that there is no reclassification methodology of financial account that is absolutely preferred over all other economists.



However, there are different models which, rather than alternatives, are complementary to each other for the common purpose of improving knowledge of the economic performance of the enterprise. Instead, it is possible, and of course, it is necessary to proceed with the calculation of indicators capable of presenting better the aspects of enterprise management, namely the production and distribution of value-added. The role of the indicators, based on value-added, is similar to the indicators that traditionally are used in the balance analysis.

"Do you calculate the added value in your entity," 81% were answered positively, 4% negatively, 15% do not know. Following the question, if they give a definite answer, "if yes, why do you count it?" 81% respond to management needs, 15% for the needs of the fiscal system and 4% in response to banks' requests.

Concerning the manner and degree of integration of the company formulated the question "how is your integrated enterprise" received the following answers: vertically 31%, horizontally 23% and do not have the right knowledge 46%.

However, it should be noted that a high degree of integration can be a strong point of the enterprise, which turns out to be more independent and, consequently, in better contractual positions, in relation to external suppliers and their claims possible excess in terms of the price of supply conditions.

## CONCLUSIONS

As resulted from given answers from the interviewers, they do not have full knowledge about the concept "the value-added." Consequently, based on these results, we found that, of course, not having the proper knowledge of the notion of value-added, do not even have information on different indicators which have the value-added as the basis of calculation. This shows that the educational institution do not sufficiently treated the notion of "value added". Therefore, we will recommend that this topic be treated in high schools and faculties since many developed countries study the notion "value-added," both in economic and social aspects broadly. Maybe, perhaps, the accounting should treat the value-added more widely and more precisely, as it is also a basis for calculating value-added tax. The value-added should be considered to analyze an entity's performance as it expresses:

The entity's creative ability and its contribution to enhancing the social product through production or profit; to stay on the market by transferring costs over selling prices; to add value to acquisitions from other entities.

The value-added indicates what share of production is realized within the entity. If production is decentralized, the value-added does not appear directly in the financial account

(profit and loss). However, this account contains all the necessary elements for determining the value-added.

To calculate the report through the value-added and the production value. The higher this ratio, the more integrated the entity.

Information that derives from the analysis of the value-added fulfill, through the publication, the needs for information for decision-making purposes of various interested groups, namely of the shareholders, both current and potential; external financiers, always both current and potential; in different shapes and repayment term; of the employers, at work, in pension, and potential ones financial analysts and consultants; competing system actors, namely customers, suppliers, etc.; public administration, mainly financial administration and local entities; the general public, including contributors, consumer associations, environmentalists, and other stakeholders, both nationally and locally.

Also, the fiscal system authorities should be better engaged in the training of their administration, in order to exert influence on managers, accountants of entities, private studios of certified accountants and accounting experts in order to increase their professional level, to perform a comprehensive analysis of the performance of entities through the traditional balance sheet and advanced value-added indicators.

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