

## ACCOUNTING INFORMATION ABOUT BUSINESS RESULTS AND PERFORMANCE ACCORDING TO VALUE CHAIN AND EFFECTS ON BUSINESS MANAGEMENT IN VIETNAM

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**A** value chain is a concept from business management that has affected considerably accounting in identifying, measuring and presenting the results and business performance (or business performance for short) in the context of international integration. And in its turn, accounting information about business performance according to the value chain can help managers form their visions and take appropriate actions to manage their businesses in the integrating world.

Accounting information about business performance is part of important financial-economic information that reflects views on management and affects greatly assessment and orientation of business operations. Up to now, realizing the business performance has been described according to two views on management: specialization and value chain. The specialization viewpoint is the basis that governs and forms the accounting information about business performance based on the specialization and common in many countries including Vietnam. The value chain viewpoint is the basis that governs and forms the accounting information about business performance based on the value chain and it has affected considerably the business operations.

According to the specialization viewpoint, busi-

ness operation is organized and managed according to various value-generating stages. It is a division and arrangement of business process into stages or functional parts in the organizational – management structure based on specialization. Therefore the business performance is identified, oriented, measured and assessed separately at each stage of the process, such as investment, production, and distribution; or at functional parts of the organization based on the specialization, such as departments of investment, production and distribution. Such identification, orientation, measurement and assessment typically orient managers towards measures to improve and regulate business operations with a view to maximizing the added value at each stage or department.

From this viewpoint, the accounting information is also developed, measured and presented separately according to each specialized stage or department. This approach shows itself clearly in accounting materials, especially in financial accounting materials of both foreign and local companies, such as investments, production costs, selling expenses, sales, profit, and profitability ratio from each stage or department. In fact, such information only orients managers towards measures to adjust operations inside the organization instead of the ones to cooperate with other partners.

The accounting information specialized in production cost (cost of a unit = total cost/ units pro-

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duced) apparently urges the managers to reduce costs by taking such measures as practicing thrift, reducing expenses on inputs in each stage of production, and replacing machines and technologies or increasing the labor force to increase the output, etc.

In the past when semi-automatic technologies were dominant, IT has not yet developed, market demand often exceeded supply, large-scale production repeated itself many times, life cycle of products was long, and competition was limited to region or domestic market, the specialization viewpoint was appropriate and specialization-based accounting information was useful. In fact, such information helped companies gain great achievements that facilitated social progress.

With value chain analysis, management of business operation is based on the value chain. This is a totally new view on the business management that treats all operations as a system comprising all factors of the value-generating process including pre-beginning, beginning to end, and post-end. This viewpoint orients managers towards ways of realizing, orienting, measuring and assessing business operations in their overall process and in their relations with suppliers, customers and communities with a view to making the best use of advantages in terms of trade, labor, technology, and natural resources, etc. within reach of the organization and participants in the generic value chain.

The concept of value chain creates a requirement, and a basis for renovation of accounting and accounting information of business performance. As a result, the business performance should not be measured and presented separately for each stage or department of the company but for the whole process from pre-beginning to post-end activities in open relations with other organizations and local communities.

The birth of the concept of value chain is inevitable in the context of modern business climate where technologies develop quickly and productivity gets higher and higher. Business operations are divided into narrow and changeable lines of product, the life cycle of product shortens, integration and competition take place globally, and economic cooperation between nations develops extensively and intensively. Changes in views on management and in accounting information about

business performance according to the concept of value chain made their appearance and affected greatly the companies and are considered as a new direction for re-organization and management and a need for essential information to work out solutions to management and financial issues during the international integration. With the birth of new management models, reconstruction of business operations in a vertical integration, and activity-based accounting, information about business performance is presented in all aspects – finance, technology, market, investment and internal renovation, and human resource – in the balance scored card, which helps many companies, such as AAA, Coca Cola, and Toyota, position their operations in cooperation and connection thereby improving their performance and becoming more friendly to the environment and communities; and leads to bold forms of cooperation at larger scales, such as the recent combination of AAA and Prudential.

In Vietnam, the concept of value chain is still new to most companies. This concept is rarely mentioned in their business strategies. In the electronic industry for example, its strategy still aims at enhancing its independence by adopting measures to orient investment towards production of parts and components while this is the field where local companies can hardly compete with well-established companies from developed countries. And as a result, parts produced by Vietnam couldn't survive foreign competition because of their poor specifications and high prices. The following table shows accounting systems of local companies.

**Table 1: Accounting system of local companies**

Source: Survey of 500 local companies in 2009

<b>Financial accounting</b>	
- Based on specialization	100%
- Based on concept of value chain	0%
<b>Management accounting</b>	
- Based on specialization	92%
- Based on concept of value chain	8%

Accounting information in general and accounting information about business performance has the following characteristics and effects:

(1) Accounting information and accounting information about business performance is only

measured and presented according to stages of production or specialized departments of organizations, therefore such information only reflects financial situation of each stage and department.

(2) Regarding the financial aspect, such information usually orients financial managers towards short-term visions and a limited financial picture of the business performance, therefore, financial managers fail to pay attention to financial measures related to outside factors. As a result, to improve the financial situation, managers tend to cut expenses for short-term benefits, which may lead to bigger expenses in future (because of pollution for example); and make huge investment in replacement of technology and production lines in order to increase the output and improve the performance, which may lead to potential risks caused by fluctuations in market prices and competition, and to failure to get payback from investment.

(3) Regarding the business management, such information encourages managers to establish control and supervision of separate stages of production or departments instead of considering them as parts of a broader cooperation or combination. Organizations, therefore, can not position themselves, identify their advantages and strengths, and make the best use of advantages and other resources brought about by cooperation or combination with outside partners. Dealing with personnel issues, managers also tend to treat their employees as individuals, instead of work teams, which may lead to a situation in which some individuals have considerable influences on operations and their absence may lead to huge financial damage.

The said situation explains to a certain extent clumsiness of business strategy and management

in local companies during the international integration.

At present when the business climate changes rapidly and international integration becomes inevitable, value chain viewpoint and supply of accounting information based on the value chain concept should be applied as soon as possible. This is a strategic issue and an important measure to improve the quality of management and supply of information with a view to offering exact financial pictures that can help companies to enhance their competitiveness and performance. In my opinion, the following tasks must be carried out soon.

- Theory of value chain and its effects on, and role in, business management should be studied and introduced to companies in order to open a new direction and popularize modern managerial method.

- Objectives of regulations about disclosure and publication of accounting information must be reviewed in order to avoid restrictions on development of management accounting and help accounting department in companies reform themselves and supply accounting information timely as the managerial methods changes, thereby perfecting the picture of financial situation and performance of the companies.

- Components of the accounting system of companies in the market economy and international integration must be re-defined. Accounting departments should not only pay full attention to components of the accounting job, such as invoices, accounts, ledgers, reports and regulations governing the accounting jobs but also identify relations between their jobs with social, legal, technical and managerial environment, thereby establishing cooperation and connection with other departments

to study and carry out the reform in business management.

- The management accounting in the accounting departments of companies must be applied and developed to generate renovation and breakthrough in the supply of accounting information to get rid of serious shortage of management information because the local companies are still dependent too much on, or limited themselves to, financial accounting information.

- Business performance and its components, such as income, expenditures and use of resources, must be identified, measured and presented exactly and fully in three levels: within the company, relations with suppliers, and relation with customers. The following may help clarify the concept.

Corporate income = Income from corporate operations + Income from cooperation with partners  
Corporate expense = Expenses on operations + Expenses on cooperation

Corporate resource = Internal resources + External resources

Corporate result = Result of operations + Result of cooperation

Corporate performance = (Results of operation/ corporate resource) %

Viewpoint and accounting information based on the value chain concept and its effects on the business performance constitute a theoretical and practical issue totally new to most local companies. This article only provides an idea of the need for studies and application of new concept to the accounting business with a view to reforming the accounting job and enhancing the usefulness of accounting information in an effort to help local

companies work out right direction towards development and international integration ■

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