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Extended Scoping of the Value-Added Statement to Broaden Corporate Sustainability Disclosures: Leveraging on the Mechanics of the Conventional Accounting Practice

Author:

Richard Kojo Tawiah (User ID: 1125)
{FCCA, PG Dip., PG Cert., MBA, CIMA Adv.Dip M.A., ACFE, B.Com Hons.}

Portfolio: *Lecturer in Accounting and Financial Management at the University of the West of Scotland, UK;*
PhD Researcher at the University of Strathclyde, UK.

Co-Authors and Supervisors:

Dr. Andrea B. Coulson, Reader and Director of PRME, University of Strathclyde
Prof. Krishna Paudyal, Vice-Dean, Research, University of Strathclyde Business School

Purpose - The purpose of this paper is to examine and explain how the value-added statement (VAS) could be re-presented in a more comprehensive format using the same basic accounting framework. In doing so, the paper examines the need to spool out more metrics of values, not just from the income statement (Statement of Comprehensive Income or Profit and Loss Account), but also from the other three traditional financial statements, namely, the Statement of Financial Position (Balance Sheet), the Statement of Cashflows and the Statement of Changes in Equity.

Design/methodology/approach – The researcher adopted and built upon the Haller and van Staden (2014) revised VAS reporting model proposed to incorporate an Integrated Reporting instrument.

Findings – The research finds that Haller and Van Staden (2014) proposed VAS format is quite elaborative and recognizes extra items of value generation and appropriation is worth disclosing by firms. However, this paper recognizes some missing links in the proposed format, significant among which is that, the expanded format limits value creation and distribution to only the income statement items without cognizance to the value items in the other financial statements.

Research implications - Further research is required to unearth additional relevant items of values created and appropriated by the firm. Value should not be constricted to just quantitative metrics. Including other important items, such as, natural capital and other capitals result in both qualitative and quantifiable values which can be reconciled to firm activities and disclosed appropriately.

Practical Implications – The research assists the development of accounting practice (including audit and assurance), standards and corporate policies by articulating the expanded meaning of

values to stakeholders. This helps in enacting new and/or modifying and revising existing practice standards, such as the IASs, ISAs, GAAPs and IFRSs, to incorporate the recognition, measurement and disclosure of individual, corporate and ultimately national values.

Social Implications – The expanded conceptualization of value could inform national governments and related stakeholders on how to model and widen their national accounting standards and practices to appropriately unearth and recognize values which were previously undisclosed. This could aid in the proper assessment of economic welfare and national well-being.

Originality/value – The paper carefully examines value reporting from the traditionally simplistic approach by assessing the interrelationships between the various models and formats. The expanded assessment of values from the conventional financial statements, at a start, without limiting values to only the economic transactions of the income statement, leads to a proper scoping and framing of the concept of value.

Keywords: Value-Added Statement; Sustainability; Financial value; Non-Financial value; Reporting.

Paper type: Research paper

I. Introduction and Background

For centuries, financial and non-financial reports have been prepared using historical narratives to connote values and interpretations that underpin management's stewardships for and accountability to varied stakeholders (Thomas and Ward, 2019, p. 6). Interestingly, these historical stewardship accounting practices is a corporate social convention that is and should be tailored to meet all dimensions of stakeholder needs, namely the economic, environmental and social facets (Gray, 2002). Conversely, Atrill and McLaney (2019) argued that the practice has been predominantly skewed and associated with the economic reporting and representation of an organisation's commercial activities in financial terms that allows users to make informed decisions. If accounting is reduced to representing the commercial and economic metrics of an entity, then all accountings will be circumscribed to the conventional financial and management accounting practices. Unfortunately, most organisations adopt this crude definition of conventional accounting to represent all accountings. It is noteworthy that conventional accounting practice has ridden on the shoulders of the concept of capitalism, and it had, over the centuries, restricted its practices to meet the needs of capitalism (Gray et al., 2014).

Friedman (2009) explained capitalism to mean a political and economic system where private corporate entities control the commercial, trading and industrial activities of the economy

for profit motives. Capitalism hinges on the concurrent development of individual and firm capacities, thereby driving organisations to manage the financial capital of investors in order to create values. Based on this notion, it is thought that if accounting and accountability leverage on a capitalist approach, the two interrelated disciplines might operate solely for the commercial interests of companies and not necessarily for the common good of the society. In contrast, Stolowy and Ding (2017, p.2) noted that "Accounting is the language of the business", and such a dialect permeates all the phases of the entity, i.e. the economic, social, environmental and governance dimensions. This suggests that it is necessary for firms to operate, generate and preserve value from and for all the dimensions of such a language that communicates, underpins and justifies the reason and existence of the entities.

The above development has led to arguments that comparative and supplementary forms of accounting should be designed to cater for reporting the non-conventional aspects, non-financial capitals and expanding the traditional value reporting components (Medawar, 1976; Dey, 2003; Dey, 2007; Ruffing, 2007; Gray, 1997; Gray et al., 2014). The idea of such an expanded reporting is to safeguard the corporate economic profits whilst attaining information symmetry and reliability and sustaining the common good of the society at large. A reasonable approach to tackle this issue of supplemental and expanded corporate reporting is the use of the value-added statement (VAS). The VAS has the potential of capitalizing on the standardized and regulated financial reporting frameworks to chart the path for information verification and social justice objectives.

II. The Value-Added Statements – Background and Practice

In the 1975, the UK's Accounting Standards Steering Committee (ASSC) birthed the concept of value-added reporting in the United Kingdom (*The Corporate Report, 1975*). The Accounting Standard Steering Committee (ASSC), in association with the Institute of Chartered Accountants in England and Wales (ICAEW) and other regulatory bodies commissioned the *Corporate Report* in 1975 to incorporate a "Fourth Financial Statement" termed the Value-Added Statement (VAS). The VAS was to serve as a supplemental report in addition to the traditional Profit and Loss Account (now Statement of Comprehensive Income), Balance Sheet (now Statement of Financial Position) and Statement of Cashflows (Aldama and Zicari, 2012). The VAS was meant to disclose all values created by the firm and distributed or attributed to seven key stakeholders namely Shareholders, Employees, Government and Society, Suppliers, Community, Lenders and reinvestments or residual profits (Morley, 1979). According to Aldama and Zicari,

(2012) there are several possible arguments advanced in favour of adopting the VAS as a "Fourth Financial Statement", chief among include:

- the possibility to plan for sustainability activities that meet various stakeholder needs; and
- the depiction of actual values created by and attributed/distributed to whom which aids in assigning credence to both human resources and societal inputs.

The above propositions by the ASSC is similar to contemporary intuition and practices by regulatory bodies such as the ACCA, CFA, and CIMA-AICPA. These approaches reflect a traditional approach to capitalism supported by Political Economy Theory. To illustrate, the CIMA-AICPA has incorporated it into their F3 (Financial Strategy Paper) examinable areas which requires the students to comprehend sustainability reporting requirements in corporate reports (CIMA F3, 2019). Compared with bodies like the ACCA and CIMA, and to promote the concept of expanded corporate reporting, other regulatory bodies like the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC) have proposed guidelines and frameworks respectively to aid companies in meeting the varied stakeholder information needs via expanded reporting practices (GRI, 2018; IIRC <IR> 2018).

The main weakness associated with the GRI guidelines and <IR> frameworks is that they are voluntary and not mandatory. Firms are allowed to choose and pick which dimensions to report on which could result in reporting skewness and biasness thereby defeating a couple of the qualitative characteristics of corporate reporting, namely, *Relevance, Reliability, Comparability and Representational Faithfulness* (Alexander et al, 2017; Elliot and Elliot, 2019). A much more regulated, standardized and mandatory approach to adopting either the GRI guidelines or <IR> frameworks for expanded reporting could ensure information comparability over time, consistency in reporting metrics and dimensions, and promote reliance on these reporting metrics by the stakeholders concerned.

III. Theoretical Framework for Expanded Stakeholder Reporting

Regarding the topic of expanded reporting to meet various stakeholder needs, a number of theories have been put forward to support such advancements. These theories include alternative and more critical approaches to political economy such as the neo-liberal critiques, Legitimacy Theory and Stakeholder Theory. In this project, in addition to the above neo-liberal critiques, the

Political Economy Theory and Media Agenda-Setting Theory will be briefly examined to assess their applicability to the research question on how to expand the VAS to incorporate various disclosures in the quest to meet varied stakeholder needs.

Academic literature on these theoretical frameworks has revealed the emergence and interrelationships of parallel theories underpinning firms' reporting activities. For instance, it is ascertained that the Stakeholder, Legitimacy and Institutional Theories emanated from the political economy theoretical framework.

A significant aspect of meeting societal information needs is thrust in by the Media Agenda-Setting Theory. According to Shaw (1979), humans become enlightened, exposed, aware of, pay attention to, take cognizance of societal, economic, governance and environmental issues as a result of their exposure to the varied media outlets such as the radio, internet, television and newspaper publications. This media exposure and enlightenment process helps to "bridge the gap between the world outside and the pictures in our minds" (McCombs and Valenzuela, 2007, p.45). Conversely, when there is little or no exposure to the various media outlets or the available media contents are less emphasized by the broadcasters, then people (stakeholders) are deemed not to assign any significant interest or importance to sustainability issues affecting the society. To Shaw (1979) and McCombs and Shaw (1972), the emphasis of the Media Agenda-Setting Theory is not about moral persuasion of the public to societal issues (i.e. substance of the report) but instead on the cognitive effects such reportages have on the stakeholders (i.e. the structure of the report for ease of assimilation by the consumers which shapes human understanding of media content). In the same vein, McCombs and Valenzuela (2007) argued that such diligent media exposé has led to enactments of legislations to regulate public behaviours and protect the interests of the masses.

Recent research has revealed the impact of advancing the Media Agenda-Setting Theory. The theory has induced moral behaviour among corporations, especially publicly listed entities, to publish their sustainability and CSR reports (Van Staden, 2000; Cahan and Van Staden, 2009). Taken together, these breadths and lengths of the Media Agenda-Setting Theory suggest the possibility of firms voluntarily disclosing their corporate sustainability activities in order to court public favour and retain their status as going concerns.

Organisational activities within the socio-political and economic spheres/frameworks that supports human lives earmarks the Political Economy Theory (Gray, Owen and Adams., 1996,

p.47). Accordingly, the Political Economy Theory postulates that organisations operating within the broader socio-political and economic environment should produce corporate reports that capture and reflect these dimensions. The financial statements and related narratives or disclosures are thus perceived to be social, economic and political statements since these three atmospheres provide the firm with the impetus to operate (Guthrie and Parker, 1990).

The Political Economy Theory has been found to produce two opposing dimensions, the classical strand and the bourgeois perspective. Gray, Owen and Adams (1996) critically derived that the classical perspective is geared towards the Marxist approach of exclusivity, inequity, identification of sectional classes of stakeholders and structural conflict. This perspective requires firms to segregate and satisfy stakeholders who command control, wield influence and power. Such an approach consequently results in firms operating solely to satisfy the capital providers via profit maximization schemes since these investors command the capital flows of the company. On the other hand, the bourgeois strand is pluralistic in nature and considers the entire society as stakeholders worth satisfying (Gray, Kouhy and Lavers, 1995). In effect, this pluralistic approach results in expanded corporate reporting and disclosures that provides value-effects to the wider stakeholder groups by satisfying their required information needs.

Equally important to the development of value statements to stakeholders' information needs is the framework of Stakeholder Theory. Stakeholder Theory, a fall-out of the bourgeois political economy perspective, purports that firms hold social contracts with the societies which mandates a reciprocity of responsibilities (Deegan, 2010). Firms provide corporations with the social license and conducive environment to operate, and organisations are equally required to account reasonably to the society for the resource inputs received. It is however argued that firms adopt either of two developmental strands under the Stakeholder Theory to advance its reporting responsibilities. According Hasnas (1998), proposes the ethical or moral (also termed the normative) dimension of the Stakeholder Theory which requires the firm to treat all stakeholders fairly. Although varied stakeholder powers and influences exists, the ethical strands postulates that organisations should ignore these levels of influences and control/power and ensure equity to the stakeholders. This argument could be attributed to the fact that corporate disclosures and reporting are firm-driven approaches. Hence, the extent to which the firm's activities affect the particular stakeholder will determine the extent of reporting responsibilities to the stakeholder regardless of

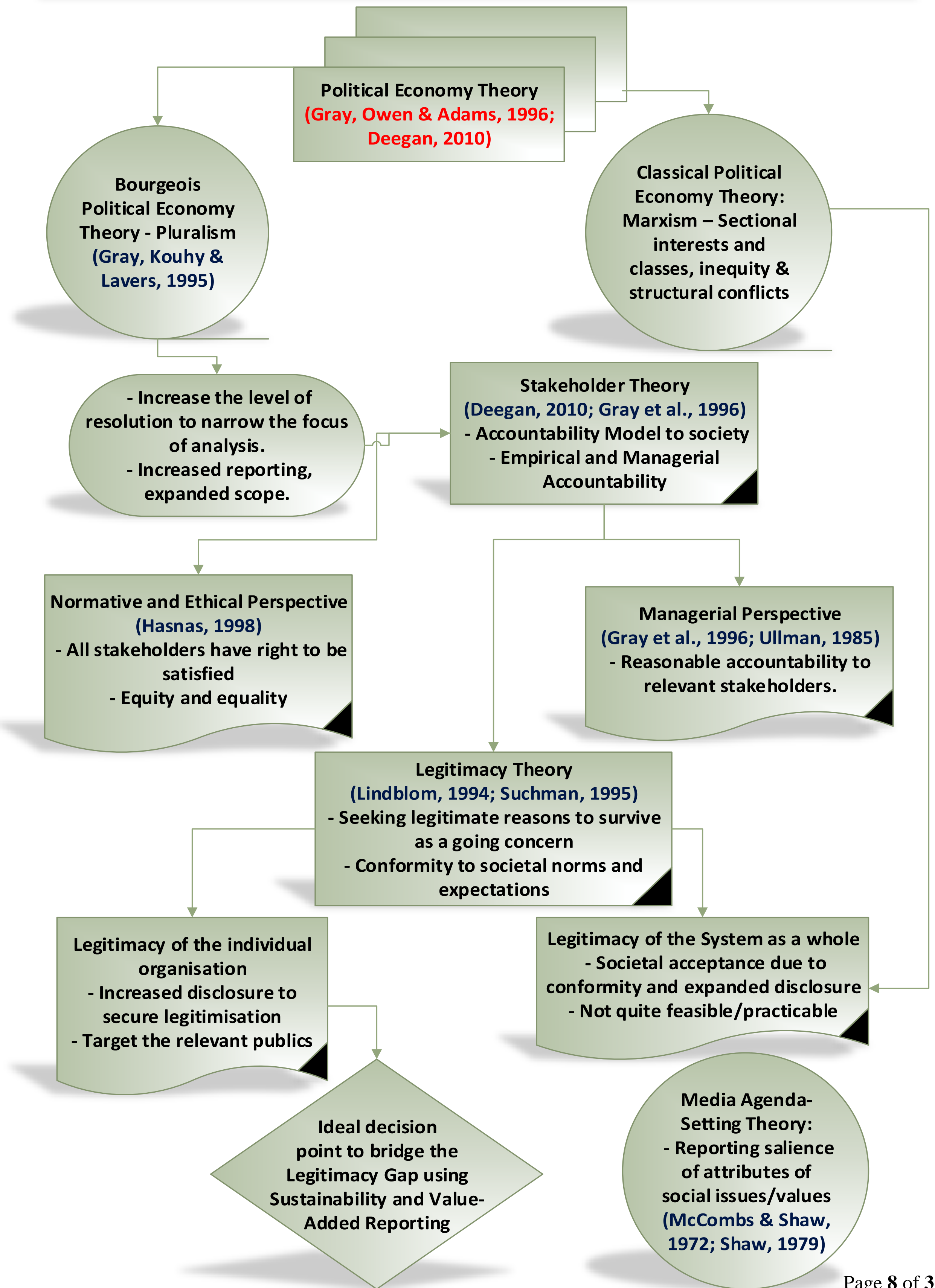
his/her power or influence. Equity, not equality is the key point under the ethical or moral perspective.

Conversely, Gray, Owen and Adams (1996) proposed that companies could adopt the managerial approach of the Stakeholder Theory where firms respond to only the "relevant publics". This approach is more centred on the organisation. It advocates that firms should reasonably and practically attend to the information and value needs of key, relevant and identifiable stakeholders whose actions can impact the going concern status of the firm. Consistent to Gray, Owen and Adams (1996) stance are the thoughts of Buhr (2002), Nasi et al., (1997) and Bailey et al., (2000) who concurred that the most influential and powerful stakeholder groups should be attended to by the firm since these stakeholders wield material and pervasive influences over the operational existence of the firm.

Closely aligned to the Stakeholder Theory is another fallout of the bourgeois Political Economy Theory, Legitimacy Theory (Gray, Kouhy and Lavers, 1995). Legitimacy Theory equally argues that the society provides the firm with the social contract and license to operate; thus, the company owes a duty of care and responsibility to the society in return for firm survival. Per Lindblom (1994), Legitimacy underscores the corporation's quest to secure a legislative backing from society permitting the former to operate into the foreseeable future period as a going concern. This stance is corroborated by Suchman (1995) who intimated that Legitimacy is a social resource that must be conferred onto the organisation by the society as a result of the former's compliance to societal norms, mores and expectations. Under Legitimacy Theory, firm activities must be construed as being "legitimate" in the eyes of the general populace with recourse to little or no deviations from the expected benchmarks.

It has been reported that legitimacy is perception-driven and not about doing what is absolutely right (Nasi et al., 1997). Legitimacy is all about how the society, in which the firm operates, perceives the firm to be. Hence, a consistent and appropriate (not necessarily comprehensive) disclosure strategy by the reporting firm to the relevant publics is key to sustaining and acquiring legitimacy. It is thus required that firms adjust to societal expectations and perceptions in order to uphold legitimacy (Lindblom, 1994).

Below is a flowchart illustrating the system-based theoretical frameworks discussed above.


Systems-Based Theories of Sustainability Reporting and Accounting
Political Economy Theory
(Gray, Owen & Adams, 1996; Deegan, 2010)
Bourgeois Political Economy Theory - Pluralism
(Gray, Kouhy & Lavers, 1995)
Classical Political Economy Theory: Marxism – Sectional interests and classes, inequity & structural conflicts
- Increase the level of resolution to narrow the focus of analysis.
- Increased reporting, expanded scope.
Stakeholder Theory
(Deegan, 2010; Gray et al., 1996)
- Accountability Model to society
- Empirical and Managerial Accountability
Normative and Ethical Perspective
(Hasnas, 1998)
- All stakeholders have right to be satisfied
- Equity and equality
Managerial Perspective
(Gray et al., 1996; Ullman, 1985)
- Reasonable accountability to relevant stakeholders.
Legitimacy Theory
(Lindblom, 1994; Suchman, 1995)
- Seeking legitimate reasons to survive as a going concern
- Conformity to societal norms and expectations
Legitimacy of the individual organisation
- Increased disclosure to secure legitimisation
- Target the relevant publics
Legitimacy of the System as a whole
- Societal acceptance due to conformity and expanded disclosure
- Not quite feasible/practicable
Ideal decision point to bridge the Legitimacy Gap using Sustainability and Value-Added Reporting
Media Agenda-Setting Theory:
- Reporting salience of attributes of social issues/values
(McCombs & Shaw, 1972; Shaw, 1979)

IV. The VAS – Market Adoption and Subsequent Developments

Currently, there are no internationally acceptable and generic reporting standard(s) regulating the preparation, reporting and disclosure of the contents of the value-added statements. As situations differ from one socio-political economy to another, so are Value Added Statements published in each economy (Aldama and Zicari, 2012; IFRS 2019). Just as accounting is an ever-changing social institution in continuous linear evolution per country legislations, so is the VAS. Firms and industries are thus allowed to modify the VAS format and structure in order to suit firm and industry requirements. Regardless of the above, significant aspects of the *Corporate Report* published in 1975 and the related other contemporary modifications to the VAS clearly depict that all value-added statements share common features. For instance, whether in North America, Western Europe, Latin America or UK, VAS is presented by disclosing the values created by the firm and attributed to stakeholders, key among which are the shareholders, employees, government and financiers or lenders (Morley, 1979; Meek and Gray, 1988; Haller and van Staden, 2014).

Regarding the market adoption of the VAS, Morley (1979) identified that about 25% of the 100 largest companies in the UK were voluntarily incorporating the VAS in their annual corporate accounts. According to Meek and Gray (1988), the UK (the rest of Europe) tower towards the socialist order and require firms to help fix the society since their operations hinge on society and impact the social system. It is thought that this socio-political stance of the UK (and the rest of Europe), which is backed by the political economy theory, should motivate firms to constantly report on the value they create for the society. Comparatively, in recent times, the practice of corporate VAS reporting on the values created for and attributed to the various stakeholders have waned, although other voluntary reports (like sustainability and CSR reporting) have increasingly been used instead. This may be due to the loss of interest by the stakeholders, the demotivating effects of a confusing stakeholder theory that knows no boundaries, and the extensive effort required to provide footnotes for the VAS (Aldama and Zicari, 2012, van Staden, 1998; van Staden, 2000).

On the other hand, Meek and Gray (1988), who appeared to support a pluralistic approach to value-added reporting, identified that US firms are more prone to a capitalist regime and think that they do not owe anything to the society. This is driven by the classical perspective of the political economy theoretical framework due to its mainstream alignment to the capitalist approach. Hence, it is expected of US firms to produce less of VAS in their annual accounts. This

is because the arguments made by proponents of a capitalist approach argue that, since the shareholders are the owners and ultimate financial risk-bearers of the firm, organisations must operate for the sole benefit of these risk-takers (Prikens, Jr., 1986). However, in a *Business Week* article published in 1987, the chairman of Avon Products argued that corporate organisations must extend their mandates beyond the economic motif of profit maximizations to cover the drivers of the firm, i.e. the employees, community leaders, customer base, government and few minority stakeholders whose daily decisions could either make or sabotage the going concern prospects of the firm (*International Business Week, May 18, 1987*). The production of the VAS in the US, thus, achieves this second argument to a very large extent since all stakeholders, and not just the providers of capital, are recognized as participants in the going concern status of the firm. However, these arguments become short-lived when the UK and Western European firms (who are more geared towards society) are losing interest in the voluntary publication of the VAS; the rhetorical question that remains open is that, what will become of the North American firms that tilt towards a capitalist regime.

Despite the waning interest in the production of the VAS in the UK and USA, emerging markets such as the Latin Americas, South Africa, Kenya, Nigeria and Ghana seem to be developing keen interests in the adoption and effective implementation of the practice. For instance, as at 1998, over 50% out of the 400 firms listed under the industrial sector of the Johannesburg Stock Exchange (JSE) are required to mandatorily publish their VAS in addition to the usual traditional financial statements (van Staden, 1998). A possible reason for this trend in emerging markets could be attributed to the strong positive linear correlation that exists between VAS information, and market indicators and related accounting variables such as cashflows and earnings (Riahi-Belkaoui, 1993; Karpik and Belkaoui, 1990).

Although extensive research has been carried out on VAS correlation with market indicators and econometrics, little or no research has been done to link VAS information to non-financial interests of the (key) stakeholders, e.g. the safety and security of employees, lower levels of carbon emissions, less pollution and discharge of cyanide into water bodies and improved customer satisfaction and client retention ratios. It is interesting to note that there is an absence of research as to why this non-reconciliation or direct attribution and consolidation of quantitative to qualitative value reporting is not undertaken by corporate organisations. Virtually all research on

VAS is centred on economic reporting and quantitative disclosures with little or no provision for qualitative metrics. A likely explanation is the tailoring of the VAS to the income statements which are supported by a classical approach to the political economy theory – a theory that overtly and latently underpins accounting practice.

Below is figure 1 illustrating the early development of the VAS concept and its current positioning in the corporate reporting space. Summary narratives accompany the flowchart.

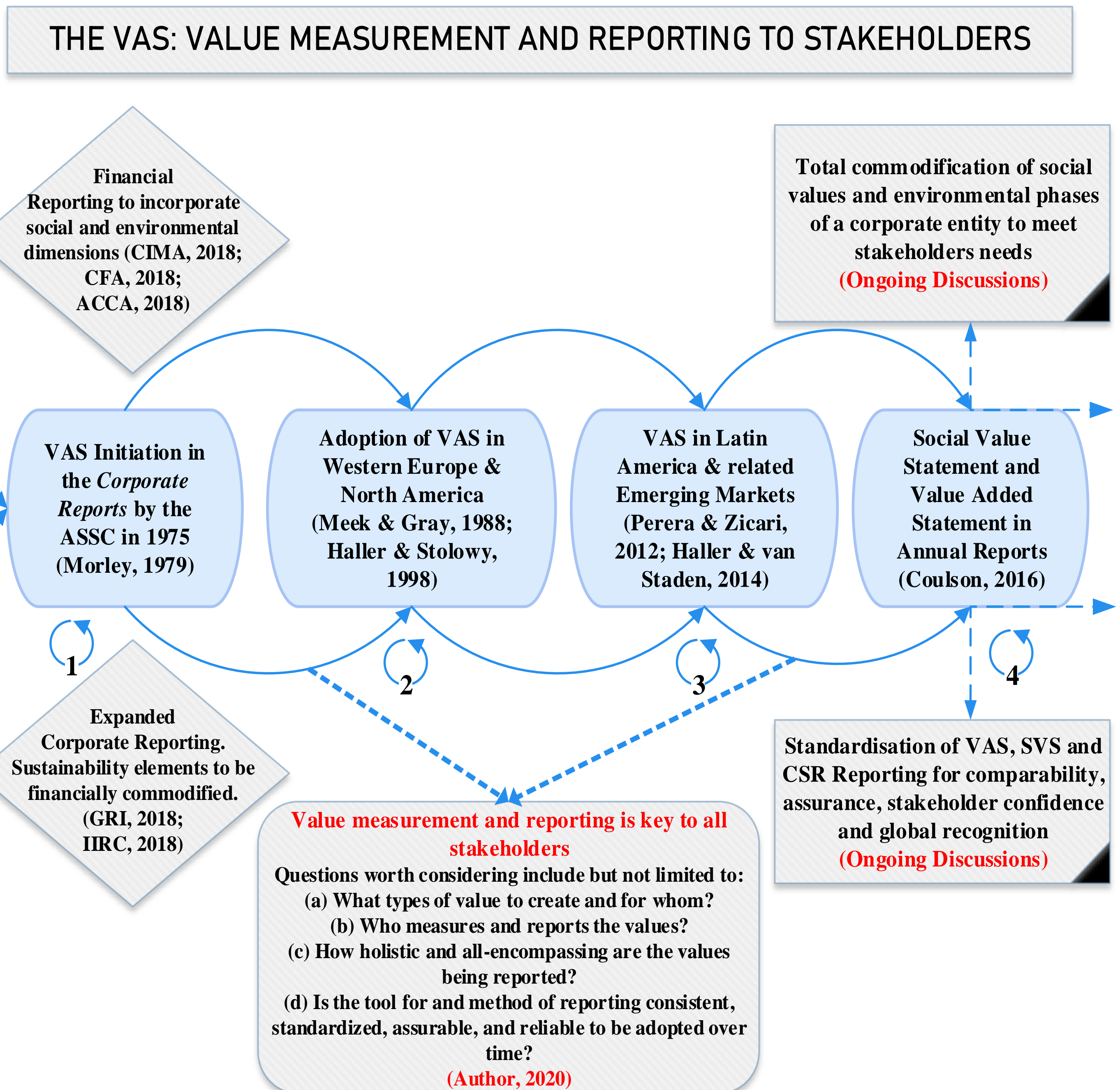


Figure 2: Value Measurement and Reporting Flowchart – VAS and Stakeholder

Synopsis of Figure 1:

There (was/is) the view that conventional accounting is not robust enough to represent all aspects of the corporate entity in financial terms. New reporting metrics like the IIRC's <IR> and the GRI Guidelines were developed to provide basis and formats for reporting on the non-financial phases of the firm. The regulatory bodies and standard setters like ACCA and FASB have incorporated these new requirements in their standards and professional practices.

The VAS, initiated in 1975 in the UK, gained grounds until it gradually began to wane in the early 1980s due to declining socio-political interests. Prior to the waning of the practice, the North America (precisely the USA) and Western Europe (France and Germany predominantly) adopted the VAS to benefit from its varied merits. These jurisdictions are gradually showing less interest in the effective adoption and implementation of the VAS.

In recent times, emerging markets such as Latin America, Southern Africa and some West African Countries like Ghana and Nigeria have developed interests in institutionalizing the adoption and implementation of the VAS as a core financial statement. The interests stem from recent keen socio-political interests by various stakeholders in the activities of the firms.

Efforts by academics and practitioners to streamline the practice of an effective and efficient VAS system has resulted in the need to present the Social Value Statements where social phenomenon will need to be commodified. This challenge seems pervasive given that no human factor or institution can reliably measure and place a financial value of items such as human life, customer satisfaction, safety and security of the environment.

There is the need to standardize the VAS and SVS through a collaborative effort between the firm, standard setters and all (key) stakeholders in order to meet stakeholder needs, allow for comparability and assurance of the statements and boost stakeholders' confidence in the practice. However, the question of commodification of social and environmental phenomena will remain an ongoing discussion if not necessarily a mystery to unravel.

V. The Value-Added Statements – Constructs, Mechanics and Content Analysis

The VAS is constructed from the same pool of information as the conventional accounting database, a repository of economic transactions that are theoretically buoyed by the profit maximization scheme or classical (political economy) approach to capitalism. It is founded on the same accounting concepts and principles as the traditional financial statements, i.e. the historical cost concepts, consistency, matching or accruals, and going concern principles apply to the preparation and reporting of the VAS. This provides the impetus and leeway to easily audit and verify the content of the VAS with the aim of providing adequate assurance for the users of such financial (and non-financial) reports (*Corporate Report, 1975*).

Two models were proposed for the VAS – the Additive (Direct) Model and Subtractive (Indirect) Model. The Additive model defines the social aspect and team membership of the value added by allocating the value created to the social stakeholders of the firm. In essence, the Additive model represents the remuneration to all the social productive factors that have contributed the firm values created and to whom such values could be credited (*Corporate Report, 1975;* Haller and Stolowy, 1998). On the other hand, the Subtractive model examines the economic performance phase of value added by simply deducting the total inputs from the aggregate outputs. This approach is consistently used when assessing the national income of an economy where the aggregate inputs of all economic entities such as individuals, firms, industry and entire nation are summed up to obtain the national product arising from economic activities of these economic entities (Haller and Stolowy, 1998). Haller and Stolowy (1998) simply represented the Additive and Subtractive Models (based on the above explanations) as depicted below:

$$VA = RE + RG + RCP + NAP \text{ .... } \textit{Direct or Additive Model}$$

$$VA = O - I \text{ .... } \textit{Indirect or Subtractive Model}$$

Where:

VA = Value Added

RE = Remuneration of Employees (Salaries, Wages, Bonuses, Pensions)

RG = Remuneration of Government in the form of Taxes

RCP = Remuneration to Capital Providers in the form of dividends, etc.

NAP = Non-Appropriated Profits (retained earnings or residual income)

I = Inputs

O = Outputs

Haller and Stolowy (1998) had limited their definition of value added to the economic performance of social, economic and corporate entities in the generation and aggregation of economic wealth that could be easily re-distributed to all stakeholders; wealth that contributes to the overall national income of the economy; and wealth measurement that is consistent with the macro-economic management of the economy. This represents a clear case of a capitalist framework which is arguably related to the political economy theory. However, the authors acknowledged that this definition and explanation of value added is not mutually exhaustive since

there could be other classified definitions of the concept based on theoretical frameworks, classifications, contents and scope of the various elements captured within the broader term of value added.

The approach used by Morley (1979) in computing value added is similar to that found in Haller and Stolowy's (1998) model, especially with the Additive model. Morley (1979) argues that Value Added could be presented either as Gross Value-Added or Net Value-Added, an approach hinging on the political economy theory which is typical of a capitalist approach. Consistent with Morley's (1979) proposition is that of Aldama and Zicari's (2012) empirical study that appeared to provide corroborative support to Morley's Gross and Net Value approaches (Aldama and Zicari, 2012, pp. 488 – 489). The Gross Value-Added approach, mainly used in practice by over 80% of UK firms, retains all the key contributors of value in its estimation of value prior to the deduction of depreciation and amortization of physical capacity or fixed assets (non-current assets) (Meek and Gray, 1988). On the other hand, the Net Value-Added approach deducts depreciation and amortization before arriving at the final wealth or value created. Below is the depiction of the Gross and Net Value-Added models:

$$\text{Gross Value Added:} \quad R = S - B - Dep - W - I - Div. - T; \text{ and}$$

$$\text{Net Value Added:} \quad S - B - Dep = W + I + Div. + T + R$$

Where:

R = Retained Profit or Residual Income

S = Sales Revenue

B = Bought-In Materials and Services (interchanged with Cost of Sales)

Dep = Depreciation and Amortization of Fixed Capacity

W = Wages and Salaries of Employees

I = Interest payable or Finance Costs associated with borrowing

Div. = Total Dividends payable in the year

T = Corporate Taxes

It is almost certain that the computation of economic value-added and its accompanying definitions seem similar in most literatures because most economies, practitioners and firms tend to adopt the UN's "System of National Accounts" (SNA) in measuring economic wealth and assessing value added. The SNA actually expands its scope of economic reporting to incorporate

reporting of the natural capitals such as greenhouse gas (GHG) emissions, human capital, social capital and natural resources via the use of annexures such as the UN's System of Environmental-Economic Accounting (SEEA) (Obst, 2015; UN SEEA, 2014; UN SNA, 2009). A possible explanation of the expanded reporting system by the UN is the adoption of the Bourgeois Political Economy Theory which is pluralistic in nature, seeking to achieve greater societal welfare and economic well-being. These global measurement system and recognition criteria allows for consistency over time and comparability within firm, across industry and over time, as well as creates avenue for assurors to test the underlying figures. However, the format and structure of the VAS is not without criticisms.

Critics have argued that the VAS is a mere transposition of the Income Statements and could be used in place of the traditional financial statements. This is probably due to the juggling of the income statement classes of accounts being represented in the VAS. Another possible reason is the fact that the VAS is solely limited to values hand-picked from the income statement. However, it should be noted that the VAS does not supplant the traditional financial accounts but instead augments and complements the Income Statements, Statement of Financial Position and Statement of Cashflows. The VAS should not be confused as a mere re-arrangement of the traditional income statements. For example, labour and depreciation costs associated with closing inventory are presented in the Statement of Financial Position (IFRS, 2019; IAS 2), whereas the VAS reports these items separately on the face of the statement.

Perhaps the most constructive drawback of the VAS is the reporting of taxes. Corporate taxes are attributed to the government and these values are usually the percentage of profits (net of all tax-allowable expenses) made that are returned to the state (IFRS, 2019; IAS 12). However, there are taxes returned to the government regardless of whether the company makes profits or losses, e.g. sales and excise taxes, income taxes withheld at source from the wages, salaries and bonuses of employees and directors, value added taxes and taxes on dividends. It is quite confusing to detect that sales and excise taxes are included in the sales revenue figure, input and output value added taxes (VATs) are also included in the sales revenue component, income taxes are reported under employee remunerations and withholding taxes on dividends are captured under the distributions to shareholders. These omissions lead to a material misstatement of the values attributed to the government as value added. McLeay (1983) argued that it is prudent to omit such taxes from the values attributed to the government since the "government sector played no role in

the wealth created by the firm" (Meek and Gray, 1988, p.79). However, this position by McLeay is fraught with limitations since it is the government that provides a conducive atmosphere for business operations, legislates laws, regulations and decrees to permit local and foreign firms to thrive, and regulates the pricing mechanisms for fair trade leading to higher sales and customer satisfaction.

Another problem associated with either the Gross or Net Value-Added approach is the inclusion of Depreciation as a social factor or stakeholder. This overtly conflicts with Freeman's (1984, 2010) generally accepted classification of a stakeholder as a living organism. However, it could be argued that depreciation is a social factor that contributes to value creation in the sense that the physical capacity employed by the firm directly and/or indirectly results in wealth creation on daily basis. In this case, depreciation could be personified as a key stakeholder that aids in the achievement of firm objectives (Bryson, 2004; Friedman and Miles, 2006).

One additional major drawback of the VAS format is the bulk classification of dividends as values created by capital providers. Capital providers should be clearly categorized and classified into their respective pools. There are preference shareholders who are lenders to the company and not bona fide ordinary shareholders. These capital providers are debtholders in reality and they are given priority treatments in distributions of returns (dividends). Moreover, their debts could later mature into ordinary shareholders (irredeemable preference shareholders) or be considered as perpetual lenders (redeemable preference shareholders) of the firm (IAS 32). These financial instruments will require proper disclosures and presentations (IFRS 9; IAS 39; IFRS 7). It should be noted that ordinary shareholders do not always benefit from dividends and they tend to plough-back the profits into the company in the form of retained earnings. A better way of showing these distinct capital providers with varied interests in the firm will be to split the dividends into preference shareholdings and ordinary shareholdings. Most importantly, it will make a lot of economic sense to associate the residual or retained profits to the ordinary shareholdings since such values either result in increased share values of the ordinary shareholders or ultimately redistributed as dividends to the ordinary shareholders.

The Haller-Van Staden Proposed VAS Format

Following some of the above lapses in the mechanics of the traditional VAS format, Axel Haller and Chris van Staden in 2014 proposed an extended format of the value-added statement to

incorporate additional sources of value generation and clear-cut streams of value distribution. The proposed format maintained the segmentation of the sources from which values are generated, i.e. the input level, and the channeling or attribution of values to the various stakeholders, i.e. the output level. This paper further improved on the input and output levels by identifying extra sources of values created by the company and possible outflows and representations of all key stakeholders on the face of the VAS. Tables 1 and 2 below show the input and output channels of the VAS respectively.

It is worth noting that Haller and van Staden (2014) recommended such expanded formats of representing values created and distributed with the idea that the VAS could best be adopted as a tool for integrated reporting. This is laudable in the sense that the expanded format tends to encapsulate the multiple capitals from the financial, human and social/relational perspectives. However, this expanded VAS is pivoted on the political economy theory, more tilted towards a classical perspective of profit maximization and meeting economic values.

Table 1: Sources and inflows of Value Added Generated

Panel A: Statement of sources of value added (Value Added Generated)			
Sales		**XXXY**	
Add	Prior year adjustments: Reductions in provisions for doubtful debts (sales pushed) **	**YY**	
Add	Prior year adjustments: Recoveries of doubtful debts written off (sales pushed) **	**YY**	
	Adjusted Sales Revenue **		**XXXY**
Less	Cost of related bought-in materials and services (M&S)	**XX**	
Less	Decreases in finished goods and/or work in progress **	**XX**	
	Total Cost of Value Added Generated **		**(XX)**
Sales-Based Gross Operating Value Added = A			**XXXY**
Add	Increases in finished goods and/or work in progress [less related bought in materials and services (M&S)]	**XXY**	
Add	Self-produced non-current assets [less related bought in materials and services (M&S)]	**XXY**	
Production-Based Gross Operating Value Added = B			**XXY**
Add	Revenues from intangible assets [less related bought in materials and services (M&S)]	**YX**	
Add	Other operating revenues [less related bought-in materials and services (M&S)]	**YX**	
Related Operating Value Added from Sources other than Sales & Production = C **			**YX**
GROSS OPERATING VALUE ADDED (Sales + Production + Other Sources): D = A + B + C **			**XYXY**
Less	Depreciation of recognized tangible non-current assets	**XY**	
Less	Amortization of recognized intangible non-current assets	**XY**	
Less	Amortization of internally generated intangible non-current assets **	**XY**	

Less	Depreciation of self-produced non-current assets deployed for value creation **	**XY**	
Less	Revaluation losses from recognized tangible non-current assets **	**XY**	
Less	Impairment losses of recognized intangible non-current assets **	**XY**	
***Operational Reductions in the Generation of Gross Value Added = E ** ***			**(XY)**
Add	Revaluation surpluses from recognized tangible non-current assets **	**XYX**	
Add	Impairment surpluses of recognized intangible non-current assets **	**XYX**	
***Operational Increases in the Generation of Gross Value Added = F ** ***			**XYX**
NET OPERATING VALUE ADDED: G = D + E + F			**YYXX**
Add	Income from investments and other financial instruments	**YY**	
Add	Income from disposal of assets, scraps and other investment instruments**	**YY**	
Net Ordinary Value Added = H			**YY**
Add	Value added from extraordinary items (less associated costs incurred in the generation of the value **)	**YXY**	
Add	Value added from discontinued operations (less associated costs incurred in the generation of the value**)	**YXY**	
***Value Generated from Extraordinary Items and Discontinued Operations = I ** ***			**YXY**
Add	Increases in equity valuations: Stocks/Shares, Premiums and Reserves **	**YY**	
Add	Positive values arising from revision of debt covenants, e.g. interest rates reduction **	**YY**	
Less	Upward revision of debt covenants, e.g. increase in interest rates/finance costs **	**XX**	
***Value Generated from Changes in Equities and Debts = J ** ***			**YYX**
Add	Write-off of liabilities by Suppliers of Materials and Services **	**YY**	
Add	Tax rebates, Subsidies and refunds from Government and Revenue Authorities **	**YY**	
Less	Contingent Liabilities provided for prior year and paid for in current period **	**XX**	
***Value Generated from Governments, Suppliers and Contingencies = K ** ***			**YXY**
***Total Value Generated for Retention and Distribution to Stakeholders: L = G + H + I + J + K ** ***			**YXYXY**

***** Asterisked items are amendments made by the researcher to the Haller-Van Staden proposed VAS reporting format.***

A much more comprehensive and systematic study on the VAS (in addition to professional practice and assurance) would identify the following items as worth capturing in the generation of values for the firm. These accounts and modifications of the value items, i.e. the inclusion of the additional transactions worth classifying as value generation and appropriation items, must be approached with caution because of the current lack of theoretical clarifications or inference. It will make more academic sense if further research is conducted to support these value attribution transactions. The identified value items are strictly supported by existing accounting standards,

policy frameworks, as referenced, in addition to the researcher's experience gathered from practice and industry. This should allow for further evaluations and analysis of the proposed updated VAS and value items.

- ***Prior year adjustments related to sales revenue.*** Sales revenues are basically generated from credit and cash sales to trade debtors or customers. It is imperative to note that not all receipts could be received from the customers. Debtors do default in their payments to the company. This reality allows firms to make provisions for doubtful debts in line with the IAS 8: Accounting Estimates (IFRS 2019). These estimates are charged as expenses and values lost in the financial statements in line with the company's policies. However, there are instances where these bad and doubtful debts are recoverable.

  Similarly, situations arise where economic indicators, such as boost in financial performance and positions of trade debtors, could trigger the need to reduce provisions initially made on these customers. These two situations lead to a generation of value to the company. Since they are sales-pushed, it makes economic sense to charge the increased values to the sales figure as a prior year adjustment to the sales revenue figure reported in the VAS. Difficulties associated with this approach is the recognition of total sales as value. Critics have argued that values created should be tangible (real cash sales received) and not abstract (either deferred income or credit sales). Since not all sales are actual cash receipts, a classification of a debt (accounts receivable) as value could be misleading to both the firm and other stakeholders. This is because the reported value (credit sales) might never be realized in real value (cash) should such values (credit sales) run into bad and irrecoverable debts.

- ***Values from Tangible and Intangible Non-Current Assets***. Haller and Van Staden (2014) indicated that revenues from intangible assets should be recognized as values. Moreover, any depreciations and amortizations of both tangible and intangible assets should be accounted for in the value generation activity. These propositions are consistent with the provisions of IAS 38 and IAS 16. The accounting standards do not permit for internally generated intangible assets to be recognized in the books unless they meet the strict criteria of identifiability, control, probable future economic benefits and reliability in measurement (IAS 38; PwC, 2019; IFRS 2018, 2020). However, what the accounting standards fail to recognize is that, though these items might not be reported as assets, yet they significantly contribute towards the creation and generation of

values for the firm and society. It will thus make economic sense to report values generated from these (internal intangible) sources as well as adjust for any associated amortizations and devaluations.

- ***Revaluations and Impairments***. Revaluation of assets could result in surpluses just as impairment reviews could lead to reversals of initial impairment charges. It is required by the accounting standards that all revaluation surpluses be charged to a reserve account and impairment reversals to be credited as income in the profit and loss account (IAS 36; PwC, 2019; IFRS 2018, 2020). These positive values need to be reflected in the VAS as potential increases in values created and generated for stakeholders of the company. Similarly, any corresponding revaluation losses and impairment charges should be adjusted for in the VAS as reductions in value generation.

- ***Values from Extraordinary Items.*** Haller, Van Staden and Landis (2018)'s study clearly captured values accruing from extraordinary items and discontinued operations; however, they refused to recognize and adjust for any associated costs incurred in the generation of values.

- ***Value generation from Equities.*** Although extensive research has been carried out in the recognition, reporting and presentation of the VAS, no single study exists which scoops out the values generated from the changes in equities. The VAS has been primarily limited to the income statement with no recourse to the values generated and retained from the other segments of the company, namely from the perspectives of the Statement of Financial Position or Statement of Cashflows. This has been the major drawback of the study on the VAS. A reasonable approach to tackle this will be to report values using a holistic approach, encompassing the entire reporting dimensions of the company. Shareholders stocks appreciate in value and result in share price increases. Loan and debt covenants are periodically revised between the two parties to allow for ease of payments. These revisions result in favourable interest rates, say reductions in base rates. These are positive values created by the firm, arising from changes in equities and debts and must be recognized and reported as values generated from changes in debt covenants and equities.

- ***Value generated from suppliers and the state.*** Suppliers of bought-in materials and services are key to the value creation and distribution system. It is paramount to report the values created

from them in addition to appropriating the values to them. Governments provide rebates and tax reliefs or refunds to the firm. Also, the government could provide either conditional or unconditional grants to the firm in order to satisfy certain public needs (IAS 20; PwC, 2019; IFRS 2018, 2020). Similarly, suppliers of materials could provide bulk discounts or total write-off of liabilities owed by the company. In the same vein, prior year contingent liabilities could materialize in the current reporting period which could command a financial toll on the organisation. An appropriate value reporting system should report the positive values generated from the government grants and subsidies, and trade payables write off. Secondly, materialized contingent liabilities should be adjusted for in the value generation activities of the firm.

Table 2: Appropriations and outflows of Values Generated

Panel B: Statement of Value Added Appropriation (Value Added Distributed)			
Employees' Share			
	Net Wages and Salaries (including Directors' Fees and Emoluments**)	***YYXX***	
Add	Contributions to Social Security and Pensions withheld	***XY***	
Add	Pension Premiums	***XY***	
Add	Statutory Health Insurance Levies **	***XY***	
Add	Other additional employee benefits and emoluments	***XY***	
Add	Periodic Bonuses (and one-off awards **)	***XY***	
Total Employees' Share: A			***YYXY***
Government and Society's Share			
	Corporate Income Taxes	***XXYY***	
Add	Indirect Taxes (e.g. VAT, tariffs, duties, sales taxes)	***YX***	
Add	Other public charges, levies and duties	***YX***	
Less	Government Subsidies, Rebates and Refunds	***YX***	
Add	Income Taxes (PAYE and WHT) from employees' and directors' pay **	***YX***	
Government's Share: B			***XXYX***
Add	Donations to society, Local Councils and Funding Agencies	***XYXY***	
Add	Support for Public Opinions and Related Sustainability Activities (e.g. cost of reducing polution and carbon emissions, sensitization programmes, public awareness, etc.) **	***YY***	
Add	Infrastructural support to the community (e.g. schools, boreholes, hospitals, etc.) **	***YY***	
Add	Scholarship schemes set-up and disbursed to the public **	***YY***	
Add	Other contributions to society and social activities	***YY***	
Society's Share: C			***XYYY***
Total Contributions to the Public, Society and Government: D = B + C			***YYXY***
Capital Providers' Share			

	Interest paid/Finance Cost	YXYY	
Add	Dividend and other payments to Shareholders	XX	
Add	Appreciation in Stock Values for Ordinary and Preference Shareholders **	XX	
Total Capital Providers' Share: E			YXYY
Suppliers and Other Vendors' Share **			
	Payments for Bought-In Goods and Services **	XXY	
Add	Payments to Energy providers and related service providers **	XXY	
Total Contributions to Suppliers and Other Vendors: F			XXY
Value Added Retained in the Organisation		YXY	
Add/Less	Additions or Reductions to Retained Earnings	XYX	
Total Retained in the Organisation: G			YXXY
TOTAL VALUE ADDED DISTRIBUTED: H = A + D + E + F + G			YYYXX

***** Asterisked items are amendments made by the researcher to the Haller-Van Staden proposed VAS reporting format***

Following from the above, an equally systematic study on how the generated values are distributed to the stakeholders could signal a form of power-play in the appropriation process. The major stakeholders are given prominence in the value distribution whereas the significant "minority" are rarely represented.

- *Appropriation of Financial Values.* Principally, the *panel B* illustrates how the generated values have been appropriated to the respective stakeholders in financial terms. The research expanded on the proposed Haller-Van Staden's (2014) model by introducing key distribution points such as the suppliers and vendors of materials and services. In addition, this study clustered all taxation elements under the government's share since taxes are either directly paid or withheld at source to be passed onto the government in the long run. The researcher also provided a detailed breakdown of the streams of supports (outflows, distributions and appropriations) to the society or public. This is designed to court the public's buy-in and meet their specific information needs other than bulking up the appropriations in one financial transaction (O'Dwyer, 2011; O'Dwyer et al., 2011).

Discussion and Conclusion

Studies on VAS in both emerging and developed economies and how it satisfies both the financial and non-financial needs of the various (key) stakeholders will be more useful and relevant if researchers could expand their scope by undertaking more empirical case studies on the model.

Scope extension should encompass the producers of this Fourth Financial Statement (the VAS) to augment the traditional financial statements. The scope extension should not just be to reconcile the VAS to the profit and loss statement, as detected by Haller et al., (2018), lest the VAS cause be limited to economic value measurement only. Instead, the VAS reporting format should be holistic in nature, encapsulating all dimensions of the company from which values are generated and to which values are accordingly appropriated. This project of scope extension will probably result in the comparability and reliability of the information reported in the VAS since information reported could be easily corroborated from various sources other than the profit and loss account only.

In addition to the above, it should seek to gather further conceptions, opinions and practices from the practitioners and assurors on how to improve the formatting of the VAS. This approach will possibly lead to an effective implementation of the VAS reporting model for global use and acceptance in meeting varied stakeholder information needs. In doing so, a standard of reporting of economic, social and environmental values could be attained. This standardization could lead to global adoption of an appropriate expanded VAS model and format for consistency, comparability over time and credibility. Most importantly, a conceptual grounding together with a normative argument for an extensive VAS reporting model could aid in bringing a closure to the question of whether VAS leads to distributional fairness or equality (Haller et al., 2018).

If the VAS is considered a bridge between traditional or conventional accounting and CSR reporting, then it should not just be limited to the mere commodification of social and environmental phenomena, but to incorporate easy-to-understand narratives, footnotes and disclosures for the unsophisticated stakeholders (Coulson, 2016). It is worth admitting that the current challenge with either an abridged VAS or proposed expanded VAS has to do with reporting only the economic or financial values. For VAS to be adopted as a tool for sustainability reporting, it must adequately capture and report values associated with the customers and the general public. For instance, since customer satisfaction, job security, safety and security of the community, and volume of reduction in water and air pollution cannot be accurately quantified in monetary terms, an expanded VAS should provide detailed narratives disclosing these values created and appropriated. This will possibly result in courting the support and patronage of more financial and non-financial users of corporate reports (Andon et al., 2015; Mitchell et al., 2015; O'Dwyer et al., 2011).

There is, therefore, a definite need for the expansion of the VAS to be deployed as an appropriate sustainability reporting tool, in which it will report on the economic, social and environmental values created and appropriated equitably to all stakeholders concerned. The VAS should be clearly linked to the overall operating segments, perspectives, performance and positions of the company and should be clearly expressed in figures, narratives, possible graphs, charts, diagrams and concepts to meet a holistic need. This will equally pave the way to adopt a multi-disciplinary audit and assurance approach over the VAS and Sustainability Reporting activities of corporate entities.

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