Value Added information as part of Sustainability reporting – initial international insights

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Abstract

Purpose – This paper provides empirical analysis of the content and structure of the sustainability reports published as at January 2013 on the Global Reporting Initiative (GRI) Sustainability Disclosure Database for four countries. Its aim is to give some content and background information on the report and to determine if value added information (a requirement of the GRI) is provided and in what format.

Design/methodology/approach – Sustainability reports are analysed for company information, report information and report content, and evaluated as to the common elements and differences across the four countries.

Findings – We propose that the VAS and value added information could be useful as a part of sustainability reporting. In this regard we find a very high incidence of VASs included in the Italian sustainability reports with a low incidence for the other two European countries. Half of the SA sustainability reports include VA information. The Italian and SA finding do suggest that VA information plays an important role in sustainability reporting and furthermore, the GRI requires information on value generated and distributed which could be interpreted as very similar or at least comparable to the contents of the traditional VAS.

Research limitations/implications – The SA finding presents an interesting option to the development and use of sustainability and IR reporting – mandate it. One concern is that although IR is mandated in SA, SA reports did not rate well in the GRI achievement levels (only 15% of SA reports achieved level A, compared to an average of 40% in the other countries). Mandating therefore does not equate quality.

Originality/value - This study is important as it provides an understanding of Sustainability reporting in the transition to Integrated Reporting, a new mode of reporting and the role of value added information and value added statements in this process. To our knowledge this is the first research focused these issues in a multi-country setting.

Paper type: Research paper

1. Introduction

Information on the value added of a company has a long history of being regarded as an appropriate measure of the economic contribution of an economic entity to society. Due to the underlying concept it represents the contribution of an entity to the National Product of a country and thus the income generated by the entity and its stakeholders. The value added statement (VAS) also shows the distribution of the income generated (value added) among the entity's stakeholders. Hence, economic and business practices as well as academia have used value added as an indicator of the economic role and, because of the income generation and distribution aspect, social role of a company within society. For this reason value added information has been an important component of the concepts and developments in corporate social (responsibility) reporting (CSR) in different countries in the world. Due to societal changes and challenges and the necessity of companies to justify their "licence to operate", management have worldwide increasingly started to prepare CSR, to demonstrate the impacts of corporate activities on their stakeholders and local, regional and worldwide society in general.

As corporate social responsibility is often defined as *"..... a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders ....." (European Union 2001, p. 8),* it is closely linked to the concept of sustainability (see UN, 1987), therefore the CSR are often called "sustainability reporting".[1] In order to create an international common framework for the presentation of this type of reporting, the Global Reporting Initiative (GRI) was founded in the end of the 1990s. Over time the GRI Framework (currently the third version), the so-called GRI-Guidelines, have gained broad international acceptance. With its guidelines the

[1] In this paper we use the terms corporate social (responsibility) reporting (CSR) and sustainability reporting interchangeably to refer to reporting on social and environmental impacts, combined with (reporting on) economic aspects.

GRI presents the principles of CSR and provides a proposition of the structure, content and assurance of CSR. It has developed detailed lists and definitions of general and industry specific indicators that measure the economic, social and environmental impacts of a company, which in total can be interpreted as the sustainability performance (*triple bottom line* performance; Elkington, 1997) of a company. The first "economic indicator" in this GRI list is the so called "economic value". This value is very much like the traditional "value added" notion.

Whether a company presents sustainability reports or not most likely depends on whether the stakeholders expect the company to do so. This expectation is most likely linked to the attitudes and expectations of stakeholders in particular and society in general. Hence it is strongly determined by the country specific perceptions of the role of business entities within society. Its application might also be linked to global influences like capital market representation and media coverage of companies, which are also mostly influenced by country specific attributes/parameters. This leads us to argue that the quantity and quality of CSR is influenced by particular cultural factors that will vary accross countries.

With this in mind, we investigate the level of application of CSR in terms of quantity and quality with a special focus on the value added information provided in published sustainability reports. In doing so we select all the companies from four different countries (Germany, Italy, UK, and South Africa) that are included in the GRI database at a particular point in time (31 January 2013) and analyze their most recent sustainability reports according to specific characteristics. As a quality indicator of such reports we in particular look at the volume, scope, form and comparability of the information on value added provided.

The selection of the countries is driven by two reasons. First by the generally accepted clustering of countries in international accounting research that apply either the Continental European or the Anglo-Saxon accounting model (see for example, Walton, Haller, and

Raffournier, 2003, p. 8) and second by the experience with, and acceptance of, valued added reporting in these countries over the last decades. The four countries selected have a considerable tradition in value added reporting and are classical representatives of the Continental European model (Germany and Italy) and Anglo-Saxon model (UK and South Africa).

Our paper contributes to the literature because it the first empirical international comparative study for almost 30 years that investigates the role and use of value added information in corporate reporting (see for example, a comparative study between Germany and France by Haller and Stolowy, 1998). In addition our study adds to other CSR studies, which mostly lack the international comparative perspective (apart from the survey that KPMG conducts every three years, see KPMG, 2011), because it gives interesting insights into country differences in the application of the GRI Guidelines and provides avenues of explanation that intend to provoke further empirical research.

2. The concept of value added

The concept of "value added" has its roots in macro-economics (see for example, Schäfer, 1951; Cox, 1979; Basu, 1992). It has been used by developed countries to measure the creation of national wealth, the gross domestic product until today. Transferred to an enterprise, value added is a measure of its residual return which is generated through the utilization of its productive capacity, e.g. labor and capital in the broad classical sense. It represents the contribution of an enterprise to the nation's domestic product and reveals the extent to which the company is able to enhance the value of bought-in products and services through its own operations. Value added represents the wealth creation of an economic entity.

Value added can therefore be defined as the value created by the activities of a firm and its employees, that is, sales less the cost of bought in goods and services (Van Staden, 2003).

Value added (VA) can generally be defined as follows (Cox, 1979; Renshall, et al., 1979): VA = O - I (indirect method or "subtractive method") or

VA = RE + RG + RCP + NAWC (direct method or "additive method");

where O = Outputs; I = Inputs; RE = remuneration of employees; RG = remuneration of government; RCP = remuneration of capital providers; NAWC = not appropriated wealth creation (retained, say not distributed parts of the value added). These calculations reveal the characteristic content of the value added concept, the so-called "dichotomia", which means that value added has an enterprise focused **performance aspect** and a stakeholder focused **social aspect**. The performance aspect is expressed by the indirect method and the social aspect by the direct method. The direct method represents the remuneration of the productive factors "labor" and "capital" as well as of the community represented by the public sector. This shows that value added puts the economic activity of a company in a social context.

The origins of the interest in the United Kingdom in value added statements can be found in The Corporate Report (ASSC, 1975), which suggested the publication of a VAS amongst other reforms (Gray and Maunders, 1980). From 1977 onwards an increasing number of United Kingdom companies published the VAS, as has been established by various surveys of published financial statements (see for example Morley, 1978; Rutherford, 1978; and Gray and Maunders, 1980). The research of Burchell et al. (1985) indicated that the incidence of publication in the UK reached a climax in 1980, but started declining after that.

In Europe, value added also became "fashionable" in corporate reporting, because in this period the societal role of companies was discussed intensively and there were strong

often political voices that a company should not only disclose data which is relevant for investors but also for other stakeholders, especially the employees. In this period the disclosure of a structured calculation of value added, called the value added statement was regarded as one of the major instruments of "social accounting" because it would give insight in the way how a company meets its corporate social responsibilities (see for example Arbeitskreis "Das Unternehmen in der Gesellschaft", 1975; Reichmann and Lange, 1981; Maunders, 1985; Meek, and Gray, 1988). A review by Gray and Maunders (1980) of the publication of the statement around the world indicated that a number of companies in the Netherlands, France and Germany provided value added data. They also noted growing instances of VASs being published in countries such as Denmark, Switzerland and Italy.The corporate as well as the academic interest in value added reporting and value added as an accounting measure declined in Europe during the 80s and the 90s. The decline was material in the UK whereas in Germany not so (Haller, 1997).[2]

The European value added euphoria has had quite an impact on accounting practice and academic discussion in other regions of the world, especially Africa and Asia. There, the value added concept has developed more and more to a well estimated tool during the 80s, not anymore in “social accounting”, but either in financial accounting (e.g. South Africa; Struckmann, 1989; Stainbank, 1992; MacFarlane, 1993), in management accounting (e.g. Japan; Wainai, 1987; Shimizu, Wainai, and Nagai, 1991) or in both accounting fields (e.g. Singapore; Wainai, 1987; Wee, 1994; Haller, 1997). In South Africa the interest in VASs started with the publication of The Corporate Report in 1975 (Van Staden, 2003). However, while publication of the statement declined in the UK and Europe after 1980, it remained a popular disclosure in SA (even though it was never mandated) (see for example, Stainbank,

[2] Value added has a long history in Germany, where Max Lehmann investigated in the 20th century already the usefulness of the performance measure "Wertschöpfung" (the German term for "value added") to report and control the activities of a company (Haller,1997).

1997; Van Staden, 1998; 2003). Even in the USA where accounting practice and academia have largely ignored the publication of value added statements, the concept of value added is not at all unknown. It had been discussed and used in management accounting to measure productivity (see for example Rucker, 1954; Mammone, 1980) and it was also proposed in literature as an appropriate performance measure for financial reporting purposes (Suojanen, 1954; Enthoven, 1980; 1985; Riahi-Belkaoui, 1992; 1993; 1996a; 1996b; Riahi-Belkaoui and Picur, 1994; Bao and Bao, 1996). Suojanen (1954) indicated that accountancy's role is to report the results of the organisation's operations and interactions to various interested parties in ways they can understand best. He suggested the value added concept for income measurement, as a way for management to fulfil their accounting duty to the various interest groups (Suojanen, 1954). This makes him one of the first authors to suggest the publication of a value added statement.

Despite this world-wide knowledge of the value added accounting measure " there is no country where the calculation of value added for management or financial accounting purposes is defined or restricted by an official standard.[3] This is the reason why country specific differences have been depicted in literature (see for example, Haller, 1997). Major differences are for example that in Germany the output measure includes the value of the annual production (related to the traditional format of the income statement in Germany) and also include depreciation and amortization as input factors (Haller, 1997), whereas the traditional UK definition is based on the value of the products and services sold and depreciation and amortization are not perceived to be input factors (ASSC, 1975). There are many more differences in the detail also with regard to the components of the distribution side of value added.

[3] Except for France and other francophone countries with a French-type "Plan Comptable Général", where value added is a sub-item in a specific format of the income statement (Haller and Stolowy, 1995).

The history of the VAS suggests that it is important under certain circumstances. The Burchell Clubb and Hopwood (1985) paper in Accounting Organizations and Society identified the socio-political environment that is needed for the VAS to thrive, i.e. strong labour unions and a labour government, the need to improve productivity and the threat of government intervention in the standard setting process. Although it would therefore appear that the VAS is an old statement that is not relevant in all circumstances, we argue that it is very important in showing how the organisation treated its various stakeholders and that it should be an important component of sustainability and integrated reporting.

The importance of value added seems to be recognised by the GRI and it requires as one of its core economic indicators (EC1): "Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments". This links quite closely with the value added concept and with the VAS which traditionally showed value generated and value distributed. The stakeholders traditionally addressed in the distribution part of the VAS are employees, capital providers, the government, and retained for future growth. Adding donations and other community investments to this list and suppliers (i.e. operating costs) expands the traditional VAS to include additional components as distribution (traditionally this would have been deducted in the calculation of value added).

3. The role and definition of "value added" in GRI sustainability reports

The Global Reporting Initiative (GRI) is a non-profit multi-stakeholder global organization that aims to make sustainability reporting (CSR) more effective and comparable all over the world (for further information see www.globalreporting.org). For this reason it has developed a Reporting Framework that "is intended to serve as a generally accepted

framework for reporting on an organization's economic, environmental, and social performance." (GRI, 2011, p. 3) The corner stone of this framework is the Sustainability Reporting Guidelines which are already in their third generation (G3), and were updated in March 2011 to version G3.1 (GRI, 2011). These Guidelines can be regarded as the most comprehensive sustainability reporting guidance available today which are also broadly applied globally (KPMG, 2011)).

The Guidelines consist of two parts. The first part gives guidance and provides principles on how to report and the second states what should be reported; embracing two major sections: an explanation of the incorporation of the sustainability principle in the management's strategies and operations (management approach) and a list of indicators that the GRI perceives as appropriate to measure the economic, environmental and social performance of a company (GRI, 2011). To reach a higher level of comparability, all indicators (some of which are labeled "core indicators") are defined in the "Indicator Protocols" (GRI, 2011). As the relevance and definition of indicators of sustainability performance is often related to the industry the company is in, the GRI also provide so-called "Sector Supplements" for various industries to cope with these particularities (GRI, 2012).

The first economic indicator (EC1) that the GRI has on its list of indicators is called direct economic value generated and distributed" (EVG&D). It is labeled as a "core indicator". According to the quite detailed explanation in the Indicator Protocols it is obvious that this indicator represents the traditional concept of value added, not the least because the GRI states explicitly that EVG&D can "…provide a basic indication of how the organization has created wealth for stakeholders … *and* … a useful picture of the direct monetary value added …" (GRI, 2011a, p. 4.

The GRI´s version of "valued added" is different to the traditional definition explained earlier (part 2). First, the "operating costs" (defined as "cash payments made

outside the reporting organization for materials, product components, facilities, and services purchased") are seen as part of the wealth distribution and not as an input factor. Therefore the economic value generated is just revenues. According to GRI´s definition this includes net sales, revenue from financial investments such as cash received as interest on financial loans, dividends from shareholdings, royalties, and direct income generated from assets such as property rental, and revenues from sale of physical and intangibles assets.

This definition of the measure "direct economic value generated" is the logical reason why the GRI does not use the term "value added" (although it has the concept in mind), because it does not aim to stress the "additional value creation" of a company but the gross value, that is distributed to the stakeholders. Hence, the GRI focuses on the distribution side of the "value added" concept (as explained above) and regards suppliers of goods and services also as value generating stakeholders. Thus, it stresses the income generation for the stakeholders.

The accruals orientation of GRI´s created value concept is also revealed in various distribution items disclosed, where the explanations given in the Protocol often use the terms "payments" and "expenditures" (e.g., with regard to suppliers and governments). Although with regard to "employee pensions" the term "contribution" is used (GRI, 2011a, p. 5). Here it is not clear whether these embraces only payments to pension funds or also expenses related to defined contribution plans. "Operating costs" embrace the costs of goods sold and all payments to suppliers and others of the period, including those that relate to materials and services that were used. This relates closely to the traditional value added concept's definition of the cost of bought in goods and services.

The EVG&D concept´s bridge function between the economic and social aspect of value creation is also obvious in the item "community investment" which is usually not included in the "value added" measure. This function is also revealed by the fact, that the

GRI encourages companies to disclose payments to governments on a by country basis (segmentation according to IFRS) and that the Indicator Protocol mentions explicitly a link to a social indicator (SO6) defined and explained further in the Protocol.

The difference between the economic value generated and the economic value distributed should also be disclosed as a separate item, called "economic value retained". This embraces components such as investments, depreciation, other accruals and retained earnings, etc.)

The particular value creation concept of EVG&D used in the GRI3.1 is therefore closely related to the traditional value added concept (as explained before), with a number of differences related to the calculation and presentation of value added. However, since there is a lack of detailed guidance on how EVG&D should be calculated and presented, it is of great interest to investigate how companies, which present sustainability reports according to the GRI Guidelines, report on EC1, and whether they refer to the traditional valued added concept and use related presentation formats (value added statements). This investigation helps users of sustainability reports and the GRI to detect differences in calculation and presentation and whether these can be related to the country a company is based in or to its industry. It also reveals the level of comparability of EC1 indicators and the potential necessity to give more detailed guidance in the Guidelines. This is the motivation for our cross-border study, which is so far the only one of its kind, and which is explained in the following.

4. Method and Sample

We select all the companies included in the reporting database of the GRI for each of four countries, (two Anglo-saxon countries and two continental European countries)

Germany, Italy, UK, and South Africa (SA) on 31 January 2013. The country selection was motivated by cultural differences, already pointed out in literature, with regard to corporate reporting in general and to the interpretation of the value added concept in particular (see part 1). Specifically we selected reporting under the GRI3 and GRI3.1 guidelines for 2012 for each of the four countries including all organisation sizes and all organisation sectors.[4] Selecting our sample in this way we end up with 70 German companies, 33 Italian companies, 48 UK companies, and 40 South African companies as shown in Table 1.

The GRI Sustainability Disclosure Database was developed over the last 10 years by the GRI with the support of its data partners (including KPMG). It offers users access to all types of sustainability information disclosed by organizations. At 31 January 2013 the database consisted of 12,643 reports of 4,978 organisations. Organisations that published a separate sustainability report or an integrated report (a report that combines financial and sustainability data) could have it included in the Sustainability Disclosure Database. Furthermore, all reports that have undergone a GRI Application Level Check since 1 January 2011 is included in the GRI Benchmark information. There are a number of advantages to registering an organization and its sustainability/integrated report on the Sustainability Disclosure Database (GRI website, 2013), including, international profiling of the organization and sustainability/integrated report(s), benchmarking against competitors, direct report access by stakeholders and a historical archive of the organization's reports.

For each company in our sample we collected data on the company (i.e. size, industry, ownership type and listing status) as well as data on the report type, and GRI application level and the levels and bodies of assurance. We then collected data on the report content with the only focus on the economic indicator 1 (E1), the EVG&D.

[4] Including GRI1 and GRI2 makes no difference to the sample sizes, presumably because nobody would be following GRI1 and 2 in 2012 anymore.

Findings

1. Companies in the sample – Table 1

Most of the companies in the sample are described as large in the GRI database (Panel A). The GRI define a large organisation as having more than 250 employees and turnover (revenue) of more than €50 million or net assets of more than €43 million.5 The UK and Germany have more multi-national companies (MNE) while SA has very few MNEs. Italy has the most SMEs (18%). MNEs and Large companies make up the bulk of the sample companies (82% - 90%). These organisations have similar size criteria, but MNEs are also multi-national.

In terms of ownership (Panel B), most companies in the sample are private (81% - 88%) defined by the GRI as "a business organization owned either by a non-governmental organization or by a number of stakeholders". Furthermore, most of the companies are listed (Panel C) (58% - 83%) meaning that the company is listed on a stock exchange. Non-listed companies make up roughly a third of the companies in the UK, Germany and Italy, but only 8% in SA.

The companies in the sample are therefore mainly large private listed companies. Some country differences are observed in that the UK and Germany have more MNEs and SA less (but SA have 80% large companies. Also SA have a higher percentage listed companies while the European countries include a more unlisted companies. As Integrated reporting is a listing requirement in SA, it would appear that unlisted companies in SA do not issue reports that comply with the GRI requirements.

[5] The GRI base these on EU definition of organisation size. MNE is defined as more than 250 employees and multinational and turnover of more than €50 million or net assets of more than €43 million. SME is defined as less than 250 employees and turnover of less than €50 million or net assets of less than €43 million.

Table 1 Company descriptive information

PANEL A	***Size***	**UK**		**Germany**		**Italy**		**South Africa**	
		Nr	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**
MNE		16	33.33%	19	27.14%	5	15.15%	2	5.00%
Large		27	56.25%	39	55.71%	22	66.67%	32	80.00%
SME		3	6.25%	8	11.43%	6	18.18%	3	7.50%
Not Indicated		2	4.17%	4	5.71%	0	0.00%	3	7.50%
PANEL B	***Type***								
Private		39	81.25%	58	82.86%	29	87.88%	34	85.00%
Subsidiary		1	2.08%	4	5.71%	2	6.06%	1	2.50%
State Owned		3	6.25%	1	1.43%	1	3.03%	2	5.00%
Not indicated		5	10.42%	7	10.00%	1	3.03%	3	7.50%
PANEL C	***Listing status***								
Listed		29	60.42%	41	58.57%	19	57.58%	33	82.50%
Not Listed		17	35.42%	21	30.00%	11	33.33%	3	7.50%
Not Indicated		2	4.17%	8	11.43%	3	9.09%	4	10.00%
PANEL D	***Industry***	21		28		16		17	
Ch	Chemicals	En	6	FS	10	EU	5	FS	10
Cog	Conglomerates	O	6	O	6	FS	5	Mi	7
Con	Construction	FS	5	RE	5	En	4	Lo	3
En	Energy	NFP	5	Ch	5	FB	2	Ret	3
EU	Energy Utilities	Mi	4	En	5	Lo	2	Tel	3
FB	Food & Beverage			FB	4	Tel	2		
FS	Financial Services			Cog	4	Con	2		
Lo	Logistics	54.17%	26	55.71%	39	66.67%	22	65.00%	26
Mi	Mining								
NFP	Non profit services								
O	Other								
RE	Real Estate								
Ret	Retailers								
Tel	Telecommunications								

An industry sector analysis (Panel D) shows that the UK and German companies are from 21 and 28 industries respectively while the Italian and SA companies are from 16 and 17 industries respectively. So it is clear that a wide range of industries are represented by the companies in the sample. We analyse the industries with the highest representation in each

country which represents 54% - 67% of the companies in the sample.[6] The left-hand column gives a key the abbreviations used.

The Financial Services industry is represented for each of the four counties and is the industry with the most companies for Germany and South Africa (10 companies each). Energy is represented in the three European countries while Mining is represented in the UK and SA.[7] An interesting observation is that the companies in the GRI database is not dominated by high (environmental) impact companies. However the Financial Services industry has a high need to legitimise their activities, especially after the financial crises. This might be a reason for this high proportion in all countries.

2. Differences in Reporting type, level and confirmation – Table 2

Companies reporting using GRI3 (Panel A) range from a low of 27.5% (11) companies in South Africa to a high of 60.00% (42) in Germany. Companies following GRI3.1 present the inverse with a low of 40.00% in Germany and a high of 72.50% in SA. In Italy and SA the majority of companies are following GRI3.1 while the majority of UK and German companies follow GRI3.

Table 2 **Sample companies and reporting descriptives**

PANEL A		**UK**		**Germany**		**Italy**		**South Africa**	
Number of Companies		48		70		33		40	
Reporting Year	**2012**	21		13s		21		22	
	2011	27		57		12		18	
Reporting Type	**GRI3**	26	54.17%	42	60.00%	12	36.36%	11	27.50%
	GRI3.1	22	45.83%	28	40.00%	21	63.64%	29	72.50%
PANEL B	***GRI application Level***								
		Nr	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**
Level	**A+**	7	14.58%	22	31.43%	16	48.48%	6	15.00%

[6] In Germany this includes all industries with 4 or more companies; in the UK and SA it includes all industries with 3 or more companies and in Italy it also includes industries with 2 and more companies.
[7] Other is an industry sector used by the GRI, but not defined in their data legend. It represents the second highest category for the UK and Germany with 6 companies each.

	A	9	18.75%	6	8.57%	3	9.09%	0	0.00%
	B+	10	20.83%	7	10.00%	4	12.12%	15	37.50%
	B	10	20.83%	20	28.57%	4	12.12%	6	15.00%
	C+	0	0.00%	1	1.43%	1	3.03%	3	7.50%
	C	11	22.92%	12	17.14%	5	15.15%	5	12.50%
Level not indicated		1	2.08%	2	2.86%	0	0.00%	5	12.50%
PANEL C	***Level confirmation***								
GRI Checked		18	37.50%	42	60.00%	23	69.70%	4	10.00%
Third party Checked		6	12.50%	3	4.29%	7	21.21%	16	40.00%
Self Declared		22	45.83%	23	32.86%	3	9.09%	13	32.50%
Not indicated		2	4.17%	2	2.86%	0	0.00%	7	17.50%
PANEL D	***Integrated Reporting***								
		Nr	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**
Integrated Reports		2	4.17%	6	8.57%	3	9.09%	35	87.50%
Not Integrated		46	95.83%	64	91.43%	30	90.91%	5	12.50%

The GRI level achieved (Panel B) present some interesting country differences with only 15% of SA companies achieving A+ while 48% of Italian companies achieved A+. The UK also achieved 15% A+, but also achieved 19% As while SA had no As. This result in the UK and Germany having roughly similar As (34% and 40%) while Italy has 58% As and SA 15% As. On level B the UK and Germany is again similar (42% and 39%) while Italy has 24% on level B and SA 53%. On level C we find 23% of UK companies, 18% of German and Italian companies and 20% of SA companies. The four countries therefore achieved their highest levels in different categories. Italy achieved mostly As (58%) while the UK and SA achieved mostly Bs. Germany had roughly equal As and Bs. Three countries have less than 25% on level C and not indicated while SA had a third of companies in this category. SA companies therefore have generally lower achieved levels than the European companies.

The way that companies use to confirm their GRI level (Panel C) again shows interesting variations. It is clear that GRI checking[8] is more popular in Europe, and

[8] The GRI Application Level Check confirms that a sustainability report has the required set and number of disclosures to meet the organization's self-declared application level.

particularly continental Europe than in Africa. In SA, third party checked were far more popular than in Europe. However, taken together reports checked by outside parties reached levels from 50% (UK and SA) to 91% in Italy and is at the high end in continental Europe. Self declared and not indicated range from 9% in Italy to 50% in SA.

Integrated Reporting (IR) forms the latest part of an 'evolution' of corporate reporting over the past three decades that builds on earlier developments that extended the provision of information to stakeholders, which includes the provision of Social, Environmental and Economic information in a range of reports, including triple bottom line reports and sustainability reports. The initiative to develop IR was undertaken by the International Integrated Reporting Council (IIRC), which was formed in 2010 under the auspices of the Global Reporting Initiative (GRI) and the Prince of Wales' Accounting for Sustainability Project. An integrated report is 'a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term' (IIRC website). IR 'integrates' financial, social, and environmental information into a single report for stakeholders in a format that is concise, clearly expressed, consistent and comparable (Eccles and Krzus, 2010).

Since IR is an important new initiative of the GRI, we wanted to determine to what extent reports in the GRI database incorporates IR at this stage. Panel D of Table 2 shows that integrated reporting represented as small percentage of the reports from the European countries (4% - 9%) but the majority of the reports (88%) from SA. The low level of IR can be expected as this is a very new initiative and the IR has not yet been developed – at this stage the IIRC has received comments on a discussion paper and are aiming to issue an IR Framework by the end of 2013. The high percentage of IR observed in SA is a result of IR being a listing requirement in SA and all listed companies (82.5% of the SA sample) would

have to issue integrated reports, or explain why they do not. We therefore notice regional and country differences with regards to IR.

3. Assurance of reporting – Table 3

The assurance of the non-financial information included in company reports is an important part of ensuring the reliability of the information. There is a view that most social and environmental disclosure is merely green wash and cannot be relied upon (Deegan & Rankin, 1996; Laufer, 2003). Independent assurance may lend credibility to these disclosures and could enhance the credibility of reports prepared by management while also reducing information asymmetry (Simnett *et al*., 2009; O'Dwyer and Owen, 2005). Beets and Souther (1999, p. 133) suggest that the comprehensiveness, accuracy and reliability of sustainability reports "may be best assured by external professional verification". While the financial information in annual reports have to be audited by law (i.e. company act or stock exchange listing requirements), the assurance of the non-financial information remain at the discretion of management. Also while the external audit of financial information needs to be done by registered public accountants and auditors, the assurance of the non-financial information can be done by a range of accountants and consultants, i.e. it is not regulated by the companies act.

We are therefore interested in the extent of external assurance of this information and also who performed the assurance. Table 4, Panel A reveals the incidence of external assurance. This ranges from 40% in Germany to 58% in Italy. Except for Germany, approximately half the reports were external assured. Accountants (accounting and auditing firms) did only 54% of the assurance in the UK; this rises to 68% in SA, 75% in Germany and 89% in Italy. Italian companies therefore have the highest level of external assurance and also the highest level of assurance performed by accounting firms.

The GRI reports on a number of assurance standards that could be used in the assurance process. These are: AA1000AS (indicates application of the AccountAbility AA1000 Assurance Standard), ISAE3000 (indicates application of the International Standard on Assurance Engagements (ISAE) 3000), national standard (general) (indicates application of a general national assurance standard), national standard (sustainability) (indicates application of a sustainability (non-financial) specific national assurance standard). For these standards to be applicable, they need to be disclosed in the external assurance statement. Panel B shows that the UK has the highest incidence of use an assurance standard in the external assurance process at 63% while Germany has the lowest incidence at 36%. Italy and SA have roughly equal level around 50%.

Table 3	**Assurance**							
	UK		**Germany**		**Italy**		**South Africa**	
PANEL A	**Nr**	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**	**Nr**	**Perc**
External Assurance	24	50.00%	28	40.00%	19	57.58%	22	55.00%
By Accountant	13	54.17%	21	75.00%	17	89.47%	15	68.18%
By other	11	45.83%	7	25.00%	2	10.53%	7	31.82%
PANEL B								
Use of Assurance Standard	15	62.50%	10	35.71%	10	52.63%	11	50.00%
PANEL C								
Provider								
PWC	6	25.00%	10	35.71%	2	10.53%	6	27.27%
EY	4	16.67%	2	7.14%	6	31.58%	2	9.09%
KPMG	1	4.17%	8	28.57%	5	26.32%	3	13.64%
Deloitte	1	4.17%			3	15.79%	2	9.09%
SGS	3	12.50%	1	3.57%				
SustainabilityServices.co.za							5	22.73%
Top 5 providers		62.50%		75.00%		84.21%		81.82%

In Panel C we identify the assurance providers that did most of the assurance in each country. We identified those providers that were the five most prevalent in each country and in this way identified providers ranging from 63% of the assurance assignments (UK) to 84%

(Italy).[9] The influence of the big-4 accounting firms is clear from this analysis and they did between 50% and 72% of the assurance assignments in the various countries. The only other providers of note were SGS that did 13% of the assurance in the UK and Sustainability Services SA that did 23% of the assignments in SA.

4. Value Added Information – Table 4

The major issue of interest for this study is the reporting of EVG&D and the potential use of the traditional concept of the value added statement (VAS) in sustainability reporting. We were therefore interested in seeing how many companies in the database provide a VAS or value added information. Panel A of Table 4 shows the incidence of value added information (a VAS or value added information in the form of a chart or description) (a VAS value added information in the form of a chart or description). . We note that for the UK and Germany this is fairly similar (21% and 27%). In SA that has a history of continued publication of the VAS this rises to 50% and in Italy it is really high at 94%. A reason for the high incidence in Italy could be the result of guidelines on social reporting issued by working group called "gruppo bilancio sociale" (GBS). According to these guidelines, social reporting should include a value added statement and they describe the calculation and structure that a VAS should have.

Table 4	**Value added information**							
	UK		**Germany**		**Italy**		**South Africa**	
PANEL A	***Incidence***							
Value added statement	13	27.08%	16	22.86%	31	93.94%	20	50.00%
No Value Added info	35	72.92%	54	77.14%	2	6.06%	20	50.00%
PANEL B	***Format***							
Includes VAS	12	92.31%	12	75.00%	28	90.32%	19	95.00%

[9] I all countries this includes assurance providers that did two or more of the assurance assignments on companies in the sample, but for completeness we include the details of these assurance providers in all the countries in the sample, even if they did just one assignment in some of the countries.

Other formats	1	7.69%	4	25.00%	3	9.68%	1	5.00%
PANEL C	***Definition used***							
Use GRI definition	8	61.54%	11	68.75%	22	70.97%	5	25.00%
Use Traditional definition	5	38.46%	5	31.25%	9	29.03%	15	75.00%
PANEL D	***Integration***							
Integrated with VAS	0	0.00%	4	66.67%	3	100.00%	17	48.57%

We are interested in whether the companies disclose some form of value added statement in their reports or just include the figure for value added as EC1. Panel B shows that a high proportion of companies disclose a VAS in some form or format (ranging from 75% - 95% across the four countries). Although the incidence of reporting value added information is low, it would appear that those that do report prefer using a VAS. We were also interested in the definition of value added used, i.e., will companies use the GRI definition of value added (gross revenue, see part 3) or the traditional definition (sales less cost of bought in goods and services, see part 2). Our analysis reveal that in three of the four countries the GRI definition is most popular (Panel C), ranging from 62% to 70% across trha countries. However, in SA the traditional definition is the most popular with 75% of companies following this definition.

Finally we wanted to determine if the VAS is part of the IR observed in the sample. In Panel D we note that none of the UK integrated report had a VAS while 67% of the German and 100% of the Italian IR had a VAS. However, this should be regarded with some caution as only 9% of German and Italian companies (6 German and 3 Italian) produced an integrated report. In SA where 88% (35 companies) produced an integrated report, we find that 49% of these contain a VAS. This early evidence would therefore suggest that the VAS and value added information could be an important part of IR.

Conclusion

We propose that the VAS and value added information could be useful as a part of sustainability reporting. In this regard we find a very high incidence of VASs included in the Italian sustainability reports with a low incidence for the other two European countries. Half of the SA sustainability reports include VA information. The Italian and SA finding do suggest that VA information plays an important role in sustainability reporting and furthermore, the GRI requires information on value generated and distributed which could be interpreted as very similar or at least comparable to the contents of the traditional VAS. In terms of IR, it would appear that most of the European IR contains VA information, but in SA where the number of IR is much higher, it appears that roughly half of the IR contains a VAS or VA information. Our findings therefore suggest that, in line with our argument, VAS and VA information should be considered as an important component of sustainability reporting.

This empirical snapshot of the sustainability practices in four countries at the start of 2013 presents some other interesting findings. IR is not yet an important component of the sustainability reporting done except in SA where it is mandated. The SA finding presents an interesting option to the development and use of sustainability and IR reporting – mandate it. This has often been suggested by researchers in the past but has not been successfully mandated up to now in any country. The SA finding is therefore a support for mandating sustainability reporting and the IR Framework could provide, in conjunction with the GRI requirements, the way to accomplish this. The SA example where the King report on Corporate Governance paved the way for mandated IR as part of the stock exchange listing requirements, is worth exploring further in this regard. One concern is that although IR is mandated in SA, SA reports did not rate well in the GRI achievement levels (only 15% of SA

reports achieved level A, compared to an average of 40% in the other countries). Mandating therefore does not equate quality.

With regards to external assurance of sustainability reports the expectation would be that as the reports and information become more important, the level of assurance will increase. At present this is done on average for 50% of the report (slightly more in Italy and slightly less in Germany). In SA where IR is mandated, only 55% of the non-financial information in these reports is externally assured. This clearly presents room for improvement as there would be little benefit in having mandated reports but not having them assured. The influence of the big-4 accounting firms is also evident.

Another aspect worth concluding on is that the companies in the sample come from a range of industries and Financial Services is well represented. It would therefore appear that recent sustainability reports have moved away from a focus on high impact (high polluting) industries to include traditional 'clean' industries and also the mix of industries seem to be better than found in earlier reporting.

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