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NONFINANCIAL DISCLOSURE USING GRI STANDARDS: EMPIRICAL FINDINGS OF CROATIAN AND SERBIAN COMPANIES*

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ABSTRACT

This paper investigates nonfinancial disclosure using GRI Standards for large public interest entities in Croatia and Serbia. First, we created an index of compliance with the GRI Standards to measure nonfinancial disclosure. Second, the research was conducted on a sample of listed companies from Croatia and Serbia for 2018 (with more than 500 employees). We used a regression analysis, modeling the GRI Compliance Index as a function of the following explanatory determinants: CSR reporting, annual report pages, company size, leverage, ROA, and industry. Our results indicate that the GRI Compliance Index size for Croatian companies is influenced by CSR reporting, annual report pages, and company size, while for Serbian companies, it is only influenced by the annual report pages. In addition, there is no difference in the level of compliance with the GRI Standards in the observed countries. However, Croatian companies provide better disclosures from the GRI modules (economic, environmental, and social). These results are unexpected, given that Croatian regulations are harmonized with the EU Directive and the GRI Standards. The findings could be of interest to all users of corporate disclosure, especially large public interest entities seeking to improve the quality process of their nonfinancial reporting.

KEYWORDS: *nonfinancial reporting; nonfinancial disclosure; GRI Standards; GRI Compliance Index; annual report*

1. INTRODUCTION

Nonfinancial reporting (NFR) has developed into a dimension of corporate reporting in recent years. Nonfinancial reporting, often encompassed within sustainability or corporate social responsibility reporting, goes beyond financial metrics (which largely caters to the information needs of shareholders) and provides stakeholders (and a broader audience) with a comprehensive overview of a company's environmental, social, and governance (ESG) performance. Disclosure of sustainable information is a powerful tool for shaping the perceived legitimacy of a company, especially in the context of increasing stakehold-

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er power and scrutiny (Campbell et al., 2003, p. 558). The publication of nonfinancial information contributes to the company's transparency, which will certainly strengthen the confidence of all stakeholders. Through nonfinancial reporting, companies should generate benefits for the entire economy, environment, and society (Hladika & Valenta, 2017, p. 47). Effective NFR should benefit all reporting organizations internally and externally (GSSB, 2019).

Another relevant aspect is how many companies are prepared to prepare, present or make nonfinancial reports publicly available voluntarily. The evolution of NFRs has been largely determined by various factors, including the need for more comprehensive information, the pressure for greater transparency, and the demand for companies to provide detailed explanations of their business models. Furthermore, the evolution of nonfinancial reporting from voluntary industry initiatives to independent frameworks reflects the growing acknowledgment of the nonfinancial factors in business decision-making and the need for companies to address stakeholder expectations for transparency and accountability (De Villiers & Maroun, 2018, p. 1). Directive 2014/95/EU is a significant legislative initiative adopted by the EU to enhance transparency and accountability in corporate reporting. The Directive requires certain large companies to disclose nonfinancial information on ESG matters. From 2018 onwards, companies must include nonfinancial information in their annual report. However, companies are not obliged to follow any specific standard (international or national) or to apply any guidelines as mandatory. Directive 2014/95/EU allows companies flexibility in disclosing nonfinancial information and allows them to choose the guidelines or frameworks that best suit their characteristics and industries. While the Directive sets out the overarching requirements for disclosure, it does not prescribe specific reporting formats or methodologies. By allowing companies to choose the most suitable guidelines and tailor their reporting approaches, the Directive improves the quality, relevance, and comparability of NFR across the EU (Maravić et al., 2019, p. 173).

For this research, we used two countries (Croatia and Serbia) with different institutional backgrounds of nonfinancial reporting, as we know that there are differences in nonfinancial reporting in emerging countries (Pisani et al., 2017, p. 602). The main difference in nonfinancial reporting is that Croatian regulations follow the EU Directive, harmonized with the GRI Standards. Therefore, nonfinancial reporting is mandatory for public interest entities in Croatia as EU members for many elements of the GRI Standards, while it is voluntary for Serbian companies. In addition, different determinants might be important in influencing GRI in these countries. Therefore, this study extends the previous literature on nonfinancial reporting using the GRI Standards by analyzing the potential determinants of GRI compliance in Croatia and Serbia.

This paper is structured as follows. The second section provides a theoretical framework for nonfinancial reporting and the GRI Standards. The third section describes the methodological framework. The empirical results are presented in section four. Section five summarizes and discusses the main findings of the research.

THEORETICAL FRAMEWORK

The research findings on NFR are diverse and contradictory, largely due to the lack of a unified theoretical framework. The observation that a significant portion of the literature on NFR lacks a theoretical foundation is noteworthy. Among the studies incorporating theoretical frameworks, stakeholder theory, legitimacy theory, and institutional theory are predominantly utilized (Hahn & Kuhnen, 2013, p. 10).

First, stakeholder theory is the main social reporting theory in explaining NFR (Spence et al., 2010, p. 79). Stakeholder theory emphasizes that businesses should account for the perspectives and expectations of all parties with a stake or interest in the company's activities, not just the shareholders (Laplume et al., 2008, p. 1152). Second, legitimacy theory posits that organizations do not inherently have a right to exist but must earn and maintain legitimacy from society. Legitimacy is the perception that an organization's actions are appropriate, desirable, and aligned with societal norms, values, and expectations (Hahn & Kuhnen, 2013, p. 10). Consistent with the principles of legitimacy theory, companies often utilize social and environmental reporting as a strategic tool to gain, maintain, or repair their legitimacy in the eyes of stakeholders and society at large (Mousa & Hassan, 2015, p. 41). Third, institutional theory suggests that corporate activities are influenced by rational economic considerations and the institutionalized expectations, norms, and practices of the broader environment in which organizations operate (Hahn & Kuhnen, 2013, p. 10).

2.1. Nonfinancial reporting

Nonfinancial reporting (NFR) refers to disclosing information beyond traditional financial metrics to provide stakeholders with a comprehensive view of an organization's performance in the ESG area (Erkens et al., 2015, p. 25). A diverse set of stakeholders representing various ESG interests is crucial in determining an organization's success. These stakeholders include employees, customers, suppliers, creditors, advocacy groups, public authorities, and communities impacted by the organization's activities. Each stakeholder group has its expectations, concerns, and priorities regarding the organization's performance and impact. (Hahn & Kuhnen, 2013, p. 4).

For NFR, the effects of the company's activities are observed in aspects of ESG issues and issues related to respect for human rights, anti-corruption, and bribery. When preparing a nonfinancial report, the emphasis is on disclosing relevant and material information about current and potential business activities and their impact on the economy, the environment, and the company (Hladika & Valenta, 2017, p. 41).

Another important part of nonfinancial reporting is the heterogeneity in the type of channels used. The heterogeneity can be observed through the various titles for reports containing nonfinancial information. While this list is non-comprehensive, it reflects the diverse terminology employed by companies to communicate their nonfinancial performance. This heterogeneity can be explained by the lack of a uniform definition of nonfinancial reporting, which leads companies to adopt and adjust their *ad hoc* disclosure practices (Hahn & Kuhnen, 2013, p. 4; Stolowy & Paugam, 2018, p. 531).

Triple bottom-line reporting, which evaluates an organization's performance based on its impact on the environment, society, and the economy, is increasingly recognized as a comprehensive approach to assessing corporate social responsibility. Companies can demonstrate their commitment to sustainable and ethical practices by providing stakeholders with information on these three dimensions. Standards and frameworks vary in their scope and focus. Some may concentrate solely on social issues, while others prioritize environmental concerns. Some standards provide general guidance, allowing companies flexibility in reporting, while others have more specific requirements, including criteria for certification or external reporting purposes (Tschopp & Nastanski, 2014, p. 153).

Finally, international research on nonfinancial reporting is still far from global and emerging in the 'mainstream' international management/business (Pisani et al., 2017, p. 591).

2.2. GRI Standards

Numerous recommendations and guidelines for NFR have been published in recent years. Their purpose is to support companies in preparing NFRs that integrate the ESG impacts of businesses. The Global Reporting Initiative (GRI) is an independent international organization pioneering corporate sustainability reporting (CSR) since it was founded in 1997. When evaluating four globally recognized CSR Standards, Tschopp and Nastanski (2014, p. 147) suggest that the GRI is the best standard for providing decision-relevant information.

The GRI Sustainability Reporting Standards, introduced in October 2016, represent the latest iteration of the GRI framework for nonfinancial reporting. These standards provide a structured approach for organizations to report on their impacts across all ESG dimensions. They are flexible and modular, allowing organizations to tailor their reporting to specific circumstances and priorities (GSSB, 2017, p. 3).

The GRI aims to position its guidelines as a globally recognized framework for promoting comparable nonfinancial reporting. These guidelines offer a systematic framework for companies to document and disclose information on various aspects of their operations, including environmental, social, and economic performance (Isaksson & Steimle, 2009, p. 175). In addition, the GRI provides standardized reporting guidelines that require companies to report on positive and negative aspects of an organization's nonfinancial performance (Hahn & Lulfs, 2014, p. 401).

The purpose and goal of the GRI Standards are to facilitate the compilation of nonfinancial reports for companies and to provide them with detailed guidelines for measuring and reporting performance in the realms of economic, ecological, and social issues. Transparent, responsible, and timely NFR positively impacts investors and other stakeholders or interested parties in the global market, building their trust and confidence in a particular subject (Hladika & Valenta, 2017, p. 43).

The GRI Standards encompass a comprehensive set of 36 interrelated standards that allow organizations to address various nonfinancial reporting requirements. Within this framework, three universal standards apply to all companies: foundation, general disclosures, and management approach. Organizations can utilize the GRI Standards in two primary ways: integrated or selective. Regardless of the chosen approach, preparing a nonfinancial report per the GRI Standards enables organizations to provide stakeholders with a comprehensive and credible account of their sustainability performance. Such reports can be prepared as standalone documents or integrated into other reporting frameworks, such as annual reports or corporate social responsibility disclosures. In addition, organizations can refer to information disclosed in various formats and locations, such as on websites, in regulatory reports, and through other communication channels, to improve accessibility and transparency for stakeholders (GSSB, 2017, p. 5).

3. METHODOLOGICAL FRAMEWORK

3.1. Sample and Methodology

This research is conducted on disclosing nonfinancial information in annual reports using the GRI Standards of large Croatian and Serbian public interest entities in 2018 (with at least 500 employees). In addition, a company must have either a balance sheet totaling 20 million euros or a net turnover surpassing 40 million euros. The total number of listed companies with at least 500 employees in 2018 was 23 in Croatia and 26 in Serbia (Amadeus database). In addition, nonfinancial information is expected to be included in the annual report or provided separately. This research uses multivariate analysis to find a relationship between the GRI compliance Index and independent variables.

3.2. GRI Compliance Index

As part of the GRI Standards, each topic-specific standard consists of a disclosure primarily related to reporting requirements (specifying what information must be disclosed). For this research, we use all GRI disclosures. First, we use disclosures from the general standards. Secondly, we use disclosures from the GRI modules (economic, environmental, and social).

The economic module consists of six standards, covering business operations in the market, procurement processes, and the fight against corruption. The environmental area consists of 8 standards related to environmental protection regulation and how the company manages limited resources. The social module is the most popular because it consists of 19 standards concerning social aspects, including questions about employees, relationships with local communities, and efforts against corruption and bribery.

The GRI Compliance Index (GRI_{INDEX}) is calculated as the ratio between the number of GRI disclosure elements (GRI_{AR}) in the annual report of the analyzed company and the maximum number of GRI disclosures ($maxGRI_{AR}$). Each element has the same weight, so the coefficient for each element is 1. The maximum number of GRI elements is 144.

$$GRI_{INDEX} = GRI_{AR} / maxGRI_{AR} \quad (1)$$

A measurement scale was created to obtain a level of GRI compliance. The GRI compliance measurement scale is divided into five levels, each associated with a corresponding rank. The levels of GRI compliance with the corresponding ranks are listed in the following table.

TABLE 1: Rank and level of GRI compliance

Level of GRI compliance	*Rank*
Full GRI compliance	81-100
High GRI compliance	61-80
Medium GRI compliance	41-60
Low GRI compliance	21-40
Large GRI non-compliance	0-20

Source: Authors' calculations

3.3. Research model and description of the independent variables

The following model was developed to examine the relationship between the GRI Compliance Index and selected independent variables. The independent variables included in the model are described in Table 2.

$$GRI_{INDEX} = \beta_0 + \beta_1 CSR\_Reporting + \beta_2 AR\_Pages + \beta_3 SIZE + \beta_4 ROA + \beta_5 LEV + \beta_6 IND + \varepsilon \quad (2)$$

The first variable included in the model is *CSR reporting*. It is assumed that companies that prepare a separate CSR report or publish a section on CSR in their annual report provide more nonfinancial information (Lee & Leo, 2016; Baboukardas & Rimmel, 2016; Zhou et al., 2017; Bernardi & Stark, 2018; Stolowy & Paugam, 2018) and are more GRI compliant. The number of annual report pages is also expected to *correlate positively with GRI compliance*. The annual report's increased information is primarily driven by environmental, human capital, performance, strategic, and value creation disclosures (Stolowy & Paugam, 2018, p. 5).

A natural question for accounting researchers is whether businesses' higher levels of nonfinancial disclosure reflect more sustainable operations (Herbohn et al., 2014, p. 423). CSR companies, on average, enjoy better financial performance than non-CSR companies (Škare & Golja, 2012, p. 237). It can be assumed that *Company size* (measured by the natural logarithm of total assets) has a positive impact on compliance with the GRI compliance (Da Silva Monteiro & Aibar-Guzman, 2010; Gallo & Jones Christensen, 2011; Fortanier et al., 2011; Fernandez-Feijoo et al., 2014; Stolowy & Paugam, 2018), with the assumption that

TABLE 2: Description of the independent variables

Variable	Symbol	Description/Measurement
CSR reporting	CSR_Reporting	1-company publishes a separate CSR report/a section in its annual report, 0 otherwise
Annual report pages	AR_Pages	Number of pages in the Annual report pages
Company size	SIZE	Natural logarithm of total assets
Profitability	ROA	Net income/Total assets
Leverage	LEV	Total liabilities/Total assets
Industry	IND	National classification of economic activities

Source: Authors.

larger companies cause greater impacts, become more visible and therefore subject to greater scrutiny and pressure from stakeholders. In addition, small companies might have higher marginal costs of disclosure (Hahn & Kuhnen, 2013, p. 6). It is common in research to consider *Profitability*, often measured by metrics like return on assets (ROA), as a factor influencing a company's ability and flexibility in bearing the costs of reporting, particularly when adopting frameworks such as GRI and disclosing potentially sensitive information (Haniffa & Cooke, 2005; Cormier & Magnan, 2007; Kent & Monem, 2008; Clarkson et al., 2011; Stolowy & Paugam, 2018).

It can be assumed that a high level of *Leverage* limits a company's ability and flexibility to bear the costs of reporting (Cormier & Magnan, 2007; Stanny & Ely, 2008; Stolowy & Paugam, 2018) or face the consequences of disclosing potentially damaging information (Hahn & Kuhnen, 2013, p. 6). Companies from industries (*Industry* using the NACE code) with high ESG impacts may need to engage in NFR in order to respond to sector-specific stakeholder pressure (Parsa & Kouhy, 2008; Sotorrio & Sanchez, 2010; Fernandez-Feijoo et al., 2014). Furthermore, nonfinancial disclosure may be driven by mimetic tendencies within sectors, which would explain the presence of reporting activities despite the absence of stakeholder pressure (Hahn & Kuhnen, 2013, p. 9).

4. RESULTS

The GRI compliance index is used for a comparative analysis of nonfinancial disclosure using the GRI Standards of public interest entities (with more than 500 employees) in transition countries (Croatia, as a full EU member, and Serbia). For these companies, 144 GRI disclosure elements are observed to define the level of GRI compliance presented in Table 3.

TABLE 3: Level of GRI compliance for Croatian and Serbian companies

Level of GRI compliance	Croatia		Serbia	
	No	%	No	%
Full GRI compliance	1	4.3	0	0
High GRI compliance	3	13	1	3.8
Medium GRI compliance	5	21.7	3	11.5
Low GRI compliance	3	13	6	23.1
Large GRI non-compliance	11	47.8	16	61.5
Total	23	100	26	100

*** $Mean_{CROATIA}$ (GRI_{INDEKS}=33.97; Min=0; Max=100); $Mean_{SERBIA}$ (GRI_{INDEKS}=25.75; Min=6; Max=69)**
Source: Authors' calculations

The result indicates that Croatian and Serbian companies have low GRI compliance (mean GRI_{INDEX} for Croatian companies is 33.97 and for Serbian companies is 25.75), based on the GRI compliance rank (on average). Among Croatian companies, 47.8% have a high level of GRI non-compliance. There is one Croatian company that has full GRI compliance. Among Serbian companies, 61.5% have large GRI non-compliance, and no company is fully GRI compliant. Only one company has high GRI compliance.

Looking at the GRI modules for the countries observed, we can conclude that there are no general differences in key company information (General Disclosure). Croatian companies have greater disclosures on social, environmental, and economic topics.

The differences between the observed countries according to the GRI Compliance Index were tested using the Mann-Whitney U-test. Table 4 shows no significant differences in the ranks between the ob-

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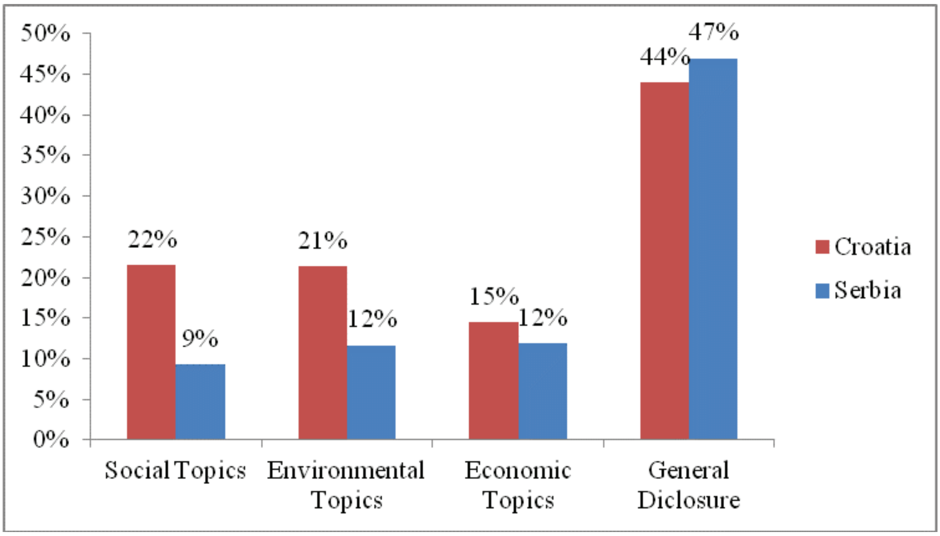
Graph 1: GRI modules using (proportion)



NOTE: Modules: General Disclosure includes 59 disclosures, Economic Topics includes 13 disclosures, EnvironmentalTopics includes 32 disclosures, and Social Topics includes 40 disclosures. Detailed information on the disclosures per module is available at https://www. globalreporting.org.

SOURCE: Authors' calculations.

TABLE 4: GRI compliance rank between observed countries

Countries	*GRI compliance Rank*	*M-W (sig.)*
Croatia	25.35	87.3%
Serbia	24.69	

Source: Authors' calculations.

served countries measured by the GRI Compliance Index (p-value is 87.3%). The observed Croatian companies have the highest rank in GRI compliance (the rank value is 25.35) compared to the observed Serbian companies (the rank value is 24.69).

Our model for Croatian companies is estimated by multivariate analysis (Enter method). The F-statistic of the model for Croatian companies is significantly different from zero, indicating that a subset of the explanatory variables explains the variation in the GRI Compliance Index. The R-squared value for Croatian companies indicates that the model explains 77% of the variation in the GRI compliance Index. The multivariate analysis for Croatian companies shows that CSR Reporting, the number of annual report pages, and company size influence the GRI compliance Index (significant at $p<10\%$), i.e., Croatian companies with the highest number of annual report pages and that have prepared a separate CSR report or published a section in their annual report (integrated report) have the highest GRI Compliance Index. Other financial performances (ROA, LEV, and IND) are not significantly correlated with the GRI_{INDEX}.

Our model for Serbian companies is estimated using multivariate analysis (Enter method). The F-statistic of the model for Serbian companies is significantly different from zero, indicating that a subset of the explanatory variables explains the variation in the GRI Compliance Index. The R-squared value for Serbian companies indicates that the model explains 56% of the variation in the GRI Compliance Index. The multivariate analysis for Serbian companies shows that only the number of annual report pages impacts the GRI Compliance Index (significant at $p<1\%$), i.e... Serbian companies with the highest annual report pages have the highest GRI Compliance Index. Other financial performances (SIZE, ROA, LEV, and IND) are not significantly correlated with the GRI_{INDEX}. CSR_Reporting is excluded from the model (no companies have prepared a separate CSR report or published a section in their annual report).

TABLE 5: Multivariate analysis of Croatian companies

Model	B	Std. Error	t	Sig
Constant	-59,183	37,012	-1,599	,129
AR_Pages	,163	,078	2,078	,054**
CSR_Reporting	24,933	13,198	1,889	,077**
SIZE	6,299	3,531	1,784	,093**
ROA	,041	,296	,138	,892
LEV	9,211	7,604	1,211	,243
IND	-,908	1,854	-,490	,631

NOTE: Dependent variable: GRI INDEKS. Method: Enter. **Significant at p < 10%.
SOURCE: Authors' calculations.

TABLE 6: Multivariate analysis of Serbian companies

Model	B	Std. Error	t	Sig
Constant	-11.994	21.618	-.555	.585
AR_Pages	.145	.036	4.029	.001**
SIZE	1.457	2.002	.728	.475
ROA	-.188	.203	-.925	.366
LEV	-1.251	8.502	-.147	.885
IND	.976	1.406	.694	.496

NOTE: Dependent variable: GRI INDEKS. Method: Enter. ** Significant at p < 1%.
SOURCE: Authors' calculations.

6. DISCUSSION AND CONCLUSION

In the global world, financial reporting is gaining an increasingly important role because profit is the main motive and generator of success. Leading financial reports provide important information about the activities of companies, but in recent decades, nonfinancial reports have also certainly taken on an important role. Most of this published information can typically be found in annual reports, and its scope generally depends on the development of the country or region to which it pertains. In countries where the disclosure of nonfinancial information is not mandatory, the amount of information is smaller and is structured arbitrarily. This paper analyzes nonfinancial disclosure using the GRI Standards for large public interest entities in Croatia and Serbia. For this purpose, a specific index for compliance with the GRI Standards was created, and a comparative analysis of GRI disclosures for listed companies in the observed countries was conducted. The expected differences in nonfinancial reporting practices and results can be attributed to various factors related to the general business environment, EU membership status, and socio-political characteristics. This can be a potential limitation of this research. In addition, when the research was done, i.e., the year 2018 was considered, other regulations were valid, i.e., the regulations adopted were not incorporated.

Our results indicate that Croatian and Serbian companies only comply with the GRI requirements to a limited extent. Looking at the GRI modules for the countries observed, there are no general differences in key company information, with Croatian companies providing more information on social, environmental, and economic topics. There are also no significant differences in the rankings between the countries observed as measured by the Index. These findings could be of interest not only to potential investors but also to the management when preparing annual or nonfinancial reports, as well as to new investors and financial institutions. In order to conduct an in-depth analysis of the GRI disclosures, the data set was limited to 49 companies for both countries.

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Future research could be extended by including other European countries in the analysis, particularly the total number of public interest entities and other potentially relevant explanatory factors (e.g., new European Sustainability Reporting Standards).

Moreover, further research in this direction could show first-hand both the opportunities and the shortcomings of nonfinancial reporting, which is extremely important for business decision-making. The paths of professional and academic directions are not always synchronized. Science recommends elements it recognizes as important for the analysis, particularly those pertinent to the company's business. When prescribed and arbitrary/expectations require that the disclosure, preparation, and presentation of a wealth of data be time-consuming, companies sometimes use the trade secret rule and even conceal negative factors or actions. What is important in theory is sometimes overshadowed by the demands of practical market competition and costs valuable time. Nevertheless, all key questions about the nonfinancial area must be answered, even if only with indications or negative responses, accompanied by a note indicating that certain practices are not implemented in the company concerned.

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NEFINANCIJSKO IZVJEŠTAVANJE PREMA GRI STANDARDIMA: EMPIRIJSKI NALAZI HRVATSKIH I SRPSKIH PODUZEĆA

SAŽETAK

Ovaj rad istražuje nefinancijsko izvještavanje prema GRI standardima za velika društva od javnog interesa u Hrvatskoj i Srbiji. Prvo smo kreirali indeks usklađenosti s GRI standardima, kako bismo mjerili nefinancijsko izvještavanje. Nakon toga smo proveli istraživanje na uzorku kotiranih poduzeća iz Hrvatske i Srbije za 2018. godinu (s više od 500 zaposlenih). Koristili smo regresijsku analizu, modelirajući indeks usklađenosti s GRI standardima kao funkciju sljedećih objašnjavajućih čimbenika: izvještavanja o društveno odgovornom poslovanju (CSR), broja stranica godišnjeg izvješća, veličine poduzeća, zaduženosti, povrata na imovinu (ROA) i industrije. Naši rezultati pokazuju da je indeks usklađenosti s GRI standardima za hrvatska poduzeća pod utjecajem izvještavanja o društveno odgovornom poslovanju, broja stranica godišnjeg izvješća i veličine poduzeća, dok je za srpske poduzeća pod utjecajem samo broja stranica godišnjeg izvješća. Osim toga, nema razlike u razini usklađenosti s GRI standardima u promatranim zemljama. Međutim, hrvatska poduzeća pružaju bolje izvještavanje iz GRI modula (ekonomski, ekološki i društveni). Ovi rezultati su neočekivani s obzirom na to da su hrvatski propisi usklađeni s EU Direktivom i GRI standardima. Nalazi bi mogli biti zanimljivi svim korisnicima korporativnog izvještavanja, posebno velikim društvima od javnog interesa koja žele poboljšati kvalitetu procesa nefinancijskog izvještavanja.

KLJUČNE RIJEČI: *nefinancijsko izvještavanje; nefinancijsko otkrivanje; GRI standardi; indeks usklađenosti s GRI standardima; godišnje izvješće*