Non-Financial Reporting in Croatia: Current Trends Analysis and Future Perspectives

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Non-financial reporting forms part of corporate reporting. Among other, it includes disclosure of information regarding corporate social responsibility (CSR)/sustainability issues and as such represent the supplement to the information provided by financial statements. Compared to the financial reporting, non-financial reporting is voluntary in majority of countries, including Croatia. Thus, companies decide on their own whether to disclose on this issue or not. Considering its voluntariness, the aim of this paper is to determine the current state of non-financial reporting in Croatia by identifying the financial characteristics of companies disclosing non-financial reports. In data analysis, the logistic regression was used. The research was conducted on a sample of Croatian publicly listed companies. Obtained results indicate that larger, more profitable and efficient companies are more probable to disclose non-financial reports, while indebtedness is not significant for it. In addition, further development of corporate social accounting is required, as well as promotion of non-financial reporting benefits.

Key words: non-financial reporting, CSR, sustainability, Croatia
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Introduction

Corporate reporting represents the primary channel through which companies communicate to stakeholders. Corporate reporting includes financial and non-financial information on all important issues of business. The extent of corporate reporting is different between companies, but also between countries. The main factor influencing the extend of corporate reporting, is whether reporting is compulsory or not. Corporate reporting is often considered as a synonym for financial reporting. However, corporate reporting is much wider then financial reporting (Pervan 2009). Financial reporting is the most important and developed part of corporate reporting, but not the only one.

The times when annual (financial) statements, containing only financial information, were sufficient, has passed. New information and reports are needed. According to PwC (2015): 'the term "corporate reporting" refers to the presentation and disclosure aspects – as distinct from accounting/measurement – of the following areas of reporting: integrated reporting, financial reporting, corporate governance, executive remuneration, corporate responsibility and narrative reporting.' Not all of these reporting areas result with stand-alone reports, since they can be a part of other reports, for example, the information on executives' remuneration can be part of annual report. Also during time, the importance of different areas of reporting has changed. According to Lusher (2013) financial reporting was a priority in the past, non-financial reporting is a priority nowadays, while integrated reporting will increase in the future. Non-financial reporting is defined as follows 'the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development' (Ernst&Young 2009). As evident from this definition, non-financial reporting includes disclosure of information on CSR/sustainability issues.

The growing importance of non-financial reporting is the result of companies' tendency of being socially responsible. Stakeholders require information on corporate environmental, social and ethical performance of a company (Ernst&Young 2009), which are not fully provided by financial reporting. Thus, financial reports should be extended with non-financial information, or supplemented with new stand-alone reports, in order to comply with all stakeholders' information needs. Additionally, the voluntary disclosure can reduce the information asymmetry between company and investors (Alberts and Günther 2011). On the global level some initiatives for non-financial reporting have been developed. The most known initiatives of this kind are GRI initiative and UN Global Compact. GRI features guidelines for companies to disclose non-financial information regarding sustainability, while UN Global Compact requires disclosure of Communication on progress (COP) about implementation of ten sustainability principles. Mostly, implementation of these initiatives is not required by the law. Thus, companies decide on their own whether to implement them and to take part of these global initiatives. Beside the implementation of the GRI initiative and participating in the UN Global Compact, companies often prepare non-financial reports based on their own principles and standards.

The aim of this paper is two-fold. The first one is to determine the current state of non-financial reporting, and the second is to assess the financial characteristics of companies which voluntary disclose these reports. Since financial reporting is mostly standardized and harmonized, and integrated reporting is still in the development phase, the focus of this paper will be on non-financial reporting. Croatian companies will be considered for this research. As a member of EU, Croatia was obligated to implemented the provisions of the directive 2014/95/EU on disclosure of non-financial and diversity information (European Parliament and Council 2014), which is in force from year 2017. Before that, disclosure on CSR/sustainability issues was voluntary. In comparison to more developed countries of EU (e.g. France, UK, Italy, Germany, ...) Croatia is specific because of the shorter experience in market oriented economy. The process of transition to the capitalism system has been going on for only several decades, demanding rapid changes in all aspects of business, including reporting. Thus, just recently, the shareholder value maximization has become the main purpose of managing business, and already there is a tendency of shifting on stakeholder value maximization. In line with this, the corporate reporting is expanding on non-financial issues.

The paper is structured in five parts. Firstly, a research background is explained. The current state of corporate reporting in Croatia is then discussed. The empirical part of the paper includes also the exploration of financial characteristics of companies that prepare and disclose information about CSR or sustainability in a form of a report. Finally, concluding remarks are presented and discussed.

Research Background

As stated earlier corporate reporting includes a wide variety of reporting areas. During the past decades, corporate reporting has evolved from financial statements to a more comprehensive model, addressing internal and external issues of governance, executive remuneration, environmental issues, and sustainability in corporate social responsibility reports (Lusher 2012).

However, corporate reporting often refers only to financial reporting, which is not surprising since it is the most important and fundamental area of reporting. Financial reporting includes financial statements (balance sheet, income statements, cash-flow statement and statement of equity changes) and accompanying notes. Due to its importance, financial reporting is also the most developed, standardized and harmonized area of corporate reporting. Regarding the development and current state of financial reporting, Ball (2006, 5) concluded that 'extraordinary success has been achieved in developing a comprehensive set of "high quality" IFRS (International Financial Reporting Standards) standards, in persuading almost 100 countries to adopt them, and in obtaining convergence in standards with important non-adopters (USA).'

Although, IFRS are obligatory in more than 100 countries, not all companies implement them. Mostly, IFRS are intended for large and listed companies. While their suitability for SMES financial reporting has been in focus of the academic debate for some time. Vansteege (2005) summarized the arguments in favour of complete harmonization as: higher quality, lower cost of capital, existence of wide gap and practicality and efficiency; while arguments against complete harmonization include: cost arguments, tax accounting, different user needs and compliance. Regardless of benefits that complete harmonization provides, differential reporting (regarding companies' size) dominates. For the purposes of SMES' reporting, IASB (International Accounting Standards Board) developed IFRS for SMES with the goal 'to provide the world's integrating capital markets with a common language for financial reporting, taking into account the needs of SMES and emerging countries' (Pacter 2014). Compared to full IFRS, IFRS for SMES are: much smaller (230 pages vs. more than 3.000 pages of full IFRS), organized by topic, simplified and tailored for SMES (Pacter 2014). The implementation of IFRS for SMES is not widespread as the one of full IFRS, since some countries require the implementation of local standards for SMES. Thus, there is a lot of space for full harmonization of financial reporting, especially for SMES.

Financial reports are intended for a limited group of stakeholders, like shareholders and creditors. However, taking into account provision of stakeholder theory (first introduced by Freeman in 1984), needs of all 'individuals and groups with a stake in or claim on the company' (Melé 2008, 62) should be taken into consideration. Thus, according to this theory, managers should shift their focus from shareholders (owners) value maximization to the maximization of stakeholders value. Stakeholders include 'groups and individuals who benefit or are harmed by corporate actions' (Melé 2008, 62). In line with stakeholder theory, corporate reports content should be adjusted to stakeholders' needs.

Corporate social responsibility (CSR), as defined by the EU Commission, represents a 'concern actions by companies over and above their legal obligations towards society and the environment' (European Commission 2011). Implementation of CSR into business has several benefits for a company. Barnett and Salomon (2006, 1102) summarized the advantages of CSR as follows: (1) it can help to attract resources, including quality employees, (2) it is easier to market products and services, (3) it can create unforeseen opportunities, and (4) it is a source of competitive advantage. On the other hand, integration of CSR principles requires additional resources that could cause additional costs and in the end reduce companies' profit. Thus, many companies accept Friedman view that 'social responsibility of business' is only to 'increase its profits' (Porter and Kramer 2002).

For managing CSR it is important to have adequate information basis. Information, and afterwards reports, regarding companies' social performance should be prepared by corporate social accounting, which by definition represents: 'the process of selecting firm-level social performance variables, measures and measurement procedures; systematically developing information useful for evaluating the firm's social performance; and communicating such information to concerned social groups, both within and outside the firm' (Ramanathan 1976, 519). In the past decades, the development of corporate social accounting is evident. Because of that, the number of companies that issue stand-alone reports on CSR issues has increased dramatically (Dhaliwal et al. 2012). Thus, firms are realizing the importance of CSR and non-financial reporting. These results were also confirmed by KPMG's (2013) survey, which reported an increase of 7% in the number of companies reporting on CSR, compared to the survey conducted in 2011 (71% of companies included into their research (100 largest companies from 41 countries worldwide) report on CSR). Dhaliwal et al. (2011) found that disclosure of CSR activities results with subsequent reduction in cost of equity capital. On the other hand, Alberts and Gunther (2011) found that companies do not disclose CSR information aiming to reduce costs of capital, but due to a feeling of responsibility or of complying with stakeholders and shareholders expectations. In line with this, companies might perform CSR activities and disclose on it, in order to return something to society from which they collect their resources. Grougiou, Dedoulis, and Leventis (2015) found that 'sin' companies (companies belonging to the alcohol, tobacco, gambling, nuclear energy and firearm sector) are more prone to disclose non-financial reports. By performing and disclosing on CSR they are trying to compensate for the negative influence they have on society. Additional non-financial report is also needed for investors interested to invest in a social responsible company and who require information not provided through traditional financial statements and analysis (Holder-Webb et al., 2009).

Non-financial disclosure leads to economic benefits. Chester and Woofter (2005) summarized economic benefits of non-financial disclosure into two groups: indirect and direct economic benefits. Indirect economic benefits include: motivating employees, stronger management system, it encourages innovations and continuous improvement. Direct economic benefits include: the rising value of intangible assets, increasing stakeholder pressure, better stock performance, first-mover advantage, and sustainability as a proxy for good management in terms of effective risk management (Chester and Woofter 2005). This benefits are in line with KPMG's (2013) study, which found that, beside encouraging performance and innovatively, the main benefits of non-financial reporting include enhanced reputation (internally and externally) and improved internal communication. Related to economic benefits of non-financial reporting, Moser and Martin (2012) showed that cost of green investments, which (according to them) are unprofitable for the company, are lower when companies disclose their green investments.

The process of non-financial reporting, compared to financial reporting, is not harmonized and mostly not required by law. Thus, companies decide on their own whether to prepare non-financial reports, which information to include, will some initiative guidelines be followed, etc. Harmonized reports would make it easier for investors and other decision makers to analyse and understand information contained in those reports (Tschopp and Nastanski 2014). Because of poor non-financial reporting harmonization, different terms are used for disclosing information regarding social issues, like social and environmental reporting, corporate citizenship reporting, sustainability reporting (Alberts and Gunther 2011) or non-financial reporting. The law requirement for non-financial reporting is increasing, meaning that lawmakers are realizing the importance of this information. Therefore, some countries, like France, Denmark, Sweden, The Netherlands and Norway, require disclosure of CSR information from certain, mostly listed, companies (Tschopp and Nastanski 2014). The tendency of upgrading non-financial reporting to a compulsory activity by the law, is in line with the directive 2014/95/EU (European Parliament and the Council 2014) regarding disclosure of non-financial and diversity information by certain large undertakings and groups. Once in force, the directive 2014/95/EU will require from certain large companies to disclose in their management report, information on policies, risks and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors (European Parliament and Council 2014). This Directive should be implemented into laws, regulations and administrative provisions by member states until 6 December 2016, and from 1 January 2017, it should be in full force.

As Lusher (2012) stated, the future of corporate reporting is in integrated reporting. An integrated report can be defined as follows: 'a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term' (International Integrated Reporting Council 2013). As its name suggests, integrated reporting includes different aspects of corporate reporting in just one report. For the purposes of integrated reporting development, IIRC (International Integrated Reporting Council) was established. In 2013, IIRC published first integrated reporting framework. The aim of the Framework is to develop guiding principles and content elements, as well as to explain the fundamental concepts of integrated reporting (International Integrated Reporting Council 2013). Afterwards, the new framework was published, without specifying contents of the report, but encouraging companies to design report on their own, following proscribed guiding principles and information (Fried, Holtzma, and West 2014). However, IIRC framework for integrated reporting has obtained several critics. According to Flower (2015) framework does not include sustainability accounting, and because of this it won't have an influence on corporate reporting in practice. Thomson (2015) has confirmed these critics, and added that proposed framework of IIRC does not allow redistribution of power. Thus, revision of IIRC framework is required before its further implementation.

Corporate Reporting in Croatia

By gaining independence in 1991, Croatia began the process of reforms in its economy and ownership structure. First of all, the transformation of the state to private property, as well as the emergence of a new ownership structure and privatized businesses resulted in the fact that the former institutional infrastructure was not adequate. Accounting requirements should be adapted to private property and financial markets. Soon the new accounting regulation has been in compliance with the new economic system, but also with accounting and financial reporting harmonization and standardization efforts. As the next aim has been to join to the European Union, the commitment of the adoption of the acquis of European Union in the field of accounting has been done. If we briefly consider the Croatian accounting regulation in last twenty five years, it appears that firstly it was more oriented to IAS/IFRS, than to European accounting regulations, but after becoming a member state of European Union (1 July 2013), Croatian accounting regulative is in accordance with EU accounting and reporting directives.

It was expected that EU membership will expand business activity to foreign markets, as well as the entry of foreign capital in our market, increasing the number of users and non-financial and financial information contained in the financial statements of entities. The users of the financial statements, regardless of whether they are from Croatia or any other country, prefer comparable and understandable reports because on such obtained information they make their decisions. In that case we assume that non-financial information has an important and specific role. Speaking of non-financial reporting or CSR reporting, there is an EU Directive 2014/95/EU (European Parliament and the Council 2014), but until this directive is not mandatory, corporate reporting in Croatia will mostly refer only on financial reporting.

According to Croatian accounting law (Zakon o računovodstvu 2015) companies prepare and present their annual financial statements based on Croatian financial reporting standards – CFRS or International financial reporting standards (IFRS). Micro sized, small sized and medium sized companies (classification is based on criteria including assets, number of employees and total revenues) prepare their financial statements using CFRS, while large companies and companies of public interest prepare their financial statements using IFRS. Besides that, micro and small sized companies are not required to prepare all statements comprised in the set of annual financial statement.

Considering the required accounting standards, financial reporting of large companies and companies of public interest is fully standardized and harmonized, while financial reporting of micro and SMES is standardized, but not fully harmonized.

But disclosure of CSR information is still at the beginning because it is mostly voluntary and based on the assessment. There is only one provision regarding non-financial reporting in Croatian accounting act, saying that 'If it is necessary for understanding the development, results of doing business and its (entrepreneur's) position, the analysis must include financial indicators and, if it is appropriate, non-financial indicators which are relevant to a particular business and which include information on environmental protection and employees.' (Zakon o računovodstvu 2015, article 21). In the case of disclosure of such non-financial information, they will be part of management report, but this provision refers only to two dimensions of CRS – environment and employees. Also, if we consider paragraphs 3 and 4 of article 21 (Zakon o računovodstvu 2015), medium sized companies are not obliged to include non-financial indicators in the management report, while micro and small companies are not even obliged to prepare annual reporting, in which such information may be optionally displayed. It is somewhat understandable because it will be an additional regulatory burden for micro, small and medium sized companies, already bearing with burdensome regulatory framework.

So, considering the fact that the above mentioned provision refers only to two dimension of CSR reports and stands only for large companies, the conclusion is that we are just at the very beginning of the non-financial reporting. But this situation is going to change and disclosure of CSR information will increase by compulsory implementation of the previously mentioned directive 2014/95/EU (European Parliament and the Council 2014).

Non-Financial Reporting Initiatives

Although non-financial reporting is not harmonized and standardized, some global initiatives have been developed aiming to promote CSR/sustainability reporting. The most important initiatives of this kind are: Global Reporting Initiative (GRI) and United Nations Global compact.

GLOBAL REPORTING INITIATIVE

Global Reporting Initiative (GRI) is an organization that promotes sustainable development by defining a sustainability reporting framework in form of guidelines for disclosing. GRI organization was founded in 1997 in Boston. The aim of its establishment was to create an accountability mechanism to ensure companies were following the CERES (Coalition for Environmentally Responsible Economies) principles for responsible environmental conduct. The first issue of guidelines was launched in 2000 (G1), which were revisited three times: in 2002 (G2), in 2006 (G3) and their latest version (G4) was released in 2013. GRI reporting guidelines are used all around the world, and currently there are more than 18.000 reports issued using GRI guidelines (GRI 2015). The latest version of GRI guidelines (G4) was issued with the aim to: 'help reporters prepare sustainability reports that matter, contain valuable information about the organization's most critical sustainability-related issues, and make such sustainability reporting standard practice.' (GRI 2013, 3).

The Guidelines consist of Reporting Principles, Standard disclosures and Implementation manual for the preparation sustainability reports by organizations. They are applicable to all organizations, regardless of their size, sector or locations. The Guidelines can be downloaded from GRI web pages, and the latest issue of guidelines (G4) is available on English and 14 different languages (Arabic, Bahasa-Indonesian, Brazilian-Portuguese, Croatian, French, German, Japanese, Korean, Russian, Simplified Chinese, Spanish, Traditional Chinese, Turkish and Vietnamese). GRI Guidelines have also the application level defined as A, B and C, where C level requires minimal disclosure. If reports are externally assured then a '+' is added to the application level. There are also different statuses of reports: self-declared (application level declaration not confirmed by GRI or another third party), GRI – checked and third party checked.

The mission of the GRI is to become the globally accepted standard in non-financial reporting and according to Tschopp and Nastanski (2014) they would be the best standards solution in providing decision useful information regarding CSR/sustainability.

UN GLOBAL COMPACT, COMMUNICATION ON PROGRESS

UN Global Compact is 'a leadership platform for the development, implementation and disclosure of responsible and sustainable corporate policies and practices' (see www.unglobalcompact.org). This initiative (established in 2000) seeks from participating organizations (business and non-business) to adjust their operations with ten universally accepted principles in the following areas: human rights, labour, environment and anti-corruption. It has over 8.000 participants from more than 140 countries (www.unglobalcompact.org).

Participants in UN Global Compact initiative are required to issue an annual report and to disclose it to stakeholders. The report should contain information about progress made in implementing the ten principles of the UN Global Compact. The COP should be posted on the Global Compact website and organizations are required to distribute it widely with their stakeholders. Each COP should contain three compulsory elements: the statement of the chief executive, the distribution of practical actions and the measurement of outcomes.

Based on the self-assessment of COP's content, organizations are classified into three main categories: (1) GC Learner, (2) GC Active and (3) GC Advanced. GC Active are business participants that fulfil all minimum content requirements while GC Learner are the ones that do not fulfil them. The most advanced COPs are characterized as GC Advanced.

Since UN Global Compact does not include standards for disclosing information regarding CSR, participants are encouraged to use other complementary reporting frameworks to create their COPs, for example GRI guidelines. These two initiatives (GRI and UN Global Compact) offer a document entitled 'Making the Connection' for implementation of both initiatives (www.unglobalcompact.org).

Research Methodology

SAMPLE

The sample comprised of Croatian publicly listed companies in the year 2013. There were in total 156 shares listed on the Zagreb Stock Exchange at September 12, 2015. The final sample used in this research comprises 114 companies, since some companies were excluded:

- 8 companies with preference shares (companies that issued preference shares have also issued ordinary shares),
- 18 financial sector companies (due to different structure of financial statements),
- 2 companies in the process of liquidation and bankruptcy,
- 7 companies part of a parent company whose shares are also listed (most of these companies prepare non-financial report at the level of parent company), and
- 7 companies due to unavailable financial statements in 2013.

Companies from all industry sectors (except from the financial sector) were taken into account, and their distribution by industry sector is presented in table 1. As evident from table 1, the majority of companies included in the sample are from the manufacturing sector (34%), followed by accommodation and F&B (food and beverages) providers (25%).

Table 2 shows the descriptive statistics of variables used in research. Number of employees, total revenues and total assets were used as proxies for companies' size. Return on asset (ROA) was calculated as the ratio between net profit or loss and total asset, leverage ratio was calculated as the ration between total liabilities and total

TABLE 1 The Industry Sector Distribution of Companies Included into Sample

Agriculture, forestry and fisheries	5
Manufacturing	39
Construction	5
Wholesale and retail trade; repair of motor vehicles and motorcycles	12
Transportation and storage	10
Accommodation and F&B providers	29
Information and communication	3
Real estate activities	3
Professional, scientific and technical activities	7
Arts, entertainment and recreation	1
Total	114

NOTES Based on companies financial statements (http://zse.hr).

TABLE 2 Descriptive Statistics of Variables Used in Research

Item	*N*	Min	Max	Mean	Std. dev.
Disclosure (yes = 1, no = 0)	114	0.0	1.0	0.158	0.3663
Employees number	111	1.0	13460.0	908.865	1639.7090
Total revenues (mil kn)	114	0.17	28,525.00	877.10	2,833.71
Total assets (mil kn)	114	20.10	25,909.00	1.202.43	2,875.05
ROA	114	−0.715	0.418	−0.0245	0.1229
Leverage ratio	114	0.033	8.017	0.6250	0.8237
Efficiency ratio	114	0.1765	1.8418	0.9434	0.2602

NOTES Based on companies financial statements (http://zse.hr).

asset, while the efficiency ratio was calculated as a ration between total revenues and total expenditures.

Out of the sample, 18 or 16% of companies disclosed non-financial report. Observed at the sector level, the majority of companies disclosing non-financial report is operating in the manufacturing sector (11 companies), followed by sector of agriculture, forestry and fisheries (3 companies). Although, the second largest sector in the sample is accommodation and F&B (food and beverages) providers, no company from this sector discloses non-financial reports. Taking into account the nature of this sector (high environment dependence), there should be more non-financial reports prepared by this specific sector.

VARIABLES

Since the aim of this research is to determine the financial characteristics of companies that disclose non-financial report, the depended variable was defined as follows:

1 – company discloses non-financial report,
0 – company does not disclose non-financial report.

For companies included into sample that are part of another Croatian company (but not listed at the Zagreb Stock exchange), non-financial reports of the parent company were taken into account as well. If a parent company disclosed non-financial report, this was also recognized, as a reporting of company part of the group. Information whether one company lists a non-financial report was obtained by exploring GRI reports database, UN Global Compact database and companies web site.

The following independent variables were included in the research:

- *Size:* total assets, total revenues and employees number,
- *Profitability:* return on asset (ROA),
- *Indebtedness:* leverage ration,
- *Efficiency:* efficiency ratio.

Data for independent variables were collected from companies financial statements published on the Zagreb Stock Exchange for the year 2013.

Hypotheses and Research Results

Non-financial reporting in Croatia is still voluntary, meaning companies decide on their own whether to prepare and disclose this report or not. In an attempt to determine the financial characteristics of companies preparing and disclosing non-financial reports the following hypothesis were defined:

H1 *The disclosure of non-financial reports is positively correlated with companies' size.*

H2 *The disclosure of non-financial reports is positively correlated with companies' profitability.*

H3 *The disclosure of non-financial reports is negatively correlated with company's indebtedness.*

H4 *The disclosure of non-financial reports is positively correlated with companies' efficiency.*

The first hypothesis assumes that larger companies are more prone to prepare and disclose non-financial reports. They have more resources (e.g. employees) on their disposal, which can be used for non-financial reporting disclosure. In addition, they are more visible in the environment (more exposed to the public) and have higher possibility to effect the society they operate in.

TABLE 3 The Univariate Logistic Regression Results

Independent variable	(1)	(2)	(3)	(4)	(5)	(6)
Log employees number	3.250	0.790	16.919	0.000	25.790	0.421
Log total revenues	3.327	0.778	18.034	0.000	27.870	0.520
Log total asset	3.211	0.769	17.415	0.000	24.810	0.407
ROA	5.646	2.777	4.132	0.042	283.160	0.073
Leverage ratio	–0.293	0.565	0.270	0.603*	0.746	0.006
Efficiency ratio	2.002	1.127	3.157	0.076	7.405	0.052

NOTES Column headings are as follows: (1) coefficient (beta), (2) SE, (3) Wald, (4) significance, (5) odds ratio, (6) Nagelkerke R^2.

As for other hypothesis, they assume that financially superior companies are more prone to prepare and disclose non-financial reports. The relationship between CSR/sustainability and company's financial performance has been researched for some time. However, one unique conclusion about this relationship hasn't been made, although, positive relationship prevails (Al-Tuwaijri et al. 2004; Becchetti and Trovato 2011; Erhemjamts et al. 2013; Rodgers et al. 2013; Škare and Golja 2012).

To determine the correlation between non-financial reporting and companies' size, profitability, indebtedness and efficiency univariate binary logistic regression was conducted. As previously mentioned, the dependent variable is binomial where '1' indicates company discloses non-financial report and '0' company does not disclose non-financial report. Independent variables, used in this research, were companies' size (logarithms of total asset, total revenues and employees' number), ROA, leverage ratio and efficiency ratio.

Obtained results of univariate logistic regression indicate that there is positive correlation between company's size, profitability, efficiency and non-financial reporting (table 3).

According to univariate logit regression results, hypothesis 1 is accepted at the confidence level of 99%. Positive correlation between non-financial reporting and company size is confirmed using all three proxies for size: employees number ($\beta = 3.250$ and $p < 0.001$), total revenues ($\beta = 3.327$ and $p < 0.001$) and total asset ($\beta = 3.211$ and $p < 0.001$).

The second hypothesis is accepted at the confidence level of 95%. Thus, positive correlation between non-financial reporting and the company's profitability (ROA) is confirmed ($\beta = 5.646$ and $p = 0.042$).

The results of testing the third hypothesis indicate negative correlation between non-financial reporting and companies indebtedness ($\beta = -0.293$). However, this finding is statistically insignificant ($p =$

0.603), so the third hypothesis cannot be accepted. Finally, the fourth hypothesis is accepted at the confidence level of 90%. Positive correlation between non-financial reporting and companies efficiency is confirmed ($\beta = 2.002$ and $p = 0.076$).

Conclusion

In the past decades, the most important source of corporate information for managers and other stakeholders, where financial reports. However, trends are changing and financial information are not enough anymore for managing contemporary company. Therefore, new information is required. As Lusher (2012) argued, nowadays the emphasis is on corporate social reporting, i.e. non-financial reporting. Thus, CSR becomes more in the focus of corporate communication (Arvidsson 2010).

CSR is increasing in importance and because of that, managers need to have adequate information for managing it in the right way. The CSR information are mostly non-financial and they should be prepared by corporate social accounting. Compared to financial reporting, non-financial reporting is not harmonized enough and is not obligated by the law in the majority of countries. So, companies decide on their own whether to prepare a report on this issue or not. The number of companies issuing stand – alone non-financial report is increasing (Dhaliwall 2012). Thus, companies have realized all benefits this part of corporate reporting can bring.

The aim of this paper was to determine the current state of non-financial reporting in Croatia, as well as the financial characteristics of companies that decide to disclose non-financial reports. The results have shown that only a small portion of Croatian publicly listed companies discloses non-financial reports. As for financial characteristics, the results have revealed that larger companies, in terms of employees' number, total revenues and total asset, profitable and efficient companies, are more probable to disclose information on this issue. The connection between disclosing and indebtedness was also tested, but it isn't statistically significant.

Based on the presented results it could be concluded that companies disposing with larger amount of resources, greater amount of revenues and larger number of employees are more probable to disclose non-financial reports. Those companies have a larger number of stakeholders whose interests they should take care and the higher potential to make a change in society. In addition, financially superior companies, in terms of profitability and efficiency, are more probable to disclose non-financial report.

Another conclusion that can be drawn is the need for further development of corporate social accounting, including standardization and harmonization of non-financial reporting guidelines. Only a small number of companies prepare non-financial reports, so there is the need for making non-financial reporting compulsory by law, as it is in some countries. The latest version of the GRI guidelines (GRI) are available in Croatian language and no additional fees aren't required for their downloading, so language and downloading costs cannot be considered as a reason not to disclose non-financial report. Thus, further research in corporate reporting should go in the direction of non-financial reporting development, with the focus on its standardization and harmonization.

The contribution of this research is in revealing financial characteristics of companies' voluntary disclosing non-financial reports. Despite the benefits of non-financial reporting, it is still reserved only for larger and financial superior companies. Thus, the benefits of non-financial reporting should be more promoted. In addition, standards and guidelines for non-financial reporting should be customized to the needs of smaller companies, as well.

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