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Non-financial Reporting Analysis: Does EU Membership Affect the Disclosure of Non-financial Information in Blue-Chip Companies?

ATANASKO ATANASOVSKI, MARINA TRPESKA, TODOR TOCEV, BOJAN MALCEV
& IVAN DIONISIJEV

Abstract Non-financial reporting, as a relatively new concept, has been intensively developed in the last few decades, primarily voluntarily, as a need to provide stakeholders with an insight into business-related issues that are of broader social importance. It is becoming necessary and increasingly important for all participants in today's socio-economic environment. This paper presents qualitative and quantitative research on the disclosure of non-financial information on social responsibility in 40 listed companies from selected Balkan countries for the period from 2019 to 2021, to determine whether and how EU membership affects the scope of non-financial reporting. The results of the conducted statistical tests indicate that companies from EU countries disclose in more detail and for more segments compared to companies from non-EU countries. The transposition of the directive into law, i.e. mandatory non-financial reporting is one of the key factors for the disclosure of companies' ESG activities.

Keywords: • non-financial reporting • EU membership • social responsibility • ESG

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1 Introduction

Participants in the capital markets increasingly emphasize the value of non-financial information. To promote accountability and incorporate non-financial factors in ratings, rules, and covenants, investors, regulators, and banks are seeking greater consistency (Deloitte, 2021). This impetus is due to the increased worldwide attention being paid to issues like climate change, diversity and inclusiveness, and the Covid-19 crisis. Companies must address all current issues in the context of the international economy's ongoing evolution in order to secure the long-term success of their operations, which necessitates a solid stakeholder connection (Ștefănescu et al., 2021). Since the most recent financial crisis, businesses have been more accountable to and transparent with their stakeholders (Manes-Rossi, et al., 2018). As a result, one of the biggest problems for businesses is producing integrated, succinct, and unambiguous reporting. To analyze a company's past and future performance, stakeholders now need more information than the standard financial reporting model can provide (Flower, 2015). The release of non-financial disclosure reports is a strategic move that significantly enhances an organization's ability to communicate with its stakeholders. The growth of self-initiated charitable initiatives and social responsibility as one of the most talked-about subjects in the world today are crucial for the long-term success of businesses. By enhancing the company's entire corporate image and reputation, corporate social responsibility (CSR) helps businesses compete more effectively, consolidate markets, and build stakeholder trust (Gardiner et al., 2003; Worcester, 2009). In other words, CSR is a type of marketing and strategic action (McWilliams et al., 2006). Environmental, Social, and Governance principles (ESG) refer to a set of environmental, social, and governance factors that companies consider when managing their business and presenting their organization's image to the public (Damjanović, 2021). Investors also consider these factors when investing, in terms of the risks, impacts, and opportunities that these factors bring. In the past, the reporting of non-financial data was generally on a voluntary basis, but today with the increasing interest of stakeholders in this type of information, the efforts for a certain standardization and regulation of this type of reporting by companies are also increasing. The disclosure of non-financial information (NFI) has been strongly encouraged in Europe by several recent initiatives. Therefore, Public Interest Entities in Europe are required to publish a "Non-financial report" addressing environmental and social matters, respect for human rights, and the fight against corruption (EU, 2014) and its adaptation to the specific characteristics of each Member State (Sierra-Garcia, et al., 2018). The EU Directive establishes minimal legislative standards for non-financial reporting (NFR) and makes it mandatory to unify and improve economic, social, and environmental reporting throughout the European States (La Torre et al., 2020). By the end of 2016, the provisions of the EU Directive had been incorporated into the national laws of the Member States, so companies subject to this Directive are required to report NFI beginning January 1, 2017, by preparing a non-financial report or a consolidated non-financial report that should contain information relating to at least the minimum

information required by the EU Directive elements (Ștefănescu et al., 2021). As EU member states, Croatia and Slovenia have implemented the provisions of the Directive in their national legislation. On the other hand, in North Macedonia, there is no legal regulation in this area, but only a certain guide, recommendations, etc., while in Serbia NFR is voluntary for 2019 and 2020, and mandatory starting from 2021.

In that regard, the purpose of this paper is to determine the difference in the scope of NFR between countries that are members of the EU and countries that are not members of the EU. More specifically, this paper analyzes the NFR of the aforementioned countries through a detailed content analysis of the reports published by 40 blue-chip companies that are part of the national stock market indexes, and they are a suitable representative for each country individually. The paper first presents a theoretical overview of the actuality and increasing importance of NFR for social responsibility, then presents the methodology used in the research and shows the results of the qualitative and quantitative analysis of several segments of NFR, such as the content of the non-financial disclosure report according to all listed key performance indicators (KPIs) in the EU directive, the title of the report used by the companies, the type and the length of the report on NFI. Finally, a summary of the obtained results was made, through which we give a conclusion about the differences and the way companies from the selected countries report on NFI.

2 Literature overview

The trend of sharing NFI makes sustainability reports increasingly utilized in providing stakeholders with financial and non-financial information relating to an organization's relationship with its physical and social surroundings (Hackston & Milne, 1996). Among the most well-known and accepted non-financial reporting frameworks are the International Integrated Reporting Framework (IIRF), the Global Reporting Initiative (GRI) and the standards adopted by the Sustainability Accounting Standards Board (SASB). In 2014, the European Union enacted a non-financial reporting Directive (2014/95/EU), also called the Non-Financial Reporting Directive (NFRD), which obliges public interest companies to disclose certain information about how they operate and manage social and environmental challenges (Faccia et al., 2021). According to the directive, policies, actions, and outcomes relating to their effects on the environment, employees, society, human rights, and corruption must be reported. In 2017, the European Commission published Guidelines on non-financial reporting (methodology for reporting non-financial information) to help companies how to publish information about their activities that affect the improvement of conditions in society, employees, anti-corruption, etc. (EU Commission, 2017). However, these guidelines are not mandatory and companies may decide to use other international, European, or national policies for NFR, from which it follows that there is still no single standardized reporting format. There are varying perspectives on the importance of establishing a legal framework for revealing NFI in annual reports or transparency reports that reflect the company's role in

improving society (Mies & Neergaard, 2020). Some argue that legislation improves NFR, while others argue that the voluntary nature of NFR is critical (Romolini et al., 2012). If the regulation is examined from two distinct angles, namely strict regulation or total voluntariness, both positive and negative outcomes are revealed. Because the laws typically provide standard rules for all organizations within the jurisdiction or categories designated by law, tight government regulation places all businesses under the mandatory scope (Jackson et al., 2020). With greater transparency, there will be less information asymmetry between businesses and stakeholders, according to these standards. The growth of standardization and regulation, such as EMAS or ISO 14000 and AA1000 reports, as well as the expansion of the disclosure domain of social responsibility reports, led to an increase in the quality and amount of published data in the company's reports (Vukić et al., 2018). The EU Directive's goal must be achieved and put into practice. However, there are several practical obstacles in the way (La Torre, et al., 2020). Social duty should be carried out voluntarily rather than because it is required, otherwise, the purpose of the deeds will be lost and the laws may be followed but inadvertently. According to Dave (2017), if a corporation chooses not to be socially responsible, its stakeholders will alter their opinions of it and penalize its actions. The practical application of NFR initiatives reveals the mindset and character of the organization and those in charge of determining the kind of environment they want to live and work in. The sleigh or reward from society will always be contingent upon how well businesses behave and conduct themselves. One of the main drivers and motivators for firms to actively participate in the advancement of society is competition and reputation among stakeholders (Yu et al., 2017). Companies in industrialized nations exhibit significantly more initiative and social responsibility than their counterparts in poor or developing nations (Ali et al., 2017). Non-financial disclosure reports fall under various titles, headings, and categories of reporting, such as integrated reports, social responsibility reports, sustainability reports, corporate social responsibility reports, non-financial information reports, and others (Stolowy, 2018).

In accordance with the findings of KPMG's (2022) survey on Environmental, Social, and Governance (ESG) reporting, 83 % of the respondents (246 financial reporting executives from private and public sector entities, from different sector affiliations) believe that a focus on ESG will improve their business. However, only 30% report on their ESG commitments and have initiated a clear strategy to implement them. According to Johari & Komathy (2019), Europe had the greatest rate of sustainability disclosure at over 49%, followed by Asia at 15%, North America at 14%, Latin America at 12%, Oceania at 6%, and Africa at 4%. Growth companies and index constituents in the United States are less likely to report non-financial data, whereas firms in the European market stock indexes that operate in environmentally sensitive industries, have high capital intensity, and have better financial results are more likely to do so (Stolowy & Paugam, 2018).

Venturelli et al. (2019) compare the quality of NFR in the UK and Italy before the introduction of the EU Directive. Based on the content analysis of 343 large listed firms' mandated and voluntary disclosures, they find that the UK is more compliant with the NFR required by the EU Directive than Italy. The literature shows that a content analysis approach and a binary scoring method of NFI disclosure have been used in many studies to identify the characteristics and scope of NFR related to a company's ESG activities (Khan, 2010; Fatma & Rahman, 2014; Nyarku & Hinson, 2017; Matuszak et al., 2019; Levkov & Palamidovska-Sterjadovska, 2019; Trpeska et al., 2021).

Many large Macedonian companies, according to Mrsik and Kostovski (2015), do not address CSR matters in their annual reports, so NFR is left up to the discretion of the companies, their management, and their perception of the need to update the key stakeholders and the most appropriate method to do so. Trpeska et al. (2021) in the conducted research on the disclosure of NFI at 14 banks that are actively working in North Macedonia for the period from 2017 to 2019 indicate that the banks mostly disclose information about the activities related to the improvement of the local community, followed by activities for environmental protection, employee matters, and least of all for customers. On the path to EU accession, North Macedonia needs to align national regulation and market practices with the new EU sustainability framework and raise awareness among companies for quality NFI disclosure. To encourage the adoption of solid corporate governance standards and to increase the level of ESG disclosure, the Macedonian Stock Exchange (MSE) published two important documents that should be taken into account, that is the new "Corporate Governance Code", published in October 2021, and the "Guide to ESG Reporting", published in January 2022 (MSE, 2022).

Hanić (2021) reveals that the majority of Serbian banks publish their environmental policies (74%), the environmental initiatives they have done with the community (51%), and the effectiveness of their water, energy, and paper usage (48%). Even though the results show an increase in environmental disclosure practices across all Serbian banks, the reports do not follow a set format. Although there is no unified record since 2008 it is estimated that by 2021, on a voluntary basis, twenty large companies in Serbia had the practice of issuing sustainability reports (Damnjanović, 2021). In October 2019, the new Law on Accounting¹ was adopted in Serbia, which entered into force on January 1, 2020. The new law defines Articles 37 and 38 relating to NFR, which obligate large public interest companies with over 500 employees to prepare and publish a non-financial report as part of the annual report. According to Article 64, companies must start publishing the non-financial report on December 31, 2021, i.e. for the current year 2021, and it should include all NFR segments as the information necessary to understand the development, business results, and position of the legal entity, as and the results of activities related to environmental protection, social and employee matters, respect for human rights, the fight against corruption and bribery, which are following the EU directive. In September 2021, the "Handbook for companies – Step by step to the non-financial report" was published,

which provides insight into the context important for the development of NFR, mandatory NFR in the European Union and Serbia, and provides recommendations for improvement in this area (Smart Kolektiv, 2021).

According to Remlein & Roška's (2020) analysis for the period 2010-2018, it can be seen that Croatian companies listed on the Zagreb Stock Exchange and part of the CROBEX index present some information on expenditures for environmental protection, investments in local society and improving the working conditions. There is a slight but positive trend of NFI disclosure in the analyzed period. The authors state that none of the companies used the term "Socially Responsible Investments" for their CSR activities. Croatian public relations specialists, that were part of a survey, found a favorable correlation between CSR and a company's reputation, as well as a positive relationship between CSR and business performance (Božić, et al., 2021). A review of the non-financial reports of six Croatian corporations revealed that employees are viewed as important stakeholders because the corporations' strategies give particular attention to the development of long-term relationships, lifelong learning, gender equality, zero tolerance for discrimination, and equal opportunities (Bartolović & Vučemilović, 2019). On January 1, 2017, the 2014/95/EU directive has been transposed into the Croatian Accounting Act, where companies of public interest with over 500 employees are required to disclose NFI in any form of non-financial disclosures (annual reports, sustainability reports, social reports, environmental reports or others) (Peršić & Lahorka, 2018).

Slovenian banks reported on CSR activities before new EU legislation (Directive 2014/95/EU) and national legislation requiring NFR were adopted (Beloglavec, 2020). According to (Kukanja & Planinc, 2018) research on CSR practices in small and medium-sized tourism firms in Slovenia, the most important CSR dimension is the Environmental dimension. The 2014/95/EU directive has also been transposed into The Companies Act (ZGD-1) and EC Accounting Directive (2013/34/EU) in Slovenia, where NFR of ESG activities is mandatory for large listed companies registering 500 and more employees.

3 Research Methodology

We conducted a content analysis to determine the level and trends of NFR in 40 listed companies from four Balkan countries, of which two EU member countries: Slovenia and Croatia, and two non-EU countries: North Macedonia and Serbia. In the research, we analyzed the top 10 blue-chip companies in each country that are part of the national stock market index, i.e. the companies that are representative and through which the capital market movement can be seen. The sample used for this research is composed of 40 companies analyzed for the period from 2019 to 2021, i.e. 120 observations. For 20 companies, NFR is mandatory according to the EU directive (Croatia and Slovenia), while for 20 companies, NFR is voluntary, although there are national guidelines that

illustrate and recommend the use of international best practices in this area (North Macedonia and Serbia). For the 10 analyzed companies from Serbia, NFR is voluntary for 2019 and 2020, but for 2021 it is mandatory according to the new national accounting law. Secondary data was taken from 120 audited consolidated annual reports published by each company. In addition to annual reports, all additional separate reports on NFI (if any) and official websites (tabs and sub-tabs dedicated to NFI) were also analyzed.

We used the binary scoring method to generate the non-financial disclosure score. A disclosure point is awarded if a company provides qualitative NFI, an additional point is if this information is supplemented with quantitative information. If a separate section in the report is dedicated to the following segments: (1) environment, (2) social and employee matters, (3) human rights, (4) anticorruption and bribery, and (5) other matters, an additional point is rewarded for each relevant segment referred to by the EU Guidelines on NFR (EU Commission, 2017). Table 1 below shows the methodology used in arriving at the disclosure score.

Table 1: Research Methodology for generating non-financial disclosure points

Description	“Yes” Max points	“No” Min points
1. Non-financial data availability (Whether published in financial statements, annual reports, or as a separate section of the official website)		
- Qualitative Non-financial Information exists	1	0
- Quantitative Non-financial Information exists	1	0
2. Non-financial reporting referring to the <u>environment</u>? (Company’s environmental concern, pollution prevention and control, energy conservation, direct and indirect atmospheric emissions, waste management, development of green products and services, etc.)	1	0
3. Non-financial reporting referring to <u>social and employee matters</u>? (Employment issues, diversity issues, health and safety at work, human capital management, consumer relations, impacts on vulnerable consumers, community relations, etc.)	1	0
4. Non-financial reporting referring to <u>human rights</u>? (Company’s commitment to respecting human rights – the rights of children, women, indigenous people, persons with disabilities, victims of trafficking in human beings, the rights of workers, etc.)	1	0
5. Non-financial reporting referring to <u>anticorruption and bribery</u>? (Company’s anti-corruption policies, procedures and standards, internal control processes, use of whistleblowing mechanisms, etc.)	1	0
6. Non-financial reporting referring to <u>other matters</u>? (Supply chains, conflict minerals, etc.)	1	0
Total points per company for 1 year	7	0
Total points for the observed period of 3 years (2019-2021)	21	0

After the data was collected and the non-financial disclosure score was calculated, we performed several statistical tests using SPSS software to conduct an in-depth analysis of the NFR in the analyzed countries.

We used Descriptive and Comparative Analysis to summarize the basic characteristics of NFR by country and year, the title of the report, the type and presentation of the non-financial disclosure report, and the number of pages dedicated to NFR. All mentioned aspects were analyzed in detail and summarized in separate sub-sections.

In order to see if there is a significant correlation between EU membership and the scope of NFR in the analyzed companies from respective countries, we used a nonparametric test, the Multivariate Kruskal-Wallis test to elaborate the following set of research questions (RQ):

- RQ1 = Is EU membership related with disclosing non-financial information?*
- RQ2 = Is EU membership related with the title of the non-financial disclosure report?*
- RQ3= Is EU membership related with the type of the non-financial disclosure report?*
- RQ4 = Is EU membership related with the length of the non-financial disclosure report?*

To answer *RQ1*, the generated score for non-financial disclosure is taken into account for EU and non-EU countries. For the *RQ2*, the different titles of the non-financial disclosure reports were used as variables, i.e. the frequency of the titles used by the companies from the respective country. For the *RQ3*, the different ways in which NFI is published were taken as variables, that is, whether the report is integrated into the Annual Reports, whether there is an individual NFI report or whether there is information available only on the official websites. The frequency of publication method was used for statistical testing. For the *RQ4*, the length of the NFI reports, expressed through the number of pages, was used as a variable. The independent variable (factor) is EU membership, where for the purposes of statistical testing EU member states (Croatia and Slovenia) were coded with 1, while non-EU countries (North Macedonia and Serbia) were coded with 0.

The independent variable (factor) and all dependent variables (response) used in the research are shown in table 2.

Table 2: Variables for statistical testing

Independent variable (factor): EU membership			
<i>RQ1</i> dependent variables:	<i>RQ2</i> dependent variables:	<i>RQ3</i> dependent variables:	<i>RQ4</i> dependent variables:
1) Qualitative data; 2) Quantitative data; 3) Environment; 4) Social & Employee; 5) Human rights; 6) Anticorruption and bribery; 7) Other matters	1) Corporate Social Responsibility/ Social Responsibility; 2) Sustainability Report; 3) Non-financial Report; 4) Committed to Society; 5) Environmental Protection; 6) Responsible Business; 7) Specific names for specific segments	1) Part of Annual Report; 2) Individual Report; 3) Only as a tab of Official Website; 4) None	1) Number of pages dedicated to non-financial information

First, a detailed qualitative and quantitative analysis was performed to elaborate the NFR and then statistical testing was conducted.

4 Results and Discussion

Companies from four Balkan countries were included in the research, in order to draw a parallel in NFR on social responsibility and derive appropriate recommendations for improving and standardizing the non-financial reports.

Table 3: Sample used in the research

	Stock Exchange	INDEX	EU Membership	No of companies
MKD	Macedonian Stock Exchange	MBI10	Non EU	10
SRB	Belgrade Stock Exchange	BELEX15	Non EU	10
HR	Zagreb Stock Exchange	CROBEX10	EU	10
SLO	Ljubljana Stock Exchange	SBITOP	EU	10
<i>Total</i>				<u>40</u>

Table 3 summarizes the basic characteristics of the database for companies representative of the analyzed countries. MBI10, CROBEX10, and SBITOP stock market indexes as of 31.12.2021 consist of 10 blue-chip companies, while the BELEX15 index was composed of 15 companies, but for research purposes, the first 10 listed companies according to market capitalization were taken, for consistency in the analysis.

A more detailed overview of the affiliation by sector of the analyzed companies is presented in table 4.

Table 4: Companies' sector affiliation

		MKD	SRB	HR	SLO	Total	
Financial Sector	Banks	5	0	0	1	<u>6</u>	<u>10</u>
	Insurance	0	1	1	2	<u>4</u>	
Real Business Sector	Pharmacy	1	0	0	2	<u>3</u>	<u>30</u>
	Telecommunications	1	0	2	1	<u>4</u>	
	Oil and Gas	1	2	0	1	<u>4</u>	
	Hospitality and Tourism	1	0	2	0	<u>3</u>	
	Manufacturing	0	3	3	2	<u>8</u>	
	Engineering and Construction	1	1	0	0	<u>2</u>	
	Airport	0	1	0	0	<u>1</u>	
	Energetics	0	2	1	0	<u>3</u>	
	Transport and logistics	0	0	1	1	<u>2</u>	
<i>Total</i>		<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>40</u>	

It can be seen that a total of 10 companies are part of the financial sector, of which 6 are banks and 4 are insurance companies, while 30 companies are part of real business sector, most of which belong to the manufacturing business.

4.1 Non-financial disclosure points

We performed the scoring so that the company received 1 point for the disclosure of relevant information according to the analyzed segments, regardless of whether they were structured in a separate paragraph or part of the report with a specific title.

All annual and financial reports, official websites and links related to the selected companies were searched in detail manually, and the following results were obtained (see table 5 and table 6):

Table 5: Descriptive statistics for analyzed companies in respective countries (minimum; maximum; average; median and total score)

	MKD			SRB			CRO			SLO		
	'19	'20	'21	'19	'20	'21	'19	'20	'21	'19	'20	'21
Minimum score per company (points)	0	0	0	0	2	2	0	0	0	0	6	7
Maximum score per company (points)	5	6	6	7	7	7	7	7	7	7	7	7
Average score per company (points)	3	3,2	3,1	2,7	3,1	3,7	6,1	6,1	6,1	5,5	6,9	7
Median score (points)	3	3	3	2,5	2,5	3,5	7	7	7	7	7	7
% of maximum disclosure score	43%	46%	44%	39%	44%	53%	87%	87%	87%	79%	99%	100%

Table 5 presents the basic descriptive characteristics of the non-financial disclosure score. It can be seen that there is a big difference in the average, median and total scores for the respective countries, where Croatia and Slovenia have almost double the score compared to North Macedonia and Serbia. For the entire analyzed period, a company from North Macedonia has an average score of 3,1 points on an annual basis, a company from Serbia 3,2 points, a company from Croatia 6,1 points, and a company from Slovenia 6,5 points out of a maximum of 7 points. For the analyzed period, only in Serbia, there is an increase in the median score in 2021. The result is due to the adoption of mandatory NFR. According to the literature and the previous practice of NFR after its legal adoption, a certain period is needed for its full adaptation and accordingly, in the next years, companies are expected to increase the degree of NFR.

Table 6 presents the analysis of the non-financial disclosure scores through the representation rate for each segment separately according to which the scoring was performed.

Table 6: Non-financial disclosure score analysis

		MKD	SRB	HR	SLO	<u>Total score/max points (120 points)</u>
Non-financial data availability	Qualitative data	90%	93%	90%	93%	92%
	Quantitative data	20%	20%	90%	93%	56%
Non-financial reporting referring to:	Environment	50%	93%	90%	93%	82%
	Social & Employee matters	90%	53%	90%	93%	82%
	Human rights	10%	17%	80%	93%	50%
	Anticorruption and bribery	10%	17%	80%	93%	50%
	Other matters	40%	23%	90%	87%	60%
Total non-financial disclosure score/max score (210 points)		44%	45%	87%	92%	67%*

*The total NFR rate in relation to the maximum number of points (840 p.)

The maximum scoring points for 10 analyzed companies in each country for the relevant period is 210 (10 companies x 21 points). The maximum scoring points for each type of disclosed data by all analyzed companies for the relevant period is 120 (4 countries x 30 points). The total maximum score is 840 if all analyzed companies in the four respective countries for the period 2019-2021 completely met the guidelines and criteria of the EU directive on NFR. From the obtained results it can be seen that the companies from Slovenia have the highest number of non-financial disclosure points, followed by companies from Croatia and then Serbia, and North Macedonia. The non-financial disclosure rate in these countries is 67% in relation to the maximum number of possible points. Seen in more detail from the perspective of EU countries (420 points) and non-EU countries (420 points), the non-financial disclosure rates are 90% and 45%, respectively.

The biggest differences in NFR result from non-EU countries not disclosing enough financial (quantitative) data about their activities related to social responsibility. A common feature is that most companies report on matters related to the environment, social impact, and employees. However, in addition to the fact that non-EU countries do not disclose financial data, they also do not have separate segments in their reports that refer to human rights, anticorruption and bribery, and other matters such as the supply

chain, cooperation with domestic, smaller companies, and the like. The results clearly show that companies from EU countries, in our case Croatia and Slovenia, have better and more detailed NFI disclosure.

4.2 Non-financial disclosure score through years

From the conducted analysis on non-financial disclosure score for the period from 2019 to 2021, the results show that companies from Slovenia and Serbia see positive growth, while companies from Croatia and North Macedonia maintain the same level of NFR (see Figure 1).

Figure 1: Non-financial disclosure score through years

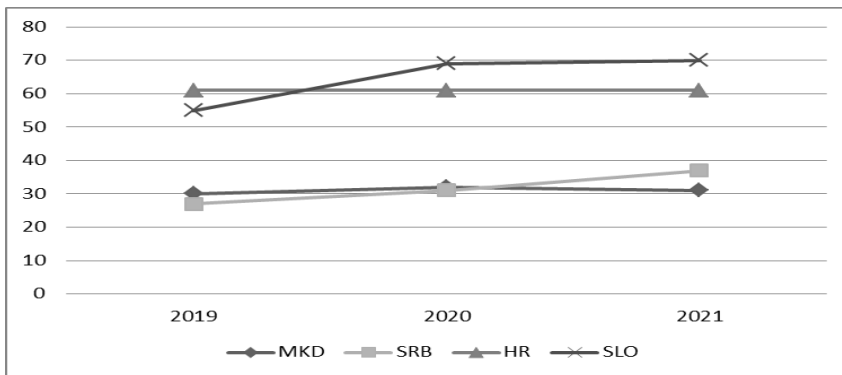


Figure 1 shows the non-financial disclosure points throughout the years for the analyzed period, from which it is clearly seen that there is a big difference in the scores between the analyzed companies from respective EU countries and non-EU countries.

4.3 Non-financial report title

In addition to generating non-financial disclosure points, through content analysis we analyzed in detail the way companies present information and the format in which they disclose it. It is worth noting that companies have not yet standardized the title of the separate or integrated report in which they present NFI. Table 7 presents the titles of the reports used by the companies.

Table 7: Non-financial report titles

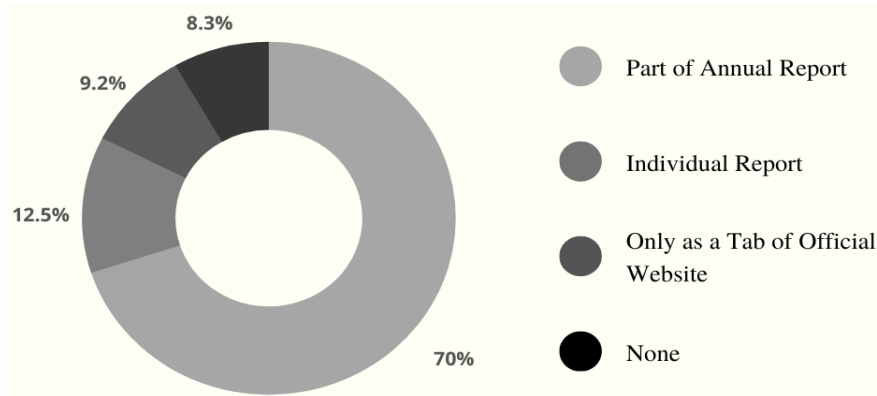
Report Title	<i>Total</i>	%	MKD	SRB	HR	SLO
Corporate Social Responsibility/Social Responsibility	<u>35</u>	29%	19	6	9	1
Sustainability Report	<u>34</u>	28%	3	2	7	22
Non-financial Report	<u>15</u>	13%	0	1	9	5
Committed to society	<u>2</u>	2%	2	0	0	0
Environmental protection	<u>15</u>	13%	0	15	0	0
Responsible business	<u>2</u>	2%	0	0	2	0
Specific names for specific segments	<u>7</u>	6%	3	4	0	0
None (no NFR)	<u>10</u>	8%	3	2	3	2
Total Reports (10 companies x 3 years)	<u>120</u>	100%	30	30	30	30

The most commonly used titles of the non-financial disclosure report are "Corporate Social Responsibility" or "Social Responsibility" and "Sustainability Report". It can be noted that there are oscillations in each country and there is no unique or standardized title used by companies. However, it can be pointed out that in North Macedonia the most commonly used title is "Corporate Social Responsibility", in Serbia "Environmental Protection", in Croatia "Corporate Social Responsibility" and "Non-financial Report", while in Slovenia "Sustainability Report". Specific names for specific segments refer to unstructured information that is disclosed in annual reports, i.e. the companies have disclosed information in different segments and under different headings/subheadings. From the results, it can be seen that only companies from non-EU countries have unstructured NFI related to social responsibility in their reports.

4.4 Presentation of non-financial disclosure report

In terms of the way the non-financial disclosure report is presented, wheatear as: 1) integrated into the company's Annual Report, 2) individual report or 3) information available only through a special tab on the official website, the results show that as many as 70% of companies insert the information in separate sections as part of the Annual Report (see Figure 2).

Figure 2: Presentation of non-financial disclosure report



Individual reports on NFR are most frequently used in Croatia (4 companies), followed by Slovenia and North Macedonia (1 company), while in Serbia none of the analyzed companies has a separate report. From Figure 2 it can be seen that 8.3% of the analyzed companies have no NFR at all, one company each from North Macedonia and Croatia for the period 2019-2021 and two companies each from Serbia and Slovenia only in 2019.

4.5 Length of the non-financial disclosure report

The length of the NFR was analyzed through the number of pages used by the companies to present the relevant information. Table 8 shows the total number of pages dedicated to NFR throughout the analyzed period.

Table 8: Length of the non-financial disclosure report

Year	MKD			SRB			CRO			SLO		
	'19	'20	'21	'19	'20	'21	'19	'20	'21	'19	'20	'21
Minimum no. of pages	1	1	1	1	1	1	7	10	8	2	3	20
Maximum no. of pages	22	19	20	16	16	16	102	80	83	114	134	112
Average no. of pages	4,1	3,7	3,8	2,5	2,9	3,6	49,9	49,9	52,7	24,6	41,8	46,9

As previously stated, for companies that have not disclosed NFI, or a total of 10 reports for the analyzed period in the sample, the data are excluded from the presented analysis of report length. It is clearly seen that there is a big difference in the length of the non-financial disclosure report between companies from EU countries and non-EU countries. Slovenia observes the greatest growth in terms of commitment to NFR, where companies

increasingly place importance on the disclosure of their undertaken ESG activities. Although companies from Slovenia have the largest number of non-financial disclosure points and the length of the non-financial disclosure report is increasing, we can notice that during these three years, companies in Croatia give the most importance to NFR and disclose their ESG activities in the most detail, where a large part of the annual reports is dedicated to this type of reporting. We also analyzed the average number of pages for NFR in the three years observed period and it turns out that a company from North Macedonia annually devotes 4 pages, a company from Serbia 3 pages, a company from Croatia 51 pages and, a company from Slovenia 38 pages.

The length of the report was analyzed in terms of the number of pages, where it is significant to note that not always one page has the same number of characters, ie. companies also include images, graphics, etc. It represents a limitation in the analysis, but a large part of the companies publish their annual documents in pdf-picture format, from which we were prevented from measuring the length of the report through another variable.

4.6 Multivariate Kruskal-Wallis test

We conducted a nonparametric test, the Multivariate Kruskal-Wallis test to elaborate the all four set research questions separately, where the detailed results obtained by SPSS software are shown in the appendix. Table 9 summarizes the obtained results of the statistical testing, where the dependent variables that are affected by EU membership ($p < 0,05$) are marked with (X).

Table 9: Summary of the results of statistical testing

<i>RQ1</i>	<i>RQ2</i>	<i>RQ3</i>	<i>RQ4</i>
<i>Is EU membership related with disclosing NFI?</i>	<i>Is EU membership related with the title of the non-financial report?</i>	<i>Is EU membership related with the type of the non-financial report?</i>	<i>Is EU membership related with the length of the non-financial report?</i>
Appendix A-1, A-2	Appendix B-1, B-2	Appendix C-1, C-2	Appendix D-1, D-2
1) Qualitative data	1) Corporate Social Responsibility/ Social Responsibility	1) Part of Annual Report	1) Number of pages dedicated to NFI (X)
2) Quantitative data (X)	2) Sustainability Report (X)	2) Individual Report (X)	
3) Environment (X)	3) Non-financial Report (X)	3) Only as a tab of Official Website (X)	
4) Social & Employee (X)	4) Committed to Society	4) None	
5) Human rights (X)	5) Environmental Protection		
6) Anticorruption and bribery (X)	6) Responsible Business		
7) Other matters (X)	7) Specific names for specific segments (X)		

Appendices A-1 and A-2 refer to RQ1, from which it can be seen that from the analysis of 120 observations on the impact of EU membership on the scope of NFR expressed through the individual social responsibility segments, there is an impact on six out of seven specified variables. The results for RQ1 are expected and logical considering the fact that the EU directive has been transposed into law in EU countries, while it has not been in non-EU countries (NFR is mandatory in Serbia starting from 2021). Mandatory NFR is a key factor for compliance of NFR with good international practices that are presented through the EU directive and the Guide of the European Commission. It is important to note that EU membership does not affect the disclosure of qualitative information on the social responsibility of companies, because regardless of whether it is mandatory or voluntary, companies recognize the importance of NFR and disclose NFI in their reports. However, EU membership affects the scope and detail of the disclosed NFI, which makes it clear that almost all companies from EU countries follow all legally specified standards and practices.

For the statistical testing of RQ2 and RQ3, 12 observations were used in the statistical test because the variables were grouped according to frequency during the year (4 countries x 3 years). The results of the analysis of the RQ2, i.e. whether EU membership affects the title of the non-financial report, are shown in appendices B-1 and B-2. The general conclusion is that there is still no single, specified title that is used by all

companies. However, we can state that there is an impact of EU membership on three of the seven titles used by the analyzed companies. The title "Sustainability Report" is more often used by companies in EU countries (29 reports) compared to companies from non-EU countries (5 reports). The title "Non-financial Report" is also more often used in companies from EU countries (14 reports) compared to companies from non-EU countries (1 report). The category Specific names for specific segments, which referred to unstructured information that is disclosed in annual reports, that is, in different sections and under different headings/subheadings, exist only in the companies from non-EU countries (7 reports).

Appendices C-1 and C-2 refer to the results obtained for examining RQ3, whether EU membership affects how NFI are disclosed, i.e. the format in which they are displayed. The most common form of disclosure of NFI about social responsibility is through supplementing the annual report with separate sections and subsections, usually near the end of the report, after the disclosed financial information. EU membership affects two forms of NFR. Companies from EU countries prepare more individual reports that are fully dedicated to NFR (12 reports) compared to companies from non-EU countries (3 reports). All companies from Slovenia and Croatia disclose NFI as part of the Annual Reports or in an individual report, while among the non-EU countries, there are two companies each from North Macedonia and Serbia that have disclosed NFI only on the official websites.

The statistical results of the analysis for the impact of EU membership on the length of the non-financial report (RQ4) are presented in appendices D-1 and D-2. The result is expected and very clear, which through the previously presented analysis indicated the strong relation between EU membership and the length of the non-financial disclosure report. Namely, companies from EU countries provide much more detailed and complete non-financial reports compared to companies from non-EU countries.

5 Conclusions

In the modern socio-economic environment, business sustainability is becoming an increasingly important topic, both for the organizations themselves and various stakeholders. Considering the complex social challenges and the increasingly emphasized need to preserve the environment, there is a need to disclose NFI related to the company's ESG activities, which are essential for obtaining a complete picture of the company's operations and impact.

The results of our research show that there is a difference in the disclosure of NFI between companies in EU countries and non-EU countries. Although there are small deviations among the analyzed companies from Croatia and Slovenia, their compliance with the EU directive is high, while companies from North Macedonia and Serbia should devote more

importance to NFR and strive for greater compliance with the good international practices and guidelines of EU directive. We believe that EU membership which is expressed through the transposition of the EU Directive into national laws is one of the key factors for the respective differences. The biggest differences consist in the fact that companies from non-EU countries do not disclose financial data about the undertaken activities related to the socio-economic environment, and do not disclose information related to human rights, anticorruption and bribery, and other matters related to supply chain, conflict minerals, etc. It is important to note that even in the segments where there is adequate disclosure of NFI, there is still a big difference in the length of the text, i.e. the detail of the information compared to companies from EU countries. The research shows that companies from non-EU countries are aware of the importance of NFR and there is a belief that in the coming years, company management will strive for greater compliance with the guidelines set in the EU directive and that NFR will become an inevitable segment of annual reporting. EU membership, as an independent variable that we used in the research, was expected and logical to affect the scope of NFR because the separate segments listed in the EU directive were used as standards (dependent variables for RQ1). However, in the survey, we also covered other elements of the NFR that are not strictly specified and mandatory for companies regardless of whether they are EU members or not. We can state that EU membership has a certain impact on the rest of the analyzed matters: the title of the report, the method of disclosure, and the length of the report.

In the research, we used a sample of 40 companies, of which for 20 companies NFR is mandatory, and for 20 companies it is voluntary (in Serbia, NFR is mandatory from 2021). The biggest limitation in the research comes from the sample itself, because the recommendations of the EU directive, which were transposed into the accounting laws of the respective countries, were used as standards for a "good" NFR. This paper contributes to the literature on the relevant matter, which is increasingly important and popular. Of the analyzed non-EU countries, Serbia, although not yet a member state of the EU, has already transposed the EU Directive into law, while North Macedonia has not yet. This research provides a good foundation and approach to NFR analysis that contributes to a field that is still under-researched. In June 2022 The Council and European Parliament reached a provisional political agreement, i.e. proposal on the corporate sustainability reporting directive (CSRD). The CSRD amends the 2014 NFRD and introduces more detailed reporting requirements through which EU rules on NFR will apply to all large companies and all companies listed on regulated markets. One of the other significant improvements that have been recommended is that NFR will need to be certified by an accredited independent auditor or certifier. If the proposal is adopted, it will enter into force gradually, starting in 2024. Our recommendation and goal are to encourage more research in the field and to do in-depth research that would use a sample of more countries where NFR is mandatory in order to obtain results if, and where there are deviations from the guidelines given in the EU directive. One of the possible reasons for deviation from the standards that should be investigated is whether there is control and penalties if the

companies do not meet the prescribed standards. In addition, countries, where the NFR is on a voluntary basis, should be researched and compared to identify good practices and make recommendations for greater standardization and unification in the NFR.

Notes:

¹ Law on Accounting ("Official Gazette of RS", no. 73/2019 and 44/2021 - other law).

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Appendix:

Appendix A-1: RQ1 analysis = Correlation between EU membership and disclosing NFI

Ranks			
	EU_membership	N	Mean Rank
Qualitative_data	0	60	60,50
	1	60	60,50
	Total	120	
Quantitative_data	0	60	39,00
	1	60	82,00
	Total	120	
Environmental	0	60	54,50
	1	60	66,50
	Total	120	
Social_employee	0	60	54,50
	1	60	66,50
	Total	120	
Human_rights	0	60	38,50
	1	60	82,50
	Total	120	
Anticorruption_bribery	0	60	38,50
	1	60	82,50
	Total	120	
Other	0	60	43,50
	1	60	77,50
	Total	120	

Appendix A-2: RQ1 analysis = Correlation between EU membership and disclosing NFI

Test Statistics ^{a,b}							
	Qualitative_data	Quantitative_data	Environmental	Social_employee	Human_rights	Anticorruption_bribery	Other
Chi-Square	,000	61,963	7,948	7,948	63,996	63,996	39,804
df	1	1	1	1	1	1	1
Asymp. Sig.	1,000	,000*	,005*	,005*	,000*	,000*	,000*

a. Kruskal Wallis Test

b. Grouping Variable: EU_membership

Appendix B-1: RQ2 analysis = Correlation between EU membership and the title of NFR

		Ranks		
	Eu_membership	N	Mean Rank	
	0	6	8,00	
Corporate_social_responsibility	1	6	5,00	
	Total	12		
	0	6	3,50	
Sustainability_report	1	6	9,50	
	Total	12		
	0	6	3,58	
Non_financial_report	1	6	9,42	
	Total	12		
	0	6	7,50	
Committed_to_society	1	6	5,50	
	Total	12		
	0	6	8,00	
Environmental_protection	1	6	5,00	
	Total	12		
	0	6	5,50	
Responsible_business	1	6	7,50	
	Total	12		
	0	6	9,50	
Specific_names	1	6	3,50	
	Total	12		

Appendix B-2: RQ2 analysis = Correlation between EU membership and the title of NFR

Test Statistics ^{a,b}							
	Corporate_soci- al_ responsibility	Sustainability_ _report	Non_financial_ _report	Committed_ to_society	Environmental_ - protection	Responsible_ business	Specific_ names
Chi-Square	2,152	8,966	8,638	2,200	3,578	2,200	10,286
df	1	1	1	1	1	1	1
Asymp. Sig.	,142	,003*	,003*	,138	,059	,138	,001*

a. Kruskal Wallis Test

b. Grouping Variable: Eu_membership

Appendix C-1: RQ3 analysis = Correlation between EU membership and the type of NFR

Ranks			
	EU_membership	N	Mean Rank
	,0	6	6,00
Part_of_annual_report	1,0	6	7,00
	Total	12	
	,0	6	4,25
Individual_report	1,0	6	8,75
	Total	12	
	,0	6	9,50
Only_on_Web	1,0	6	3,50
	Total	12	
	,0	6	6,50
None	1,0	6	6,50
	Total	12	

Appendix C-2: RQ3 analysis = Correlation between EU membership and the type of NFR

Test Statistics ^{a,b}				
	Part_of_annual_report	Individual_report	Only_on_Web	None
Chi-Square	,253	5,411	10,286	,000
df	1	1	1	1
Asymp. Sig.	,615	,020*	,001*	1,000

a. Kruskal Wallis Test

b. Grouping Variable: EU_membership

Appendix D-1: RQ4 analysis = Correlation between EU membership and the length of NFR

Ranks			
	EU_membership	N	Mean Rank
	0	60	37,21
Report_length	1	60	83,79
	Total	120	

Appendix D-2: RQ4 analysis = Correlation between EU membership and the length of NFR**Test Statistics^{a,b}**

	Report_length
Chi-Square	54,584
df	1
Asymp. Sig.	,000*

a. Kruskal Wallis Test

b. Grouping Variable: EU_membership