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Evaluating the influence of non-financial reporting on climate change disclosures by major corporations in Croatia

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Abstract

In the last year, there's been a significant change in the business world. Being transparent about sustainability aspects has shifted from something companies could choose to do to something most competitive businesses in the EU must do. Key stakeholders are increasingly recognizing the critical importance of relevant, reliable, and comparable sustainability information. They rely on this information to make informed decisions regarding companies' long-term sustainability and ethical practices. Large corporations, with their significant social and environmental impact, are crucial in steering the shift to a climate-friendly economy in the initial phase. They have the potential to make a big difference by cutting emissions and adopting measures to tackle climate change. An article explores how large Croatian companies report on climate issues, revealing significant gaps in their reporting practices. Alarmingly, only approximately 28% of these companies acknowledge the impacts of climate change in their reporting, with a mere 10% addressing these issues at the senior management level. Furthermore, a meagre 20% of companies report on climate-related risks, opportunities, and mitigation strategies. Astonishingly, adaptation strategies are informed by only 10% of the studied entities, highlighting a prevailing lack of awareness regarding the business significance of climate change. According to research, the European Union's efforts have remained relatively the same in how major Croatian companies disclose climate change-related information. This highlights the pressing need for more advanced laws on sustainability reporting, especially in large Croatian companies, to better report on climate change matters. In conclusion, this study underscores the growing demand for transparency in non-financial reporting and the critical role of large corporations in addressing climate change. It serves as a clarion call for legislative enhancements and improved compliance to facilitate the effective integration of climate-related reporting practices among major Croatian enterprises.

Keywords: environmental impact, non-financial reporting, corporate sustainability reporting, large companies, impact, climate changes, reporting on climate change
Jel codes: G34, K32, M14, 044, Q01

1. Introduction

Non-financial (soon it will be called corporate sustainability) reporting reveals a company's influence on society and the environment, encompassing aspects beyond pure finances, like environmental impact, social responsibility, and governance practices. Its goal is to communicate a company's sustainability, ethical commitments, and broader societal contributions. Corporate sustainability reporting refers to a company's disclosure of its impact on critical sustainability factors and how these factors, in turn, affect its operations. When discussing non-financial reporting, an indispensable concept is the well-known 3P framework (an acronym for People, Planet, Profit) or the Triple Bottom Line concept (Elkington, 1997). Companies' publication of non-financial information or sustainability has become increasingly important to various stakeholders as they consider sustainability factors when making decisions. Due to the need to enhance transparency and comparability of non-financial information of companies, and to meet the requirements of investors, consumers, and other key stakeholders for such information, non-financial reporting became a legal obligation within the European Union as of January 1, 2017 (European Commission, 2017). This obligation applies to large companies with over 500 employees and those deemed as entities of public interest. It is important to emphasize that due to its limitations, in November 2022, the Corporate Sustainability Reporting Directive (CSRD) superseded the Non-Financial Reporting Directive (NFRD). This change reflects the European Union's acknowledgment of the imperative for more stringent reporting standards and the essential expansion of the legislation's applicability to a wider range of companies. The new directive is in the phase of integration into relevant national laws and companies will be obliged to report on it from 2025 for 2024. Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS). The standards were developed by the EFRAG, an independent body bringing together various stakeholders. The standards will be tailored to EU policies, while building on and contributing to international standardisation initiatives (European Commission, 2023).

Climate change is a multifaceted global challenge that spans across ecological, environmental, socio-political, and socio-economic realms, impacting various components worldwide (Adger et al., 2005, Feulner, 2017, Gomez, 2021, Boon-Falleur et al., 2022, Reckien et al., 2023, Ekah et al., 2023). Simultaneously, climate change, with its growing negative impacts on the environmental, social, and economic spheres in which a company operates, presents one of the most significant challenges to its long-term sustainability (Dahlmann et al., 2017, Schenk & Gerdeman, 2021, Abbass et al., 2022, Cevik & Miryugin, 2023, Albitar et al., 2023). Based on this, it would be expected that large companies in Croatia regularly consider climate change in their operations and continually report on climate-related changes. At the heart of the article lies an exploration and analysis of the cumulative findings pertaining to climate reporting within large corporations in Croatia. These results have been shaped under the influence of the European Directive 2014/95/EU and the associated guidelines and directives for non-financial and corporate sustainability reporting, particularly focusing on climate-related information (climate reporting).

2. Literature Review

A world afflicted by poverty, inequality, conflict, and environmental degradation does not foster an environment in which the business sector can thrive. A healthy perspective is impossible in a toxic environment. Consequently, one of the primary concerns of every enterprise must be ensuring the realization of the 2030 Agenda for Sustainable Development: Transforming our World (United Nations, 2015). According to UN Global Compact initiative (2022) all United Nations member states have embraced Agenda 2030 and its 17 global Sustainable Development Goals. This has redirected the attention of the global community and global efforts towards addressing 17 pressing global issues, where the pivotal role of the economy as a creator of new values, employment opportunities, a source of innovation funding, and technological development becomes paramount (Walker et al., 2019). Climate change on planet Earth is currently the focal point of global attention, as it stands as the most significant challenge to the sustainability and survival of human civilization among all sustainability factors (IPCC, 2021). The recently released AR6 Synthesis Report on Climate Change in 2023 asserts the feasibility of restraining global warming within relatively safe thresholds. However, doing so will require global collaboration, substantial financial investments, and significant structural modifications (IPCC, 2023). Consequently, it is prudent to impose accountability on the most influential modern institutions, corporations. According to Clarkson (1995), until the mid 1990s corporate success was predominantly oriented towards meeting the requirements of a solitary stakeholder, specifically the shareholder. Recently, corporate managers have received coherent signals from key stakeholders such as clients and customers, employees, partners in their value chain and legal entities (especially in the EU) urging accelerated and more extensive action, necessitating transparent disclosure of advancements about their societal role and environmental impact. Stakeholders advocate for adopting specific, measurable, scientifically substantiated targets within an augmented reporting framework to enhance accountability. Undoubtedly, the knowledge and communication of climate scientists for decades have been warning about the adverse consequences of climate change and its accelerating pace.

Socially responsible business can be articulated as the commitment of the business world to contribute to sustainable economic development through close collaboration with society, local communities, and individuals, aiming to improve living conditions for all (Bačun et al., 2012). The European Commission views corporate social responsibility as a strategic approach by which companies go beyond legally mandated norms, integrating environmental and social aspects into their business activities and stakeholder relationships. This aims to optimally generate value for all stakeholders while identifying, mitigating, and preventing potential negative consequences (European Commission, 2019).

Non-financial reporting has become an essential component of corporate transparency and accountability, encompassing the disclosure of a company's social, environmental, and governance practices (Kotler and Lee, 2009). Its purpose extends beyond financial performance, providing stakeholders with a comprehensive understanding of the company's impact on sustainability factors, aligning with the growing global emphasis on sustainability and responsible business practices (Omazić at al., 2020). This type of reporting, in line with the European Commission's perspective, aids in fostering trust and credibility while driving organizations to measure and report their non-financial impacts for the benefit of all stakeholders involved. According to the European Union guidelines (European Parliament, 2014), a company's non-financial report should encompass:

- Detailed information concerning environmental matters, encompassing present and foreseeable impacts of the company's operations on the broader environment (ecosystem). This includes comprehensive details about the current and anticipated effects of the company's activities on water usage, renewable and/or non-renewable energy sources, air pollution, greenhouse gas emissions, and the health and safety of stakeholders.
- Detailed information related to social and personnel matters. This includes initiatives concerning workplace health and safety, the maintenance of favorable working conditions, ensuring workers' rights to information and consultation, promoting gender equality, respecting labor union rights, encouraging social dialogue, active engagement with local communities, and guaranteeing the protection and development of these communities.
- Detailed information regarding human rights matters, detailing actions taken to prevent their violation.
- Detailed information concerning issues of bribery and corruption, including information about established mechanisms for preventing bribery and corruption.

Non-financial reporting is a legal requirement for large companies with an average of more than 500 employees at the balance sheet date during the preceding financial year, who are also entities of public interest. For parent companies of large groups with an average consolidated number of employees exceeding 500 at the balance sheet date during the preceding financial year, and classified as entities of public interest, it is mandatory to submit a consolidated non-financial report (Official Gazette, 2015, 2016, 2018). Non-financial reports and consolidated non-financial report encompass information necessary to understand the position, business performance, and development of an enterprise and the effects of its activities (Official Gazette, 2015, 2016, 2018). These reports minimally cover environmental matters, social and human resources issues, human rights, bribery, and corruption. This includes concise information about the business model, policies implemented by the company, outcomes resulting from these policies, risks associated with these matters and their management and key performance indicators related to these issues. If a business entity fails to fulfill the obligation to prepare and publish non-financial reports and consolidated non-financial reports as prescribed within the set timeframe, both the business entity and the responsible individual of the business will be subject to a fine as a penalty for the offense.

Directive 2014/95/EU is a regulatory framework established by the European Union that initiated mandatory non-financial reporting for certain large companies and groups (European Parliament, 2014). It requires these entities to disclose information on environmental, social, and employee-related matters, respect for human rights, and anti-corruption and bribery issues. The directive aims to improve transparency and accountability, encouraging businesses to integrate sustainability into their operations and contribute to societal and environmental well-being (European Commission, 2017). It ensures that these corporations focus not only on financial performance but also on their impact on wider society and the environment. Directive 2014/95/EU states that the European Commission is responsible for creating non-mandatory guidelines for non-financial reporting. These guidelines cover key non-financial performance indicators intended for general and sector-specific usage. The goal is to facilitate relevant, reliable, useful, consistent, and comparable non-financial reporting by companies (European Commission, 2017). In crafting these guidelines, the European Commission considered the most effective existing practices, international trends, and the outcomes of related Union initiatives. The purpose of the non-binding guidelines for reporting on non-financial information is to assist organizations in publishing the best available non-financial information in their reports, aiming to foster sustainable growth. The key principles outlined in these guidelines delineate the essential characteristics of disclosed information (European Commission, 2017). They emphasize that information should be material, meaning it needs to be relevant and significant. Additionally, it should be accurate, objective, and easily comprehensible, ensuring that the data presented is factual, unbiased, and clear. The information should strive to be comprehensive, offering a complete overview without unnecessary complexity. Simultaneously, it should be future-oriented, focusing on the strategic direction of the company. Moreover, the guidelines stress the importance of being stakeholder-oriented, addressing the concerns and requirements of stakeholders. Finally, the principles underscore the significance of ensuring that the disclosed information is aligned and consistent, maintaining harmony and uniformity in reporting practices.

3. Data & Methodology

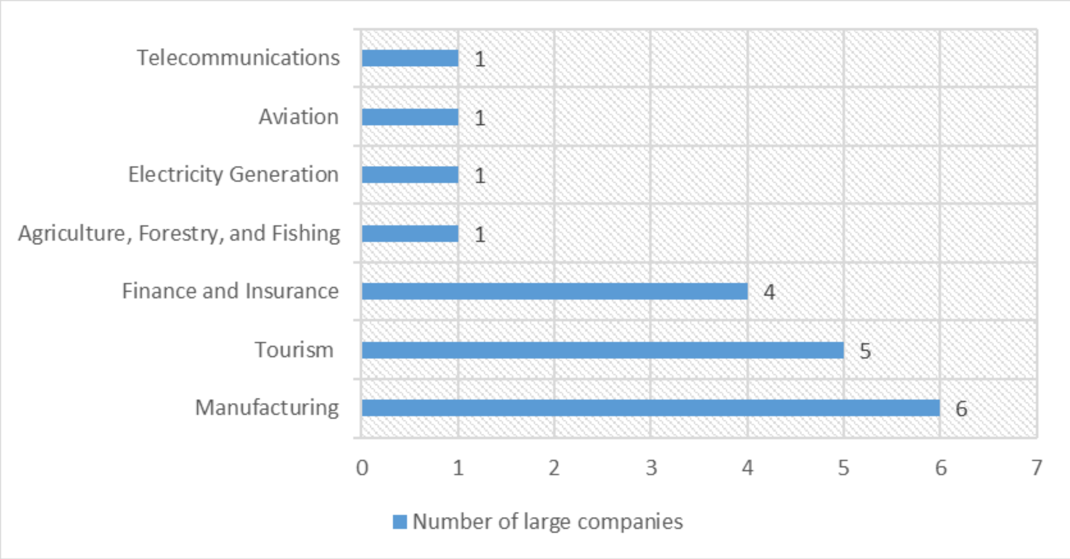
The study aimed to explore how the existing rules and guidelines about non-financial reporting affect large companies in Croatia when it comes to reporting on climate change. By the third year after these rules were put in place in 2019, it was expected that most big companies in Croatia were regularly considering and reporting on climate change. The research goals were about checking how these big companies in Croatia were reporting on climate change in 2019. It included looking at how they managed climate-related risks, the opportunities they found related to climate change, how they worked to reduce the impact of climate change, and how they adapted to it. This kind of responsible business practice can help companies find new ways to create value and set long-term goals while also dealing with big global environmental and climate issues, making them stand out from less responsible companies (Painter et al., 2019).

Based on the existing regulations and guidelines for non-financial reporting, the research encompassed all large companies in Croatia with more than 500 employees as of the balance sheet date of December 31, 2019. These companies were also registered as joint-stock companies or identified as public interest entities. According to the specified criteria, there were a total of 68 such large companies in Croatia, and the list of these companies can be found in Table 1 in Appendix. The meaningfulness of the research sample of listed companies in Croatia is further confirmed by the Action plan for financing sustainable growth, released by the European Commission (2018), aimed at directing capital flows towards sustainable investments, managing climate, environmental, and social financial risks and enhancing long-term and transparent economic and financial activities. In pursuit of the objectives outlined in the Action plan for Financing Sustainable Growth, financial institutions and corporations are required to effectively direct capital flows towards sustainable investments (particularly solutions for climate change, environmental, and social issues), recognize potential investment risks stemming from environmental and social crises, and manage these risks. The study thoroughly examined reports from big companies in Croatia for 2019, gathering and analyzing the data in Microsoft Excel. The aim was to understand and interpret the aggregated results regarding climate reporting for scientific research.

3.1. The research results

The results show that large companies in Croatia reporting on climate change are much less represented (approximately 2.5 times less) compared to those that do not report on climate change. In the defined research sample in Croatia, only 19 large companies (28%) were found to publish climate information, while as many as 49 did not report or mention climate changes in their publicly available reports. This is the clearest indicator that climate changes are not even on the horizon of consideration in the business thinking or deliberations of these large companies. The analysis according to the National Classification of Activities of large companies in Croatia that disclose climate information, as shown in Graph 1, suggests that the most significant importance in reporting information related to climate in 2019 comes from large companies in the following sectors:

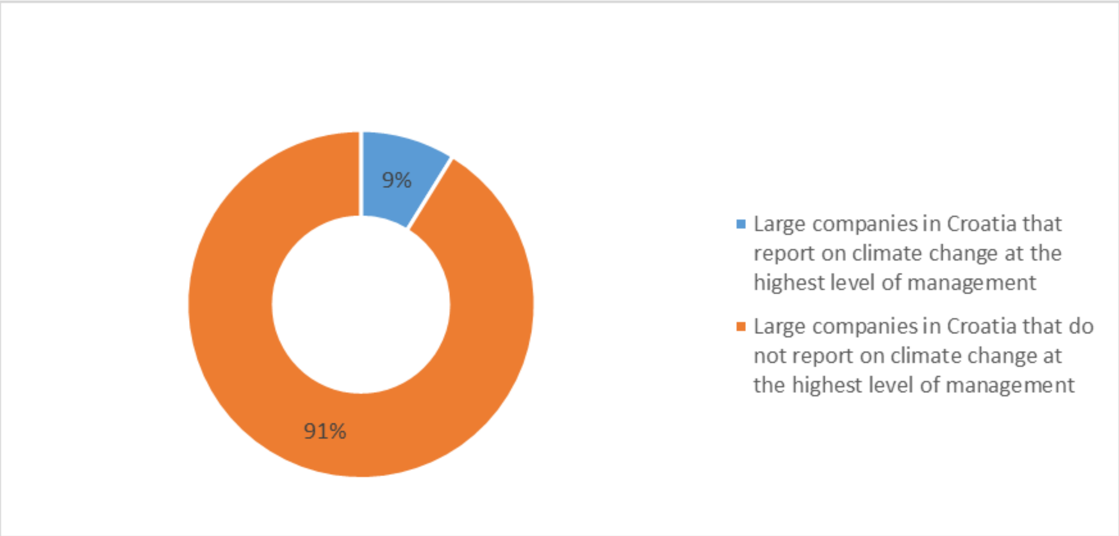
1. Manufacturing (Processing Industry),
2. Tourism and
3. Finance and Insurance.



Graph 1. Large companies in Croatia reporting on climate change by industries
Source: Author's research

Within the framework of ambitious goals set by the European Union aimed at being achieved by 2030 and 2050, large companies in Croatia face remarkably challenging business endeavors. These objectives involve reducing greenhouse gas emissions by at least 55% by the end of this decade and attaining European climate neutrality by the middle of this century. Therefore, these companies will need to make significant business efforts, including adjustments in their practices and procedures, to align with the EU's ambitious climate change goals.

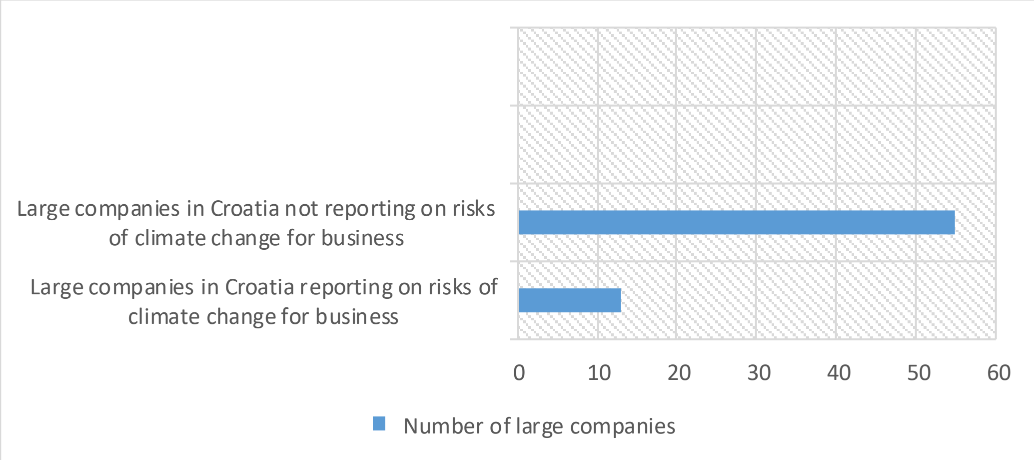
Out of the sixty-eight large companies in Croatia, just six reveal climate-related information at the top management level, specifically through statements by their CEOs or Board Presidents. This statistic, as depicted in Graph 2, highlights that nearly one in ten large companies fails to disclose such climate information at the highest management tiers. This underlines a considerable gap in the awareness of many Chief Executive Officers and Board Presidents in these companies about the significance of climate change for their businesses' long-term sustainability. The findings highlight a concerning lack of awareness among the highest management levels in large Croatian companies reporting on climate-related issues. There's a clear need for substantial efforts in educating and raising awareness among these key decision-makers about the crucial significance of climate changes.



Graph 2. Large companies in Croatia according to reporting on climate change at the highest management level
Source: Author's research

The risks associated with climate change that affect businesses can be broadly classified into two primary categories: physical risks and transition risks. In the context of the Croatian business landscape, the research findings depicted a limited number, with only 13 out of the sampled large companies (comprising less than 20%

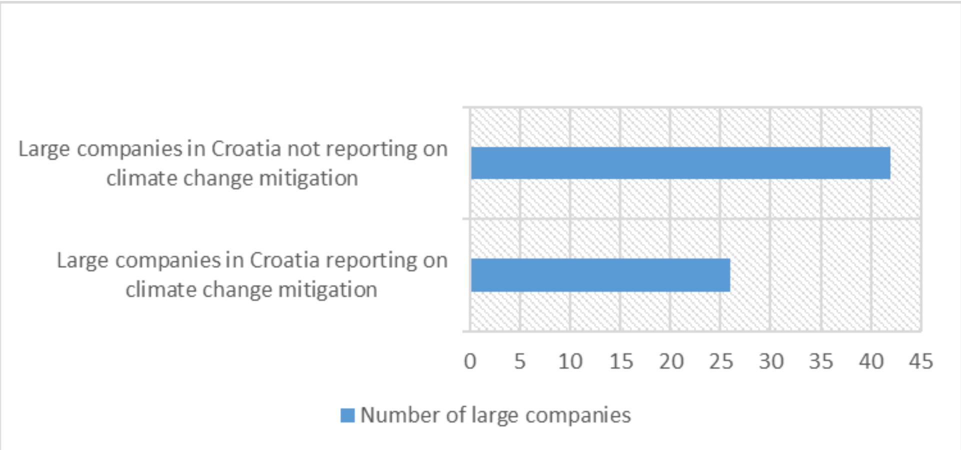
of the total), as visible in Graph 3, offering details regarding the risks associated with climate change to their operations.



Graph 3. Large Croatian Companies in relation to reporting on risks of climate change for business
Source: Author's research

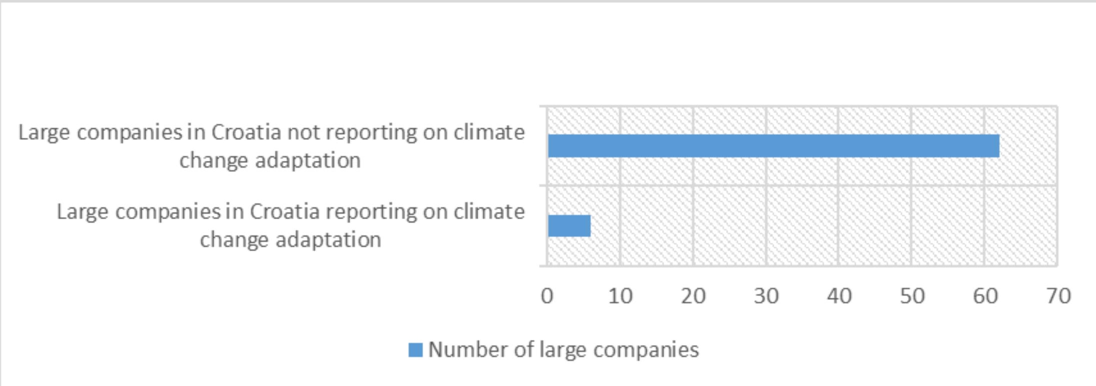
Large companies reporting on climate-related business opportunities are those large enterprises that disclose information about the products and services in their portfolio contributing to the prevention or reduction of: greenhouse gas emissions (climate change mitigation), and adverse effects of climate change (climate change adaptation). By offering such products and services, large companies can frequently transform climate risks into business opportunities. Research findings reveal that in large companies in Croatia, 19 out of the sampled enterprises or 28% of the research sample provide information on climate-related business opportunities. Initially, this result might suggest that for large companies in Croatia, climate-related business opportunities are a well-known terrain in the market competition, instilling faith in their systematic recognition and consideration in business operations.

Large companies reporting on climate change mitigation are those large enterprises that disclose information about their initiatives, measures, and activities aimed at preventing or reducing the emission of greenhouse gases into the atmosphere. Research results for large companies in Croatia initially indicate that 26 of them (38%), as depicted in Graph 4, provide information about specific ways they contribute to mitigating climate change. Consequently, it could be inferred that large companies in Croatia strategically consider climate change mitigation in their business operations and report on it.



Graph 4. Large companies in Croatia reporting on climate change mitigation
Source: Author's research

Large companies reporting on climate change adaptation are those large enterprises that disclose information about their initiatives and activities aimed at timely recognition of the adverse effects of climate change and implementing practical measures to reduce or prevent potential damage. Research findings for large companies in Croatia reveal that only 6 of them (9%), as depicted in Graph 5, report on some form of adaptation to climate change through their business activities. Based on these results, it is possible to understand that large companies in Croatia rank climate change adaptation low on their list of business priorities.



Graph 5. Large companies in Croatia reporting on climate change adaptation
Source: Author's research

3.2. Discussion of the research

Except in rare instances, the primary goal for business is usually centered on achieving economic aspects of operations, such as generating profits, while the impact of their operations on the environment and society is often ranked lower among their business priorities. Therefore, the threat of destroying the planetary ecosystem raises the question - how does a company plan to conduct its operations in the future and minimize the negative effects of its activities? Shifting business priorities emerges as one possibility, where socio-economic view on organisation and profit optimization takes precedence over purely economic view where everything is about profit maximization.

The publication of non-financial information by companies is becoming increasingly important to various stakeholders (investors, consumers, employees, suppliers, etc.) as these groups consider a company's sustainability factors when making decisions. Mere profitability is no longer sufficient for long-term investments (KPMG, 2017).

Simultaneously, adverse changes in climate patterns are rapidly spreading across the planet Earth. Therefore, it's no longer surprising that humanity is faced with an urgent and immediate need to transition to a climate-neutral economy that is resilient to climate changes. Considering this, companies due to climate risks to business and business risks to climate must:

- Enhance the quality of reporting on climate change.
- Disclose information about their approach to managing climate change at the highest levels of management.
- Gain a deeper understanding of and mitigate the risks posed by climate change to their business and the risks their business activities pose to the climate.
- Improve the recognition of business opportunities related to climate issues.
- Contribute more significantly to both mitigating the impacts of climate change and adapting to its effects.

4. Conclusion

What was once considered implausible in the business sphere is swiftly evolving into an indispensable element of contemporary business conduct. Key stakeholders, including investors, consumers, and employees, are progressively advocating for transparency, relevance, and reliability in non-financial reporting among corporations. Recognizing the pivotal role of dependable, standardized non-financial data in assessing a company's enduring viability, this transition is elevating the status of non-financial, sustainability, and ESG (environmental, social, and governance) reporting to a level akin to financial reporting in the imminent future.

The ongoing revision of the Directive on non-financial reporting has led to a proposal for a new Corporate Sustainability Reporting Directive (CSRD), that is in force but has not yet been integrated into national laws. The proposal suggests expanding the scope of non-financial reporting to include not only large non-public interest companies but also, after a transition period of three years, medium and small businesses listed on the stock exchange. In the foreseeable future, non-financial reporting is poised to attain a significance proportional to financial reporting across enterprises of varying scales. The growing importance of non-financial reporting is an imminent trend. This trajectory is underscored by a growing interest in publicly disclosed reports, and on a global scale, there is an increasing momentum toward fortifying reporting standards and regulations, mandating companies to provide more comprehensive disclosures about their Environmental, Social, and Governance (ESG) practices and performance.

In the current context of non-financial reporting, driven by the escalating climate crisis and the imperative to curb climate change facing humanity, the disclosure of information by large corporations about climate change becomes significantly crucial. These very companies, due to the substantial negative impacts of their business activities on the climate, play a pivotal role in transitioning to a climate-neutral economy. They hold the greatest potential to contribute to:

- Mitigating climate change by preventing and reducing further greenhouse gas emissions and
- Adapting to climate change by promptly recognizing the adverse consequences of climate change and implementing practical measures to minimize or prevent potential damage.

Simultaneously, the business operations of these large corporations, due to their size and geographical spread, are most exposed to the adverse impacts of climate change and its escalating effects.

It was expected that large companies in Croatia in 2019 would address climate change in their operations and report on it. However, an empirical study conducted on large companies in Croatia and their reporting on climate change in 2019 resulted in the following findings:

- Only 19, just over a quarter (28%), report on climate change, while 49, nearly three-quarters (72%), do not mention climate change in their publicly available reports at all.
- Only 6, less than 10%, report on climate change at the highest management level.
- 13, less than 20%, report on the risks of climate change for business.
- 13, less than 20%, report on climate-related business opportunities.
- Only 15, just over 20%, report on mitigating climate change.
- Only 6, less than 10%, report on adapting to climate change.

Based on empirical analysis of major corporations in Croatia and their climate change reporting, several key observations emerge. Boards of Directors and CEOs within these companies demonstrate a considerable need for more awareness concerning the business implications of climate change, coupled with a prevalent misunderstanding of associated risks. Roughly 20% of these entities actively engage with climate-related business prospects and efforts to mitigate climate change, with a mere 10% focusing on adapting to environmental shifts. The EU's ambitious climate targets for 2030 and 2050, aiming to slash greenhouse gas emissions by at least 55% by the decade's end and achieve climate neutrality by mid-century, pose significant challenges for these corporations and the Croatian economy. Despite the European Union's extensive initiatives in non-financial reporting and climate change, the influence on the disclosure of climate-related data by major Croatian companies remains limited. Since the beginning of reporting in 2017, companies have generally progressed in connecting reporting and accessing reporting and the quality of published data. On the other hand, it is still visible that, in most cases, reports focus on projects and data. They must show a more thorough approach to considering and integrating ESG criteria, determining materiality, and managing the identified impacts. Because of this approach, reporting is often reduced to a box-ticking exercise instead of a paradigm shift, and the lack of a strategic approach then affects the lower quality of the report.

Appendix

Table 1. The list of companies included in the research sample

No	Company (JSC)	No	Company (JSC)
1.	AD PLASTIK	35.	KOKA
2.	ADDIKO BANK	36.	KONČAR - DISTRIBUTIVNI I SPECIJALNI TRANSFORMATORI
3.	ADRIATIC OSIGURANJE	37.	KONČAR - ELEKTROINDUSTRIJA
4.	ADRIS GRUPA	38.	KRAŠ PREHRAMBENA INDUSTRIJA

5.	ARENA HOSPITALITY GROUP	39.	KTC
6.	ATLANTIC GRUPA	40.	KUTJEVO
7.	AUTOTRANS	41.	LONIA
8.	BOROVO	42.	LUKA RIJEKA
9.	BELUPO	43.	MAISTRA
10.	CENTAR ZA VOZILA HRVATSKE	44.	MEDIKA
11.	CROATIA AIRLINES	45.	METALSKA INDUSTRIJA VARAŽDIN
12.	CROATIA OSIGURANJE	46.	OTP BANKA
13.	CROMARIS	47.	P P K KARLOVAČKA MESNA INDUSTRIJA
14.	DALEKOVOD	48.	PETROKEMIJA
15.	DRVNA INDUSTRIJA SPAČVA	49.	PEVEC
16.	DUKAT MLIJEČNA INDUSTRIJA	50.	PLAVA LAGUNA
17.	ĐURO ĐAKOVIĆ GRUPA	51.	PLODINE
18.	ERICSSON NIKOLA TESLA	52.	PODRAVKA
19.	ERSTE&STEIERMÄRKISCHE BANKA	53.	VINDIJA
20.	EUROHERC OSIGURANJE	54.	PRIVREDNA BANKA ZAGREB
21.	GENERALI OSIGURANJE	55.	RAIFFEISENBANK AUSTRIA
22.	GRAĐEVINARST. I PROIZVODNJA KRK	56.	SAPONIA
23.	GRAWE HRVATSKA	57.	SELK
24.	HP - HRVATSKA POŠTA	58.	SUNCE HOTELI
25.	HRVATSKA ELEKTROPRIVREDA	59.	3. MAJ BRODOGRADILIŠTE
26.	HRVATSKA POŠTANSKA BANKA	60.	TRGOSTIL
27.	HRVATSKI TELEKOM	61.	TRGOVINA KRK
28.	HUP-ZAGREB	62.	UNIQA OSIGURANJE
29.	IMPERIAL RIVIERA	63.	VALAMAR RIVIERA
30.	INA-INDUSTRIJA NAFTE	64.	VARTEKS
31.	INOVINE	65.	VETROPACK STRAŽA
32.	IVANČICA	66.	WIENER OSIGURANJE
33.	JADRANSKI LUKSUZNI HOTELI	67.	ZAGREBAČKA BANKA
34.	JADROLINIJA	68.	ZAGREBAČKE PEKARNE KLARA

Source: Author's compilation

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