

Transparency of the Non-Financial Reports in the Republic of Slovenia

DANILO DJOKIĆ

University of Primorska, Slovenia

danila.djokic@fm-kp.si

Corporate governance of public companies in the Republic of Slovenia (RS) has been developing for the last 25 years. Short historical development of this field requires permanent monitoring. Practical implementation and performance of corporate governance (CG) principles in the business practices of public companies in Slovenia should be followed and non-financial information should be analysed. We are interested in how CG principles are reflected and implemented in the acts and reports of public companies in the RS, especially in terms of socially responsible and sustainable development of strategic goals. Legal acts and reports of public companies in the first and standard quotation of the Ljubljana Stock Exchange were scrutinized to analyse the transparency and quality of non-financial reporting, and consequently, the quality of corporate governance in Slovenia.

Key words: corporate governance, corporate social responsibility, sustainable development, annual reports, corporate governance policy and statement

Introduction

The Republic of Slovenia (RS) traces its corporate governance beginnings to the 1990s when the country initiated ownership transformation of companies ('Zakon o lastninskem preoblikovanju podjetij' 1992–1998). Companies with social capital as an equity source were transformed into companies with the equity capital in private ownership on the basis of a law. Corporate governance of companies in the RS has been implemented for 20 years (Djokic 2011a).

During that time, the RS became a member of the European Union (EU). The state complied with EU regulations by implementing regulations and directives of the EU as well as its recommendations and other acts of soft law. Slovenia harmonized the fields of company law, accountancy, financial reporting and revision with EU requirements. Furthermore, the RS implemented OECD principles of corporate governance in the preparation of its corporate governance codes, which have been developing since 2005. The principle of transparency was applied and harmonized with EU regulations (Djokic 2012). The

transparency of Slovenian public companies has been improving and expanding gradually using imperative rules and soft law (Djokić 2013).

This article analyses the reporting of non-financial information and improvements that have been made in the field of non-financial reports in the RS after 2010. The pieces of research that have been conducted recently touch on disclosures of company social responsibility (CSR) and long-term sustainability (LTS) development. The article is connected to two particular deeds that are legally regulated in the RS and which evaluate non-financial information in the framework of corporate governance in public companies, i.e. corporate governance statements (CGS) and corporate governance policies (CGP). The qualitative results of recent research presented in the article illustrate the progress that has been made in the country in the field of transparency. However, disclosures and explanations concerning CGS and LTS should become more substantial and supplemented with more contextual information. The EU is also calling for better transparency of CGP in the field of CSR and LTS. By reporting non-financial information more thoroughly, public companies would improve their CSR and LTS corporate identity and become more transparent for their stakeholders.

Non-Financial Reporting in the Function of CSR and LTS Company Identity

If we understand vertical communication as the communication through a top-down process as executives and other managers communicate organizational goals and support to their subordinates (Bartels et al. 2006), we may realize that vertical communication is necessary for identifying the inner organization with their company (organisational identity).

A company starts to exist as a legal entity on the basis of the decision of its founders. The founders determine the company as a socially responsible company (CSR) with long-term sustainability goals when they proclaim so in the articles of association or a statute. (An individual foundation act depends on the selected form of a company). When a company is registered, the company as a legal entity lives its life and operates according to selected activities, form and principles of corporate governance. The operating company as an organizational identity is a living legal entity with its own operation and activity. The ways the activity is performed depend on different factors. Organisational identity (OI) is certainly one of them, but not the only one. OI describes the inner identification of the person-

nel (employees) and managers (top, executive – middle) with company goals. If company management is environmentally and socially conscious and responsible, they will spread such a leadership spirit within the company and involve employees in improving the organisation's environmental performance.

CREATION OF COMPANY IDENTITY

Not only company founders, employees and company management should also be aware of the company's CSR identity. If the company operates as a joint stock company, then such a company has many shareholders. Through reporting company goals (sustainability, means of the social responsibility, etc.) to the shareholder, the company expresses its factual attitude regarding CSR and LTS as well as the ways and standards of factual realisation of such long-term company goals.

Besides the shareholders, communication of CSR and LTS goals of the company to other company participants, such as stakeholders as well as interested groups, the local community, etc., is of vital importance when discussing the creation of company identity (CI).

Presuming that a new company has been founded with a CSR and/or LTS orientation, the final creation of CI should have different phases. After the shareholders accept the CI, the CI should be publicly announced to shareholders through the statute, company reports and corporate governance policy, and communicated to other company stakeholders and the public using the communication strategy accordingly.

The recognition of CI as a CSR and/or LTS company is therefore created on the basis of the outside relation of the company – 'within the society.' The reflection of 'the society' regarding socially responsible and sustainable company operation and its factual performance of the activity consequently influences the shareholders' decisions. The development of CSR and LTS of a company as its general CI is therefore a long-term and interactive process which involves management bodies of the company (shareholders, management, supervision bodies), stakeholders (suppliers, customers, consumers), employees, communities and other interested participants, and public (consumers, NGOs, etc.). This interactive relation is built by using the company communication policy (CCP) as a part of the company CGP.

Company identity as an outside identity is created through communication with interested groups outside the company. By sharing company goals with those groups, the company declares its approach

regarding the standards that are important to the society. Interested participants involved in company operation (suppliers, customers, consumers) and company results (employees, community, state) create an attitude towards the company by being aware of the company's CSR and/or LTS orientation. To this end, the CCP is an important part and phase in the creation of a CI with CSR and LTS goals.

CSR IN SLOVENIA

In Slovenia, authors perceive SCR and LTS as the responsibility of all business entities (owners and managers in particular) to develop and implement actions aiming to realise the needs and interests: organisation's environment (natural, social and corporate) and the organisation of internal processes (Potočan and Mulej 2007, 130).

CSR is explained as a cell. The attitude of an organisation or its management towards employees, owners and clients represents the nucleus of the cell. The immediate surrounding area of the nucleus constitutes the attitude towards the local environment, both natural and social, while the wider circle denotes the organisation's global visibility (Zadnik and Šmuc (2007, 3).

According to Bertoneclj et al. (2011, 108–12), these definitions indicate that the concept of corporate social responsibility strives towards sustainable functioning of an organisation, which also contributes to the prosperity of the society as a whole, taking into account the interests of all stakeholders and its own interests, including profits, and strictly respecting both ethical and moral principles.

CSR IDENTITY AND REPORTING IN THE EU

The above definitions and observations in Slovenia sound like being in line with the European notion of CSR and LTS development of companies. One of the latest EU activities in the field of CSR is related to public companies' disclosure. More precisely, the Directive on disclosure of non-financial and diversity information by certain large companies and groups (adopted on April 2014 by the European Parliament), calls on public companies to disclose information on policies, risks and outcomes as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors (European Parliament and the Council 2014).

Consultations on the basis of this EU SCR strategy 2011–4 showed general agreement that legal regimes differ significantly across the EU Member States. It assessed the current regime applicable to a particular country's respective jurisdiction as poor or very poor. For

many, the current EU legislative framework lacks transparency. Several respondents think this translates into a lack of balance and cohesion in reporting by companies, making it difficult for shareholders and investors to make a reasonable assessment of the extent to which companies take account of CSR in their activities. With respect to improving the regime on non-financial disclosure, improvements have been suggested, such as: that the EU should draw on frameworks already developed at the international level rather than elaborate new standards and principles. Sharing of best practices, better guidance and the need of incentives for companies to report on non-financial issues were also underlined (European Commission 2011a; 2011b).

Additionally, the EU also requires environmental, social and governance information (ESG) to be reported and publicly disclosed to investors. While company reporting on ESG issues – both in terms of breadth and quality – has improved significantly over the past decade, this reporting is seen as falling short of the quality needed for investors to integrate this information into their investment research and decision-making processes. The major criticisms made of ESG-related data provided by companies are that calculation methodologies are applied inconsistently and that companies generally provide little information on the scope of reporting or even the meaning of the indicators being reported. Moreover, despite the growing interest in integrated reporting, most companies do not provide a robust account of the financial relevance of ESG issues to their business and are rarely clear about which, if any, ESG issues are important value drivers for their business (United Nations 2013, 4).

Companies should evaluate the 2014 CSR Directive's (European Parliament and the Council 2014) potential applicability and change their practices as necessary to come into compliance before the Directive enters into force in 2017. Large companies as defined in the CSR Directive will be required to submit ESG disclosure either within the annual corporate report or as a separate filing. Where a separate filing is made, it should either be published with the management report or be made publicly available on the company's website (within six months of the balance sheet date) and referred to within the management report. The non-financial statement can be filed by the group/parent company rather than individually by all affiliate companies. Covered enterprises must be prepared to provide information relating to, at a minimum:

- environmental matters (including, but not limited to, current and

foreseeable impacts on environment, health, and safety issues, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use, and air pollution);

- social and employee-related matters (including, but not limited to, gender equality, implementing fundamental conventions of the International Labour Organization, trade union rights, health and safety at work, and engagement with local communities).

The CGP together with the communication policy should provide additional information to shareholders, stakeholders, investors and interested public to be able to recognize a company as a CSR company. These reports provide non-financial information and together with the company statute and/or articles of association and other internal company acts form the company identity as a CSR company. They should describe the ways of public disclosure of ESG information as well as information concerning CSR and LTS goals of public companies. We were interested in establishing whether Slovenian public companies recognised and shared the above understanding in previous years of their operation.

Legal Basis for Non-Financial Reporting in the RS

CGS AND CGP AS NON-FINANCIAL INFORMATION

Companies Act about CGS

The Slovenian Companies Act 2009 ('Zakon o gospodarskih družbah' 2009) requires public companies to make a detailed account of their governance practices in the CGS. The CGS is drawn up pursuant to Article 70 of the Companies Act in the framework of the companies' business reports. This article stipulates that a mandatory separate part of such a disclosure is the company's declaration of compliance with the Code.

According to paragraph 5, Article 70, the CGS shall be included as a special section of the business report and shall include at least the following:

1. Reference to: (a) the corporate governance code applicable to the company by indicating information on the code's accessibility to the public; (b) the corporate governance code which the company decided to use on its own free will by indicating information on the code's accessibility to the public; and (c) all appropriate governance data that exceed the requirements of this Act by indicating the point of public access to their governance practice.

2. The information on the scope of deviations from corporate governance codes is provided under the first indent of the preceding point. In this case, it should be explained which parts of the governance code are not considered and why. If companies employ no governance code provisions, they should state the grounds for their decision.

A CGS intends to inform stakeholders about the implementation of the corporate governance policy in practice. Considering its size, area of activity, markets it operates in, and special characteristics of its shareholders (i.e. dispersed or concentrated ownership structure, exclusively domestic/foreign investors, etc.), it is advisable that a public limited company includes more information in the CG statement than prescribed in Article 70 of the Companies Act on the establishment of minimal standards. In addition, the CG statement should set out all the changes that have had a significant influence, either positive or negative, on the corporate culture in the company during the period in question (i.e. in the past financial year and the year of drawing up the business report) (Ljubljanska borza vrednostnih papirjev 2009, 13).

Corporate Governance Code about CGP

The Slovenian Corporate Governance Code 2009 (Ljubljana Stock Exchange, Managers' Association of Slovenia, and Slovenian Directors' Association 2009) was signed after the Companies Act was amended in 2009 ('Zakon o gospodarskih družbah' 2009). The SCGC generally consists of several non binding recommendations for public companies. According to the SCGC 2009, the CG policy is adopted for a specific future period and updated as frequently as needed for it to always reflect the company's latest governance policy. It contains the date of its latest update and is available on the company's website.

Principles 2, 8 and 20 of the SCGC 2009 were selected for the research that was conducted by Stevanović in 2013; it shows company orientation about transparency of corporate governance in practice. These principles touch on the information that should be revealed to the public via the CGP. The content of analysed principles 2, 8 and 20 of the SCGC 2009 is as follows:

- Principle 2: The management board works together with the supervisory board in drawing up and adopting a CG policy, thereby laying down the major guidelines of corporate governance as compliant with the company's long-term objectives. The CG pol-

icy is communicated to the stakeholders by being published on the corporate website.

- Principle 8: The supervisory board monitors the company throughout the financial year, takes an active part in drawing up the CG policy and in establishing the corporate governance system, carefully evaluates the work of the management board, and performs other tasks pursuant to the law, company regulations and the Code.
- Principle 20: The CG policy defines the company's corporate communication strategy, which dictates high-quality standards with respect to the drawing up and preparation of accounting, financial and non-financial information.

The term and content of the CGP in the RS were explained in the SCGC 2009, which also describes its understanding, as follows. According to the SCGC 2009, the CGP consists of: (1) a description of all prime governance guidelines, taking into account the company's set objectives, values and social responsibility; (2) an indication as to which CG code the company abides by; (3) an outline of the company's groups of stakeholders, its communication strategy and cooperation with individual groups of stakeholders (creditors, controlled undertakings, suppliers, customers, employees, the media, analysts, state bodies, the local and wider community); (4) the procedure of informing controlled undertakings and shareholders of the group's strategy and corporate governance standards; (5) the policy of transactions between the company and related companies, including their members of management and supervisory boards; (6) the commitment that the supervisory board will set up a system of detecting conflicts of interest and independence in members of the supervisory/management board, and measures to be applied in case of circumstances that have a material effect on their status in relation to the company; (7) the supervisory board's commitment to assess its efficiency; an intent to set up supervisory board committees, if needed, and an outline of their tasks; (8) a clear system of division of responsibilities and powers among members of managerial and supervisory bodies; (9) rules governing the relationship between the company (including related companies) and members of its management/supervisory board, who are not subject to statutory provisions on conflicts of interests; (10) a definition of the company's communication strategy, including high quality standards for drawing up, and the disclosure of, accounting, and financial and non-financial information; (11) the protection of the interests of the company's employ-

ees, which are achieved by defining the manner, content and standards of their work as well as by ensuring an adequate level of ethical conduct in the company, including discrimination prevention.

Some Final Remarks on CGS and CGP as Non-Financial Information

Non-financial reporting represents the result of companies' thoughts about its importance, and about how it can be shared with stakeholders. Additionally, while financial information is predominantly retrospective and based on a company's past performance, non-financial reports can provide investors and other stakeholders with indications about the future potential of a company. In other words, non-financial information, such as that about the quality of risk management, corporate governance, strategic direction, quality of management, and social and environmental performance, will help stakeholders better understand a company's overall performance, business strategy, and growth perspective (Perrini 2006).

In this respect, the transparency of non-financial information in the field of corporate governance in the RS offered to the public via the CGS and the CGP could be explained by the following observations:

- The Companies Act uses and understands the term of the CGS in the framework of comparative understanding of this institute worldwide (Djokic 2009). A CG statement is an explanation of the behaviour and relations concerning corporate governance of the public corporation for the past. It is a part of the reporting system and is provided in the framework of annual reports and business reports of corporations. The CGS covers the past corporate governance observance of transparency and shows corporate governance of public companies for the past.
- Contrary to the above observations, CG policies cover future orientation. A CG policy is a document which represents the strategic outlook of corporate governance of a particular company for the future. It regulates the commitments of management and supervisory bodies regarding future activities of companies in this field of corporate governance. It is an orientation for the shareholders, stakeholders, investors, interested public and others about the ways and techniques the company is going to use in terms of transparency, governance in general, and communication with the public. The deed should show to stakeholders an orientation regarding the company's corporate governance

identity. In order to attain company CSR and LTS goals, companies should declare their behaviour in this field as well as show how their stated goals are pursued and executed in practice.

- From the corporate information communicated to shareholders, stakeholders, investors and interested public, these groups should be able to find out how companies' major orientations and policies are executed in practice. They should recognise from this information whether they deal with a CSR and LTS company, in what sense, and how the company demonstrates such a strategic orientation. If principle 2 of the SCGC 2009 provides that the management board together with the supervisory board should draw up and adopt a CGP and present the major guidelines of corporate governance as compliant with the company's long-term objectives, then such corporate information should be communicated to these groups and published on the corporate website. It is not enough that a company solely publishes such corporate information. This kind of information should be contextual and bring to shareholders, stakeholders, investors and interested public enough information to establish how the principles of CSR and LTS are executed in practice. The same is valid for Principle 20 of the SCGS 2009. The company should tell which CGP is being implemented and in what sense when preparing non-financial information.

Transparency of CGS, CGP and CSR as Non-Financial Information in Slovenia

A 2012 research by the Ljubljana Stock Exchange (LJSE) provides a more recent overlook of the corporate transparent identity of a particular public company in the RS. That research analyses the compliance of statements on corporate governance with the Code's provisions (Ljubljanska borza vrednostnih papirjev 2012).

CGS QUALITY EVALUATION

This particular LJSE Analysis of the Corporate Governance Statements 2012 includes the disclosure of explanations from the SCGC 2009 of the corporations included in the prime listing of the Ljubljana Stock Exchange for 2010 and 2011.

The LJSE Analysis shows that in the first listing, public corporations showed the biggest deviations from the following SCGC 2009 principles:

- definition of goals in the company's statute;

- using information technology to inform and implement sessions of the supervisory board;
- the principle regarding payment to the members of the supervisory board;
- appointing an audit and personnel commission;
- disclosing benefits given to the members of the management and supervisory board.

The LJSE Analysis showed that in certain cases, companies still fail to disclose all deviations, consider them irrelevant or interpret them in different ways. This attitude should change as soon as possible because it destroys the very intent of the 'comply or explain' principle in Slovenia. This principle is effective when a high level of transparency is achieved through authentic and complete disclosures, including specific explanations of deviations, alternative practices and reasons for it (Ljubljanska borza vrednostnih papirjev 2012, 3).

The LJSE Analysis also stated that the general level of corporate governance in Slovenian companies is relatively good. Overall harmonisation of CG statements with good practices of corporate governance has improved recently. The total number of deviations is now lower, while the proportion of good explanations for deviations is significantly higher. It is important to note that a deviation in itself is not a negative element as far as quality corporate governance is concerned. It can also be an alternative path a company took to implement a certain Code recommendation or achieve its own goal (Ljubljanska borza vrednostnih papirjev 2012, 3)

CGP QUALITY EVALUATION

A research by Stevanović (2013) reviews business reports of the prime and standard quotation of the Ljubljana Stock Exchange in 2010, 2011 and 2012 for different legal entities. The research sample totals 23 companies. The samples are divided into two parts. The first part represents the prime quotation of the most profitable companies with the highest traded shares: Gorenje, d.d., Velenje, Intereuropa, d.d., Koper, Krka, d.d., Novo mesto, Luka Koper, d.d., Koper, NKBM, d.d., Maribor, Petrol, d.d., Ljubljana, ps Mercator, d.d., Ljubljana, Telekom Slovenije, d.d., Ljubljana, Zavarovalnica Triglav, d.d. The second group of companies represents the standard quotation of the companies with a higher level of transparency: Abanka Vipa, d.d., Aerodrom Ljubljana, d.d., Delo prodaja, d.d., Iskra Avtoelektrika, d.d., Istrabenz, holdinška družba, d.d., Kompas Mejni turistični servis, d.d., Mlinotest živilska industrija, d.d., Nika, d.d., Pivo-

varna Laško, d.d., Pozavarovalnica Sava, d.d., Probanka, d.d., Sava, d.d., Terme Čatež d.d., Unior, d.d. (Stevanović 2013, 35).

The final results of the BR Analysis 2013 showed that: the companies implement their corporate governance in line with Principle 2. Analysis results indicate that 29% of the companies in question did not fully implement Principle 2. In their statements for reports for the years 2010, 2011 and 2012, those companies put forward the reasons for not complying with the principle. The majority of the companies usually state that failing to abide by Principle 2 is due to the fact that they are implementing their corporate governance policy, but do not have it written down in a separate document. Moreover, it became evident that certain companies do not clearly state their reasons for not implementing the principles of the Code. Several annual reports stated that a company did not have a corporate governance policy. This is an invalid reason as it fails to properly explain non-compliance.

However, it is true that the Code is intended for companies and for directing their operation and harmonising both the form and clarity of business reports for greater transparency. Although the guidelines of the Code are not binding, a concrete explanation for non-compliance must be provided. In our view, if companies fail to cite strong reasons for non-compliance with the Code's principles, it means they are not applying the principles according to the law (Stevanović 2013, 69).

As for Principle 8, it seems that companies are increasingly aware of the Code's principles as well as the significance of including CG statements in their annual reports. In 2010, 29% of the companies did not fully abide by Principle 8. However, they outlined the following reasons: we do not have a CG statement; this is irrelevant for the company, etc. Nevertheless, analysis of subsequent business reports shows that the companies started applying Principle 8 more consistently. The proportion of companies somehow abiding by the Code rose as well (37%) and they also stated good reasons for non-compliance. Companies most commonly state that they do not disclose declarations to the public. They do, however, deposit them at the company's headquarters. Furthermore, some companies also argue that they find such declarations irrelevant because they operate in line with other principles. Such statements are particularly common for companies from the financial sector (banks) as they have to abide by the Banking Code as well (Stevanović 2013, 71).

The research reveals that until 2010, Principle 20 has not been consistently applied. 62% of the analysed companies managed to

harmonise their communication strategy with the principle. The remaining companies either only just started introducing it into their operation or failed to reveal the information according to the principle due to personal data protection. Annual reports for 2011 and 2012 show that the proportion of companies providing information rose. 66% of the companies harmonised the transparency of operation with the principle and provided information both in the annual report and on their websites. The remaining companies argued that they failed to comply because they were developing a communication strategy using programmes to be integrated into their operation. Certain companies refuse to comply completely because they do not publish non-financial information in order to protect personal and corporate information (Stevanović 2013, 72).

CSR QUALITY RESEARCH

Corporate social responsibility (CSR) has been measured recently in Slovenia using the SEECCGAN Index of Corporate Governance (SEECCGAN Index), which was created and presented in 2014 as a result of joint efforts of the members of the South East Europe Corporate Governance Academic Network. The SEECCGAN Index is designed and adapted with regard to the situation and to the specificities of the business environment in the selected countries of South Eastern Europe (Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Slovenia and Macedonia) (Tipurić, Dvorski, and Delić 2014).

The corporate governance index is constructed at a country level using accounting and market data of samples of nonfinancial firms listed in relevant domestic stock markets. Hence, it captures corporate governance quality specific to a universe of firms which are likely to be comparatively more exposed to market discipline. For this reason, the finding of no improvement in governance for these firms would likely signal the lack of improvements for the corporate sector as a whole. On the other hand, the finding of improvements for these firms could signal either that improvement have occurred in the corporate sector as a whole, or that improvements are likely to be found specially among firms subject to market discipline (Nicolò, Laeven, and Ueda 2006).

The SEECCGAN Research – Slovenia was conducted in the RS on the basis of the SEECCGAN Index. Unlike other measures of corporate governance commonly used in different studies, this index captures all major aspects of corporate governance: board structure and functioning, conflict of interest, shareholders' rights, corporate social responsibility, and disclosure and transparency.

Research Methodology

In order to measure the level of good governance practice implementation and to verify whether Slovenian companies perform better in that respect, a composite indicator was applied, i.e. SEECGAN Index, which covers seven segments, as follows: (a) Structure and Governance of Boards; (b) Transparency and Disclosure of Information; (c) Shareholders' Rights; (d) Corporate Social Responsibility; (e) Audit and Internal Control; (f) Corporate Risk Management; (g) Compensation/Remuneration.

These seven segments are represented by a set of 98 questions that must be answered as affirmative (yes) or negative (no), depending on the governance practices in analysed firms. Affirmative answers imply good corporate governance practices and vice versa. A ponder is assigned to each answer, wherein the minimum value of the weight equals 1, and the maximum value of the weight equals 3. The maximum score for each segment is 10 (best possible practice), and the minimum is 1 (the worst possible practice). The overall SEECGAN Index score is the average value of all seven segments, with 1 being the lowest value and 10 being the maximum index value.

Sampling and Data Collection

In the SEECGAN Research – Slovenia, 22 companies were included in the sample. The sample consist of two groups of companies. The first group represents the prime quotation of the most profitable companies with the highest traded shares: Gorenje, d.d., Velenje, Intereuropa, d.d, Koper, Krka, d.d., Novo mesto, Luka Koper, d.d., Koper, NKBM, d.d., Maribor, Petrol, d.d., Ljubljana, Ps Mercator, d.d., Ljubljana, Telekom Slovenije, d.d., Ljubljana, Zavarovalnica Triglav, d.d. The second group of companies represents the standard quotation of companies: Abanka Vipava, d.d., Aerodrom Ljubljana, d.d., Delo prodaja, d.d., Letrika, d.d., Istrabenz, holdinška družba, d.d., Kompas Mejni turistični servis, d.d., Mlinotest živilska industrija, d.d., Nika, d.d., Pivovarna Laško, d.d., Pozavarovalnica Sava, d.d., Sava, d.d., Terme Čatež d.d., Unior, d.d.

Results and Discussion

In this section we present the aggregated results of the SEECGAN Index for all 22 companies included in the sample and based on the data published in 2013 (table 1).

The quality of corporate governance is evaluated as first-class if the value of the SEECGAN index is higher than 7.5, good if the value is between 5.00 and 7.5, unsatisfactory if the value is between 2.5 and

TABLE 1 SEECGAN Index for Slovenia

Item	(1)	(2)	(3)	(4)	(5)	(6)
Structure and governance of SB*	8.65	1.62	5.66	5.95	2.19	4.80
Structure and governance of MB*	8.15	0.74	4.49	4.44	2.12	4.50
Transp. and disc. of information	10.00	3.53	6.62	6.18	1.88	3.54
Shareholders' rights	7.10	0.97	4.79	5.00	1.60	2.55
Corporate social responsibility	10.00	0.00	3.66	3.81	2.55	6.51
Audit and internal control	10.00	3.33	6.36	6.04	2.49	6.20
Corporate risk management	10.00	3.13	7.61	8.75	2.26	5.12
Compensation/remuneration	9.06	0.63	4.74	4.84	2.27	5.15

NOTES Column headings are as follows: (1) maximum, (2) minimum, (3) mean, (4) median, (5) standard deviation, (6) variance. *The two-tier system is a corporate structure system that consists of two separate boards that work together in order to govern a business, the 'Management Board,' and the 'Supervisory Board' and each of these serves a particular purpose.

5.00, and poor if the value is lower as 2.5. Data in table 1 shows that the average value of the SEECGAN Index of corporate governance quality of the listed companies in the Republic of Slovenia is good (5.49). The average deviation from the mean is 1.71. A half of the listed companies have reached an average value of the SEECGAN Index greater than 5.25.

The companies included in the sample achieved the highest average value of the quality of corporate governance (the SEECGAN Index) in the segment of risk management where they are on average evaluated as first class (7.61). Median values shows that the SEECGAN Index value in the segment of risk management was higher than 8.75 in 50% of the companies, which is very praiseworthy for Slovenian companies. In the risk management segment, we studied the development of risk management of each company. All companies developed a system of risk management; they perform identification and classification of risks, measure and manage financial risks (i.e. currency, interest rate, price, and credit and liquidity risks). Most of the studied companies have a special department/division of risk management whose primary responsibility is to measure and manage operative and strategic risks.

The lowest value was observed in the field of social responsibility; on average, companies are evaluated as unsatisfactory (3.66). The segment of corporate social responsibility (CSR) revealed the largest deviation from the mean, namely 2.55. In this segment, we studied the compliance with the guidelines of corporate social responsibility of each company. Only one company has a board mem-

ber/department whose primary responsibility is CSR and who holds special meetings to engage with stakeholder groups to solicit their opinions in a formal way. Two companies prepared a CSR report according to the UN Global Compact, Global Reporting Initiative, B-Corporation or other internationally recognized reporting standards. Public calls or similar transparent procedures for financing projects in the local communities and company donations are used in five companies. Good corporate governance is observed in the segments of the structure of the supervisory board (5.66), the segment of transparency and disclosure (6.62), and in the segment of audit and internal control (6.36).

In the future, Slovenian public companies will have to pay attention to the quality of corporate governance and especially to the segment of shareholder rights, corporate social responsibility, structure of the board and remuneration of the members of the board and the supervisory board, because the practice in these areas is unsatisfactory (Djokić et al. 2015).

Final Remarks and Conclusions

Slovenian tradition and culture of corporate governance could not be compared to the tradition of other EU member states, such as Great Britain, Germany or France because the first Companies Act in Slovenia was adopted in 1993 and the principles of corporate governance have only been used for the past 20 years. It is therefore highly important to follow practical execution of corporate governance principles to be able to create a new corporate identity.

The legal framework concerning the transparency of corporate governance is gradually improving in the RS, considering among others: the principle of disclosure and transparency of corporate information was emphasized by the legislation ('Zakon o gospodarskih družbah' 2009); the corporate governance statement (CGS) was enacted (Djokić 2009); the corporate governance policy (CGP) was recommended (Ljubljana Stock Exchange, Managers' Association of Slovenia, and Slovenian Directors' Association 2009); standards and principles aiming for better and more effective corporate governance and supervision in practice are being modernized (Djokić 2011b).

The principle of transparency, which is highly recommended and accepted in the developed economies and especially for public companies, still needs to be widely recognized in the RS as a method of communication of the company with its shareholders as well as with other stakeholders, such as suppliers, the local community, etc. The

transparency principle should be substantially applied also when concerning the non-financial reporting.

The development of transparency in the field of non-financial reports in Slovenia has already been scrutinized from a different point of view in the past. Different analyses pointed out the deficiencies and provided advice about the necessary improvements (Djokic 2012; Stevanović 2013). The CSR Directive is going to serve as a guide for related activities to be applied in the future.

Disclosure of social and environmental information, including climate-related information, can facilitate engagement with stakeholders and the identification of material sustainability risks. It is also an important element of accountability and can contribute to building public trust in enterprises. To meet the needs of enterprises and other stakeholders, information should be material and cost-effective to collect. Some Member States have introduced non-financial disclosure requirements that go beyond existing EU legislation. There is a possibility that different national requirements could create additional costs for enterprises operating in more than one Member State. A growing number of companies disclose social and environmental information (European Commission 2011a; 2011b). The RS should follow the European and other progressive movements in reporting CSR and TSL company strategic orientation. The CSR Directive is expected to be followed by specific guidelines at the EU level, which should be observed carefully in Slovenia as a tool for improvements that would bring the reporting system of the public companies in Slovenia closer to other European states.

Scientific analyses regarding practical execution of reporting of non-financial information, CSR and TSL in the framework of practical execution of the CGP and CGP in general are very much appreciated. An effective CCP as part of a CGP creates better inside and outside transparency and the identification of different groups with the company's general corporate governance identity in practice. The analyses of non-profit reporting are helpful in building better communication between companies and their shareholders, stakeholders and interested public. They create higher awareness of the corporate transparent identity and prepare public companies in the RS for socially responsible and sustainable development and reporting in the future.

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