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**SUSTAINABILITY ACCOUNTING REPORTING IN  
ACCORDANCE WITH THE NEW EU LEGISLATION IN  
CROATIAN HOTEL COMPANIES**

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## **SUSTAINABILITY ACCOUNTING REPORTING IN ACCORDANCE WITH THE NEW EU LEGISLATION IN CROATIAN HOTEL COMPANIES**

**Abstract:** *The purpose of this research is to point out the ability and willingness of Croatian hotel companies to accept the provisions of the new EU Directive 2014/95, focused on disclosure of non-financial and diversity information by certain large undertakings and groups in accordance with the corporate social responsibility principles. Member States shall be obliged to comply with the regulation from January 2017 and listed companies are required to publish such reports no later than December 2018. In this paper the research results on the possibilities of application of the new provisions on EU requirements of Croatian hotel companies are presented. The research results indicate the possibility of Croatian hotel companies to implement the sustainability reporting system in accordance with EU Directive, as well as the framework of Global Reporting Initiative, UN Global Compact, Eco Management and Audit Scheme, as well as with ISO and accounting standards. The research results show that hotel companies in Croatia have developed a satisfactory level of internal accounting and reporting, focused on management information needs for short- and long-term decision making. However, sustainability reporting system in accordance with EU Directive should be significantly improved.*

**Key Words:** Hotel Companies; Corporate Social responsibility; Accounting Reporting; BSC/SBSC; EU Directive 2014/95

### **INTRODUCTION**

Hospitality industry has been affected by the world-wide growth in tourism and the economic recession, and from the accounting standpoint it is expected to provide information for short and long-term decision making, following the sustainable development principles. As the sustainability reporting system was mainly set on a

voluntary basis, adoption of the new EU Directive is a significant step towards establishing system which obligates hotel companies for mandatory sustainability reporting which creates the prerequisite for successful benchmarking.

## **1. FRAMEWORK FOR SUSTAINABILITY ACCOUNTING REPORTING SYSTEM**

Important novelty lays in the fact that relevant sustainability and social responsibility information should be prepared and disclosed in statement according to the new EU financial Directive 2014/95/EU (<http://eur-lex.europa.eu>). These information have to contain non-financial and bio-diversity information, and are obligated for large undertakings and groups. In fact it is upgrading the existing Directive (2013/34/EU). Changes are covered by Article 19a that emphasizes the obligation of big companies of public-interest (with average number of 500 employees or more) to present minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including (<http://eur-lex.europa.eu>):

- (a) brief description of the undertaking's business model;
- (b) description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- (c) the outcome of those policies;
- (d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- (e) non-financial key performance indicators relevant to the particular business.

The new EU Directive obligates all EU members to include this kind of EU regulations in the framework of national legislation by the financial year 2017, in order to allow large companies to disclose non-financial and diversity information within the framework of existing financial statements, no later than December 2018. For this purpose, appropriate tools and techniques of strategic accounting should be applied, as a source of information to be presented in sustainability reports for internal and external users in long-term decision making process. Croatia is the EU member and tourism-oriented country, which means that managers in the hotel companies are motivated and obligated to follow EU regulations and globally accepted standards, in order to achieve competitive advantages on the global tourism market. For this purpose the research conducted tried to evaluate current possibilities and level of Croatian hotel companies' preparedness for successful implementation of new Directive 2014/95/EU (<http://eur-lex.europa.eu>).

As accounting information system is important source of such information, the aim of this research is to point out the possibilities of strategic accounting tools necessary for improving the sustainability reporting system. The EU directive provides only a legal framework for its implementation and therefore it is necessary to include relevant standards, scheme and examples of good practice, such as accounting (USALI, USAR, USFRS and IFRS) and ISO standards (14000ff and 26000), EMAS (Eco-

Management and Audit Scheme), UN Global Compact, OECD Guiding Principles on Business and Human Rights, GRI (Global Reporting Initiative) and other recognised international frameworks. These starting points will be used for evaluation of the quality of information presented in the accounting statements of Croatian companies. This research is based on the thesis that using strategic accounting tools is necessary in process of preparation and adoption of strategies, while responsibility accounting tools are necessary for the assessment of the quality of implementation strategy through shorter periods and narrow organizational units.

## **2. ACCOUNTING INFORMATION FOR SHORT- AND LONG TERM DECISION MAKING IN FIELD OF SUSTAINABLE DEVELOPMENT**

Provisions of Article 13 of the Croatian Accounting Act (OG - 109/07; 54/13) state that all listed companies require the application of IFRS, meaning that according to IFRS 8 (Segment reporting) companies should disclose information on segments, while Article 18 of Accounting Act require to disclose information on environmental protection and sustainable development, which is consistently applied only by members of Croatian Business Council for Sustainable development (HR BCSD 2013). This means that all listed companies are obligated to present information on operating segments and thus provide the opportunity for better communication with shareholders. Segmental information disclosed in consolidated financial statements are allowing the CEO and external users to see business performance through the eyes of responsible segments' management.

### **2.1. Accounting information for short-term decision making**

Several accounting standards are oriented towards segment reporting, to allow evaluation of the short term results, achieved in the short term, according to long term goals, defined by the strategy. Segment reporting in hotel companies is based on USALI standards - Uniform System of Accounts for the Lodging Industry (USALI, 2014), while other industries use IFRS 8 - International Financial Reporting Standard 8 (IFRS 2009, 713-775), whose methodological starting points are fully harmonized. USALI offers specific reporting schedules that create framework for reporting information on segments, which can be internally and externally compared (benchmarking). The most important are those segmental reports, that have market position and can indicate the manner (if and how) the strategy is implemented through core business activities (schedule 1 - Rooms; Schedule 2 - Food and Beverage; Schedule 3 - Other Operated Departments; Schedule 4 - Miscellaneous Income) (USALI 2014, 8 - 86).

The authors have been conducting this research in the Croatian hospitality industry systematically, during the last 20 years, and conclude that USALI standards have been successfully implemented and reporting results improved, because 68,6% of investigated hotels have partially or fully implemented segment reporting system (Ilić 1997; Turčić 2000; Peršić, Janković 2006; Peršić, Poldrugovac 2009 & 2011; Peršić, Janković, Poldrugovac 2012; Peruško-Stipić 2009; Zanini 2004 & 2011), but only a

part of them disclose this kind of information in the notes to financial statements, mostly only for two segments (Room and Food & Beverage) which is narrower than the possibility of USALI standard framework (USALI 2014, 1 - 172). In the last few years Ministry of tourism and Croatian hotel association supported internal results benchmarking which was carried out by Faculty of tourism and hospitality management researchers and IT companies with the goal to ensure comparison among hotels in Croatian hospitality industry, and to assess the achieved level of competitiveness, based on the information presented in operating statements, prepared by USALI standards (Peršić, Janković 2010, 2011), additionally including non-financial information as well as supplement reports on customers and employees satisfaction.

The Companies that list their shares on the ZSE (Zagreb Stock Exchange), divided according to the national sector classification (25 different industries), that present information on segments in the Notes to the financial statements are presented in the table below. Although only 23,8% of listed Croatian companies disclose segment information the fact is that the first position (the largest number of companies) belongs to “Accommodation & Food and Beverage” industry, which is an indication that large numbers of listed companies do not apply the provisions of Accounting Act, concerning the obligation to publish information by segment.

**Table 1: Segment reporting present in the listed companies in Croatia**

Industries According to The Global Industry Classification Standard and National Classification Sector	Examined listed companies	Companies which present segmental information	% (2) of (1)
0	1	2	3
74. <i>Business services (legal, accounting, architecture, engineering, technical testing, analysis ...)</i>	10	4	40,0
40. / 65. <i>Finance &amp; Insurance</i>	33	12	36,4
55. <i>Accommodation / Food &amp; Beverage</i>	41	13	31,7
30. <i>Food, Beverages &amp; Tobacco Products</i>	22	5	22,7
31. / 32. <i>Manufacture of electrical equipment</i>	9	2	22,2
20. / 61. - 63. <i>Transportation and storage</i>	12	2	16,7
15. - 21./ 24 - 36. <i>Production of wood and paper products; coke, and refined petroleum products; chemicals and chemical products; pharmaceutical products and preparations; computer, printer, electronic and optical products; textiles, apparel, leather; rubber, plastics products, non-metallic mineral product; metals products; machinery and transport equipment</i>	30	5	16,7
42. <i>Construction</i>	10	1	10,0
<i>All other activities</i>	29	5	12,8
<b>Total</b>	<b>206</b>	<b>49</b>	<b>23,8</b>

Source: Analysis of information presented in the notes of financial statements from Croatian listed companies for the year 2013, and classified by GICS Global Industry Classification Standard and National classification (OG 58/07)

Special emphasis will be placed on the opportunities to improving the quality of sustainability reporting system, through linking the possibility of IFRS 8 and USALI standards with the requirements of the environment and sustainable development (Janković, Peršić 2011; Janković, Peršić, Zanini-Gavranić 2011; Peršić, Poldrugovac 2011; Peršić, Janković, Vlašić, Vejzagić 2007; Peršić, Janković, Vejzagić 2010; Vejzagić, Peršić, Janković 2012; Vlašić 2012)., in order to ensure higher level of information for internal and external users in accordance with the Article 18 of Croatian Accounting Act (OG 109/07; 54/13) and with special emphasis on the customers and employees satisfaction, which is already involved in the concept of Croatian tourism development strategy (OG 55/2013).

Changing needs in business stresses the importance of inclusion of non-financial measures in segment reporting process due to better assessing divisional performance (Atrill & McLaney 2007, 374-376), which means that following the goals of the companies' sustainable development, the information of environmental and social responsibility should also be presented (Jianu, Jianu, Raileanu 2011). It opens up the need that the "USALI segment reporting system" will be supplemented with the new sustainability information, in accordance with ISO 14000ff standard and Global Reporting Initiative, to provide the starting point for short-term decision process in the field of environment and community. Managers need this type of information to guide their actions towards achieving sustainable development goals, and these requirements, should adjust accounting information system as well as reporting system for internal and external users (Banker, Potter, Srinivasan 2000; Brander Brown, McDonnell 1995; Mia, Patiar 2001; Philips 1999; Oavlatos, Paggios 2009).

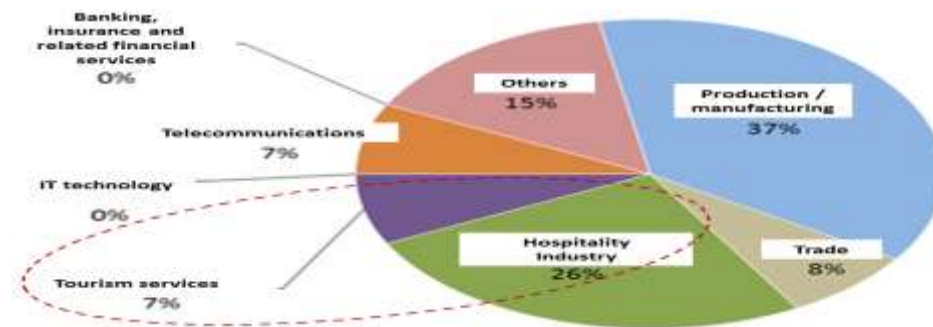
This approach pointed out the possibility of using proven accounting tools in order to present information for decision making, which besides economic views of development includes also the ethical way of thinking. Environmental and sustainability information can no longer be ignored in decision making because of their great importance in the long-term impact on business success. The quality of decisions made is as strong as the weakest element in the global company information system, which should be fully compliant with the requirements of internal (management) and external users (stakeholders) of information for which environmental conditions should be included in companies operations.

## **2.2. Accounting information for long-term decision making**

Several research results on sustainability accounting information, important for long-term decision making conducted by authors will be presented. Firstly, in order to assess the level of strategic management in the Croatian hotel companies a comprehensive empirical research was conducted in 2013 (from February till May), on the sample of 64 Croatian companies who are members of CSR - corporate social responsibility group (<http://www.dop.hr>), that voluntarily follow the principles of sustainable development, and are actively involved in process of taking care about the environment, society, employees and local community. It also provides measurable benchmark to companies which are committed to managing, measuring and reporting

their impact on society over years, in order to allow sustainable economic growth, manage risk, promote best practice and show clear reference.

**Figure 1: The structure of research sample**



*Source: Prepared by authors based on the processing the research results*

Among all companies included in this research, 33% of them have hospitality and tourism industry as core business, and they will be extracted for further analysis. Data were collected using a SurveyMonkey questionnaire. The questionnaire was completed by 30 companies (47% of the sample), and response gathered from board members (30%), managers of some business functions (65%) and other employees (5%). In this paper the responses on 48 questions, related to the specific of hotel and tourism companies are analysed.

By separating the results which refer to the position of hotel companies among other industries in Croatia (Bakija, 2014, p 174 -218), it can be seen that there is a high degree of orientation to the strategic planning, since 71,4% of hotel companies determined strategic goals for a period of five or more years (28,4% for the period of three years). The strategic goals of Croatian hotel companies are in highest rank connected to the needs of improving the market position (sales growth, customer satisfaction, new product development and their launching into new markets), while the goals concerning the improvement of relations with the employees and with the local community, as well as the costs rationalization were somewhat lower ranked.

Croatian hotel companies especially emphasise the compliance with the sustainability regulations and standards, as well as to ensure the precondition for long-term business success of companies (high priority). Somewhat less emphasis is placed on expanding the assortment and improving the quality of products and services, launching them into new market, analysing the opportunities as well as improving relationships with employees, customers and business partners (mid priority). Objectives which can be linked directly to the timely payment of suppliers, environmental care (reduction of emissions, waste recycling and reducing consumption of non-renewable resources...) as well as supporting the projects of wellbeing for people, society and the community are less common in the hotel companies practice

(low priority). There is no emphasis on some kind of cooperation projects with the local and regional community.

Research results show the intensity of connection between sustainability goals and the business success of Croatian hotel companies, ranking some elements of sustainable development and business success. The highest ranked is the possibility of increasing the company's reputation in the eyes of business partners (100%), the middle rank belongs to customers and employees loyalty, quality of products and processes and motivation of investors for sustainable investment (66,7%), and lowest ranked are contribution to the increase of productivity and sales growth, as well as increasing the market share (33,3%). In general it can be concluded that attitudes of the respondents about the results of long-term decision making on implementing sustainable development principles, are more recognized through better position and perception of hotel companies orientation on their target market, and significantly lower expectations are concerning the economic effects and growth of competitiveness that should be achieved.

These relationships are caused by sustainability priorities which follow hotel companies, in the way that all relevant elements were ranked on the same basis of assessment results, among (5) for the best and (1) for the lowest ranked score. The need for constant growth of sales and customer satisfaction got the highest rank (4.86), followed by rationalization of costs in all processes and activities (4.67). The next group of specific goals are associated with expanding into new markets based on the new products development or innovation of the existing products, besides the employee satisfaction, due to job security and getting regular salaries (4.57). Taking care of environment protection and improvement as well as upgrading the relations with the community is ranked exactly as timely debt collection and motivating employees for lifelong learning (4.43). Improvement of technological support of development is not positioned on the appropriate level (4.29), while reducing the number of total employees is ranked as the least important factor (3.50) for sustainable development of hotel companies.

The quality of information on environmental and social responsibility presented in the reports on the website of HR BCSD - The Croatian Business Council for Sustainable Development, independent non-profit association, founded in 1997 includes 39 members (<http://www.hrpsor.hr>). Among 72 different reports presented by HR PSOR, the most commonly used term is "Report of Sustainable Development"(34,7%) followed by the term "Sustainability Report" (22,2%). In previous years the term "Environmental protection report" (15,3%) was used, and in recent years the terms "Report on socially responsible business"(9,7%) or "Corporate Social Responsibility" (6,9%) are becoming more popular. Significantly less in use appear terms "Social report (4,2%), "Annual Report" (4,2), "Sustainability and social responsibility report" (1,4%) or "Progress Report" (1,4%) (<http://www.hrpsor.hr>), and they are presenting relevant information on corporate social responsibility with key trends in environment, supply chain, human rights, engagement in the community, sustainable products and other services for community.

It should be noted that for the last three years only about 5% of listed companies in Croatia disclose their sustainability report for public use, on web pages of



Croatian Business Council for Sustainable Development - HRBSCD (<http://www.hrpsor.hr>), and that the volume, manner and character of presented information is not suitable for high quality for comparison. It also seems that these reports present information that are primarily oriented to satisfy formality, without actual involvement in process of achieving the goals of sustainable development presented in National Sustainable Development Strategy. Some activities of The Croatian Business Council for Sustainable Development indicate that improvements can be expected especially through the use of CSR Index to rank companies based on their non-financial impacts and provide input to the environmental legislation throughout the business sector. This indicates that in general, relatively small number of Croatian companies follow principles of sustainability reporting (GRI, UN Global Compact's requirements, ISO 14001, EMAS ...), national environmental policy (waste, water, CO2 emissions, gas emissions ..) and National Sustainable Development Strategy (SSDC 2009; OG 110/07), as well as the Environmental Protection and Energy Efficiency Fund of the Republic of Croatia (OG 107/2003).

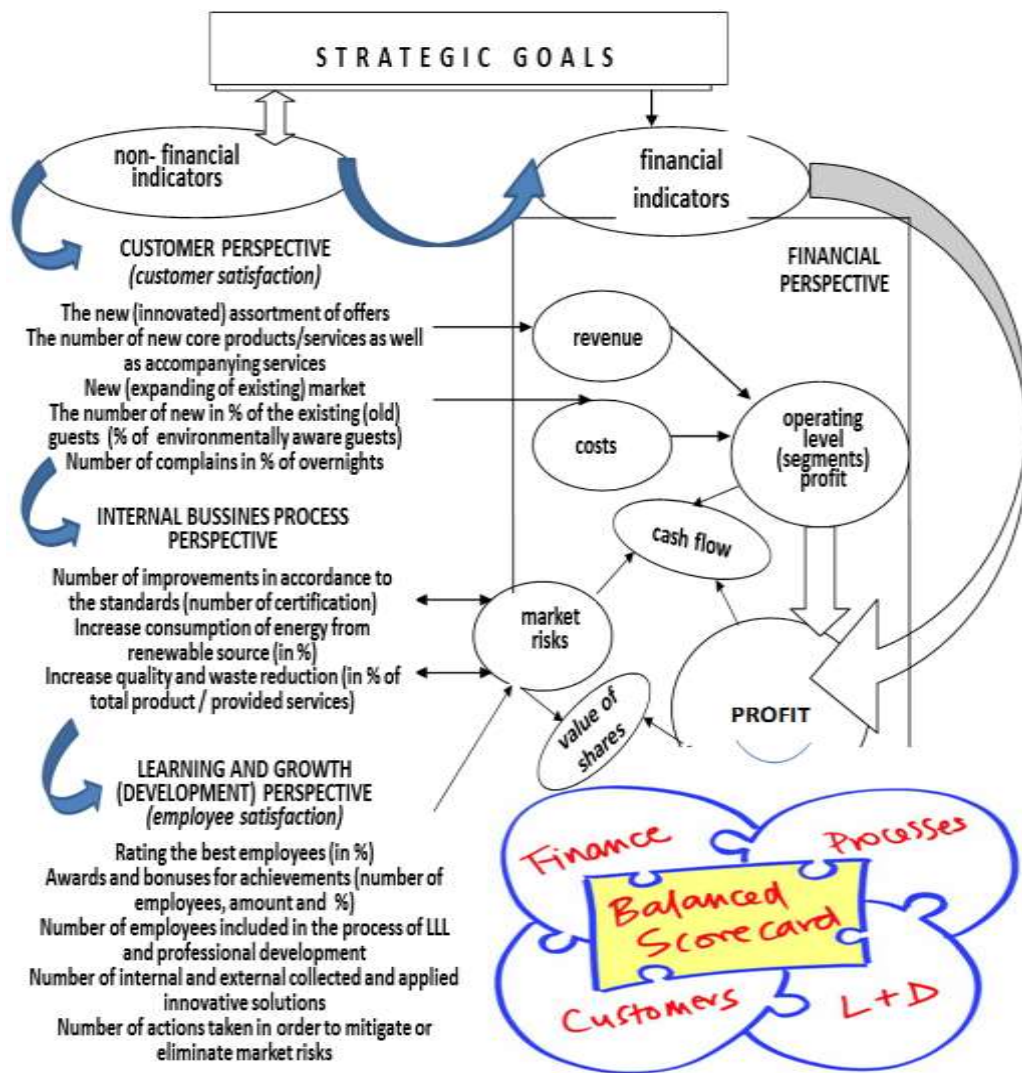
### **3. STRATEGIC ACCOUNTING AS A SUPPORT FOR APPLICATION OF THE NEW EU DIRECTIVE OF SUSTAINABILITY REPORTING**

The aim of this research was to assess the achieved level of sustainable development in the Croatian hotel companies, and the possibility of strategic accounting tools to improve sustainability reporting system. The research was based on cognition that Croatian hotel companies' success depends on knowledge of global tourism market as environment in which the principles of sustainability, for creating new value for the shareholders and community will be applied (AICPA 2011, 4). Strategic accounting tools should be used in preparing information for long term decision making (Hoque 2006; Jones, Atkinson, Lorenz, Harris 2012), including strategic indicators on customer and employee satisfaction, the achieved rank of products or services quality, efficiency of internal processes and financial success, defined through a system of "indicators of management control" (Felthman & Xie 1994, Hemmer 1996, Joseph 1999 in Banker et al, 2000 67). In order to prepare that information relevant following strategic accounting tools and techniques should be used (Cadez & Guilding 2008; Cadez & Guilding 2012):

- Strategic costing (Attribute costing; Life-cycle costing; Quality costing; Target costing; Value chain costing)
- Strategic planning, control and performance management (Integrated performance measurement - BSC - Balanced Scorecard & SBSC - Sustainability Balanced Scorecard; Benchmarking)
- Strategic decision making (Strategic cost management; Strategic pricing; Brand valuation)
- Competitor accounting (Competitor cost assessment; Competitive position monitoring; Competitor performance appraisal)
- Customer accounting (Customer profitability analysis; Lifetime customer profitability analysis; Valuation of customers as assets)

To provide relevant information in accordance with EU Directive as well as with the need of strategic management, use of the Balanced Scorecard (BSC) as well as Sustainability Balanced Scorecard method (SBSC) well-recognised and well-used tools in process of adoption and implementation of strategies is recommended (Hoque 2006; Figge, Hahn, Schaltegger, Wagner 2002 & 2002; Schaltegger, Lüdeke, Freund 2011).

**Figure 2: Balanced Scorecard Method as a Tool of Strategic Accounting**



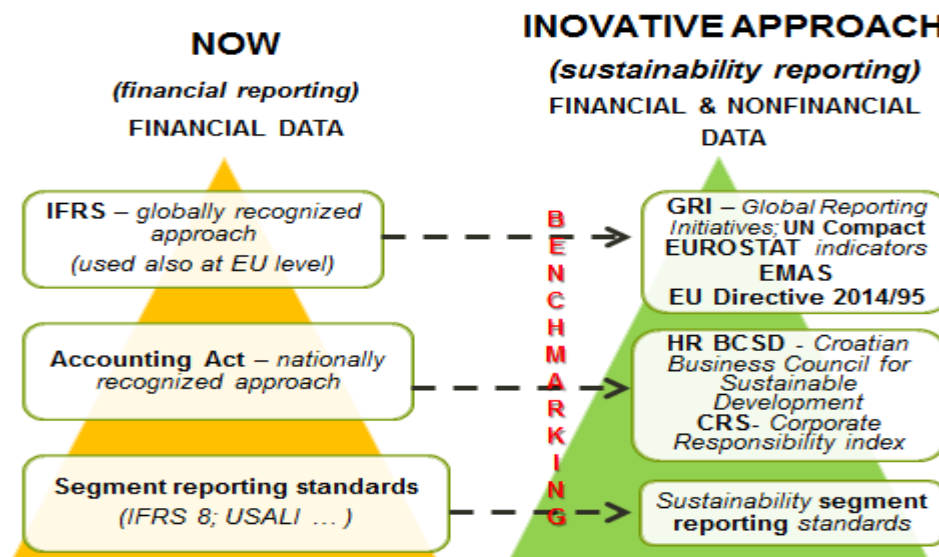
Source: Prepared by authors, based on Figge, Hahn, Schaltegger, Wagner (2002.); Hahn, Wagner (2001.); Jones, Atkinson, Loren, Harris (2012); Kaplan, Norton (1996; 2004); Schaltegger, Lüdeke, Freund (2011);

SBSC method basically upgraded principle of BSC method, with the multi-criteria framework that enables measurement and management in the field of sustainable

development and socially responsible behaviour of companies as they are oriented towards matching information on internal and external focus. The Sustainable Balanced Scorecard (SBSC) follows the basic concept of BSC methods, enhanced with the qualitative, environmental and social aspects of development (Figge, Hahn, Schaltegger, Wagner, 2001, p.28). Both (BSC and SBSC) are directed to linking the short-term actions with the strategic goals, involved in the content of corporate "sustainable" strategy. Hotel companies are obligated to translate company's vision and mission into measurable goals, which can be achieved in real time. Strategic goals defined in strategic plans, create framework for development of appropriate operative plans as well as yearly budgets. Results of short-term actions should be evaluated pursuant to BSC parameters in the 4 basic perspectives, enriched with specific ecological, social and other non-financial goals, in the manner to view interdependence among elements of the economic, ecological and social development prospects.

Development of hotel companies in modern conditions should be based on strategies developed on the sustainable development principles and measured using tools and techniques of SBSC method. This would offer possibilities for systematic measurement achievements and benefits of sustainable development. Introducing SBSC, as a very popular strategic accounting tools, offers the new kind of information for managing risks and increasing social image or reputation, impact to the productivity and efficiency improvement.

**Figure 3: From financial to sustainable reporting - regulations and standards**



Source: Prepared by authors

Innovative way of reporting has to be based on special sustainability regulations and standards, as well as on the experience of the best practice and in accordance with the new market needs. It is also a way of getting out of narrow frameworks of rating success, only through achievement of the maximum of "earnings"

in the short-term. Application of SBSC method enables feedback information for taking corrective action focusing on critical processes, linked to the long-term goals and strategy. In this process the provisions of EU strategy for Corporate Social Responsibility as well as Europe 2020 Strategy should be taken into consideration (Marlier, Natali, Van Dam, 2010).

The general approach of sustainability reporting should be adjusted to the specifics of the particular hotel or hotel company. Management must search for answers to the specific questions, such as which natural resources and services to use in order to produce and offer target product and services, and how should the costs and benefits of resource usages be measured. Emphasis should be placed on energy source, how do the tourism products and services create value for local individuals, social groups and their relationships, and can sustainable business practices be used to create or increase value for a hotel's or hotel company's stakeholders. Strategic accounting tools provide relevant information necessary for reaching such long term decision, related to the sustainable development of hotel companies.

## CONCLUSION

The research results indicate that sustainability and social responsibility approach in the Croatian hotel companies exist but its level (in order to meet new EU requirements) need to be improved. The research results show high level of management awareness in the process of assessment to achieve sustainable strategy and long-term financial success. For this purpose specific triple bottom line indicators, prepared in line for the expression of environmental, social and economic goals are used, but not in strategy maps order. However, no clear correlation yet exists between long-term action expressed through social and ecological component (non-financial indicators) and the achieved short-term results, expressed through financial indicators, and real market positioning of the hotel companies. The most developed non-financial indicators are those relating to customer and employee satisfaction, energy saving and waste reduction. In reporting system financial indicators still predominate, so, for successful implementation of EU Directive 2014/95/EU until 2018, further efforts in sustainability information are necessary. This also means the obligation for large companies of applying specific tools and techniques of strategic accounting which offers information for preparation and development of sustainable strategies as a basis for long-term decision making, as well as the responsibility accounting and segment reporting, in order to assess long-term goals through short-term and on the segments level of decision making.

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