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Does Business Performance Make a Difference in Financial Reporting Quality? Evidence from Croatian Listed Companies [(i)] [(ii)]

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Abstract

High-profile corporate scandals worldwide emphasized the importance of credible and high-quality financial reporting systems. According to signaling theory, the management of companies with poor financial performance intends to offer broad disclosure and high financial reporting quality to generate stakeholder and shareholder trust in the company and protect it from lawsuits. However, financial reporting and information disclosure practices of countries with underdeveloped capital markets, such as Croatia, differ from capital market oriented economies. The research is conducted on companies listed on the Prime market and the Official market of the Zagreb Stock Exchange to capture the association between business performance and financial reporting quality. Paper offers a two-fold contribution: the insights on the level of business performance and financial reporting of the highest-rated listed Croatian companies; and findings whether the business performance plays a significant role in financial reporting quality on the capital market in the post-transition economy.

Keywords: financial reporting quality, business excellence, listed companies, Croatia.