

CORPORATE GOVERNANCE TENDENCIES IN BULGARIA: REPORTING ON CORPORATE SOCIAL RESPONSIBILITY (CSR) BY THE 40 LARGEST LISTED COMPANIES

The paper aims at revealing the corporate governance tendencies in Bulgaria as of 2007 and its findings are based on a country survey on Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria, conducted by the Economic Policy Institute (Sofia) during the same year.

The research steps on internationally applied methodology by focusing on the annual reports and websites of the forty largest companies by market capitalization listed on the Bulgarian Stock Exchange (BSE) - Sofia. It sought to document the existing disclosure practices in the following specific areas – Corporate Governance, Environmental and Social Policy and last but not least to identify best practices in reporting by Bulgarian listed companies.

JEL: M14

In 2007 the Economic Policy Institute (Sofia), aiming at revealing the present corporate governance tendencies in Bulgaria, conducted an inaugural country survey on *Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria*. The Survey was held thanks to the support of the Partners for Financial Stability (PFS) Program² and it is part of its ongoing regional initiative.

This inaugural survey analyzes the annual reports and websites of the forty largest companies by market capitalization listed on the Bulgarian Stock Exchange (BSE) - Sofia. It sought to document the existing disclosure practices on this issue and to identify best practices in reporting by Bulgarian listed companies. The research was designed to determine the extent to which the top largest listed Bulgarian enterprises reveal to the public and to potential investors specific information on corporate

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² The United States Agency for International Development (USAID) established the Partners for Financial Stability (PFS) Program in 1999 as a public private partnership to help complete reforms necessary to have market-oriented, sound and well-functioning financial sectors in the eight Central and Eastern European (CEE) countries that have since joined the European Union. In 2005, the geographical focus of the program shifted to South East Europe (SEE). The goal of the PFS Program is to work with CEE and SEE countries to accelerate financial sector development and reform based on best practices as well as international standards, promoting integration into the European and international economic systems.

governance, social policy and environmental policy. The primary purpose of the survey is to enable each company in the peer group to **benchmark** its disclosure practices against its peers. A broader goal of this exercise is to contribute to the process of raising awareness on the importance of transparent public reporting on corporate governance and corporate social responsibility issues.

1. Introduction

There is not a commonly accepted definition of the term Corporate Social Responsibility (CSR). One of the most frequently implemented is the definition found in the European Commission's Green Paper on Employment and Social Affairs dated of July 2001 which states that CSR is a concept whereby *companies integrate social and environmental concerns into their business operations and in interactions with stakeholders on a voluntary basis.*

When analyzing this term it is reasonable to use the following points of departure:

- The European Parliament resolution of 1999 calling a binding code of conduct to govern European Union (EU) companies' environmental, labor and human rights compliance worldwide;
- The international initiative the Global Compact of 31 January 1999. It addresses business leaders and contains ten principles related to human rights, working conditions, environment and anti-corruption
- The Lisbon Agenda, of which CSR became part of in 2000;
- The European Commission's Green and White Papers on CSR of the early 2000s, which put CSR on the agenda for the EU institutions. The setting up of a European Multistakeholder Forum (MSF) enabled a debate to take place amongst stakeholders.

There is evidence that companies which incorporate CSR in their management policy are between the most successful firms in the world, since: on the one hand, in most of the cases the customer behavior is influenced by the company's CSR behavior and on the other hand, CSR represents a competitive advantage of the company's activities in the globalization process.

2. CSR in Bulgaria

In the recent years, the interest towards Corporate Social Responsibility issues in Bulgaria increased considerably. As a part of the so-called *New Europe*, the state and the Bulgarian business in particular, began to pay more attention on how companies manage their impact on the environment and how they contribute to the society as a whole. Gradually, the Bulgarian business has become more conscious of

the importance of implementing CSR's principles and policies which have a direct impact not only on business competitiveness, but also on social cohesion, transparency and trust among the stakeholders – employees, suppliers, clients, partners, state institutions and non-governmental organizations (NGOs).

During the past years, the Bulgarian companies started to realize the necessity of conducting a socially responsible business policy and behaving in conformity with a Code of Business Conduct or Code of Ethics. Sponsorship by businesses has deep roots in the economic history of Bulgaria. This practice reemerged after the changes of the political system. The community patronage/ sponsorship programs and the employee benefits policies evolved from not so coordinated activities to more precisely directed corporate policy. Thus, the modern conception for charity and social affairs has founded a response in more and more Bulgarian leading companies. The business is seeking options to manifest its commitment towards the employers, concrete society's problems/concerns and the environment. More than 40 % of the Bulgarian companies are declaring to be engaged in charity and social activities as a part of their business conduct and corporate policy.

According to Bulgarian legislation listed companies should prepare their documents following the transparency directives set by the Financial Supervision Commission.³ The Commission implements its policy mainly on the basis of the Law on Public Offering of Securities.⁴ The primary function of the institution is to assist - through legal, administrative and informational means -the maintenance of stability and transparency of the investment, insurance and social insurance markets. Furthermore, in July 2007 the National Corporate Governance Code, prepared by the BSE - Sofia, was finalized. At present it is in a process of approbation by the managers of the Bulgarian companies listed on the BSE - Sofia.

3. Survey on “Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria”

3.1. Methodology of the survey

The survey on: *Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria* analyzes companies' disclosures in Bulgarian and English (in the annual reports and company website) during the time period **March-June 2007** in three specific areas:

- Corporate Governance;

³ Financial Supervision Commission Act - Promulgated State Gazette issue 8 of 28 Jan., 2003 in effect as of 1 March, 2003; amended issue 31 of 4 April, 2003; amended and supplemented issue 67 of 29 July, 2003; amended issue 112 of 23 December 2003; amended and supplemented issue 85 of 28 September, 2004; issue 39 of 10 May, 2005.

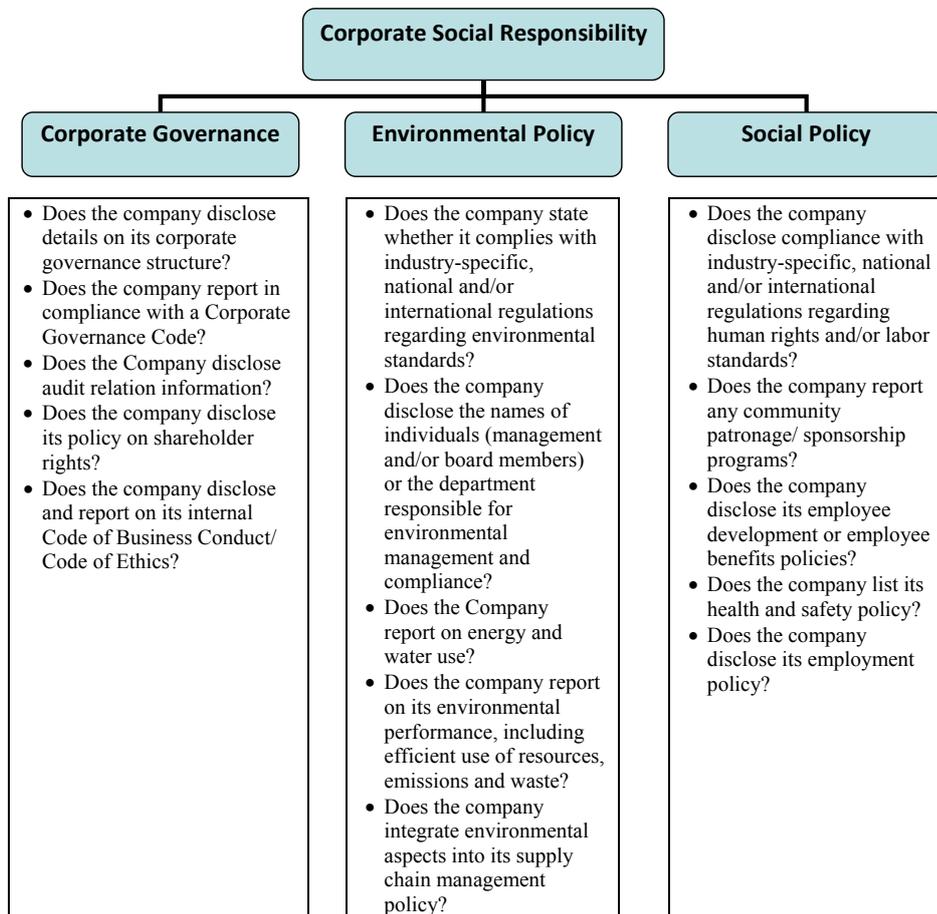
⁴ Law on Public Offering of Securities - Promulgated State Gazette issue 114 in 1999; amended iss. 63 and 92 in 2000; iss. 28, 61, 93 and 101 in 2002; iss. 8 31, 67 and 71 in 2003; iss. 37 in 2004; iss. 19, 31, 39, 103 and 105 in 2005; iss. 30, 33, 34, 59, 63, 84 and 86 in 2006.

- Environmental Policy;
- Social Policy

The record date for the disclosures is June 15, 2007.

The survey consists of two integral components: 1) report of the survey results aggregated by sections and 2) a database containing a report (spreadsheet) on each company that indicates whether or not the company discloses the information and includes a hyperlink or hyperlinks to the specific disclosure(s). Via hyperlinks, one can move from the database directly into a company's website and/or annual report to read what specific information is disclosed and where.

The survey takes into account and analyzes the following 15 questions:



3.2. Companies surveyed

An increasing number of Bulgarian companies promote their corporate social responsibility strategies as a response to a variety of social, environmental and economic challenges. They aim to send a signal to the various stakeholders with whom they interact - employees, shareholders, investors, consumers, public authorities and NGOs. In doing so, companies are investing in their future and they expect that the voluntary commitment they adopt will help to increase their profitability.

The corporate social responsibility concept is mainly driven by large companies, even though socially responsible practices exist in all types of enterprises, public and private, including small - and medium-sized enterprises (SMEs). The survey analyzes the 40 largest listed companies on the BSE - Sofia according to their market capitalization as of March 1, 2007.⁵

The selected companies in the research account for approximately 83% of the market capitalization on the BSE – Sofia and 71.6% of the BSE turnover for March 2007.

The list of the 40 largest companies by market capitalization listed on BSE -Sofia as of 1st of March 2007 presented in descending order:

1. Bulgarian Telecommunication Company - Sofia (BTC)⁶
2. Chimimport AD – Sofia (CHIM)
3. Sopharma AD – Sofia (SFARM)
4. Economic & Investment Bank – Sofia (BRIB)
5. Bulgarian American Credit Bank – Sofia (BACB)
6. DZI Insurance & Reinsurance Plc. – Sofia (DZI)
7. Central Cooperative Bank – Sofia (CCB)
8. Petrol PLC – Sofia (PET)
9. Albena AD – Albena (ALB)
10. Druzhiba Staklarski Zavodi AD – Sofia (DRUPL)
11. Bulstrad Insurance and Reinsurance PLC – Sofia (BSTR)
12. Lead and zinc complex Plc. – Kardzhali (OTZK)
13. Kremikovtzi – Sofia (KREM)
14. Bulgartabac Holding AD – Sofia (BTH)
15. Bulgarian River Shipping – Ruse (BRP)

⁵ The Economic Policy Institute is grateful to „Trading, Surveillance & Market Data” Department, BSESofia for providing necessary data.

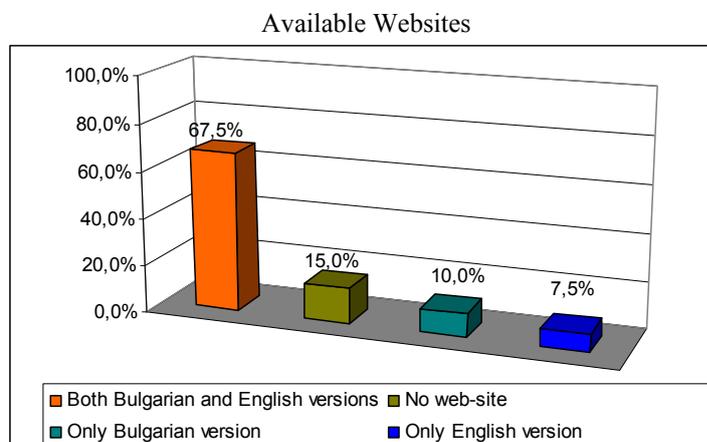
⁶ BSE Code.

16. Alcomet PLC – Shoumen (ALUM)
17. Duropack Trakia Papir S.A. – Pazardzhik (PAPIR)
18. Blagoevgrad-BT Inc. – Blagoevgrad (BLABT)
19. Industrial Holding Bulgaria – Sofia (IHLBL)
20. Eurohold Bulgaria PLC – Sofia (EUBG)
21. Monbat PLC – Sofia (MONBAT)
22. Energoremont Holding – Sofia (ERH)
23. Synergon Holding PLC – Sofia (PETHL)
24. Holding Company Roads PLC – Sofia (HDPAT)
25. Toplivo AD – Sofia (TOPL)
26. Neochim PLC – Dimitrovgrad (NEOH)
27. Biovet PLC – Peshtera (BIOV)
28. Oil & Gas Exploration & Production AD – Sofia (GAZ)
29. Dominant Finance AD – Sofia (DOMIN)
30. Riviera Holiday Club – Varna (RIVR)
31. M+S Hydraulic – Kazanluk (MCH)
32. Euroterra Bulgaria JSC – Sofia (TERRA)
33. Moststroy PLC – Sofia (MOSTS)
34. Sopharma Properties REIT – Sofia (SFI)
35. Albena Invest Holding AD – Albena (ALBHL)
36. ODESSOS Shiprepair Yard S.A. – Varna (ODES)
37. Doverie - United Holding Plc – Sofia (DOVUHL)
38. SS Constantine And Helena Holding AD – Varna (SKELN)
39. Sofia-BT AD – Sofia (SOFBT)
40. Zlatni Piasaci PLC – Varna (ZLP)

4. General survey information

Figure 1 presents the percentage of companies surveyed that have a Bulgarian-language website, a website in English or both versions of website. Twenty seven of the companies (**67.5 %**) have both a Bulgarian and an English version of their website. Four companies have a website only in Bulgarian and three have only in English. Thus, the data suggests that most Bulgarian listed companies are aware of the importance of disclosing information on the company website.

Figure 1



4.1. Corporate governance

The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasing international character of investment. International flows of capital enable companies to access financing from a much larger pool of investors.

Corporate governance is only a part of the larger economic context in which firms operate, that is a component of the CSR framework. The corporate governance outlines also depend on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and social interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.

While a multiplicity of factors affect the governance and decisionmaking processes of companies, and are important to their long-term success, the current section is focused on the effective governance that is strongly connected with the separation of ownership and control. However, this is not simply an issue of the relationship between shareholders and management, no matter that it is indeed the central element. In some jurisdictions, governance issues also arise from the power of certain controlling shareholders over minority shareholders. In other countries, employees have important legal rights irrespective of their ownership rights.

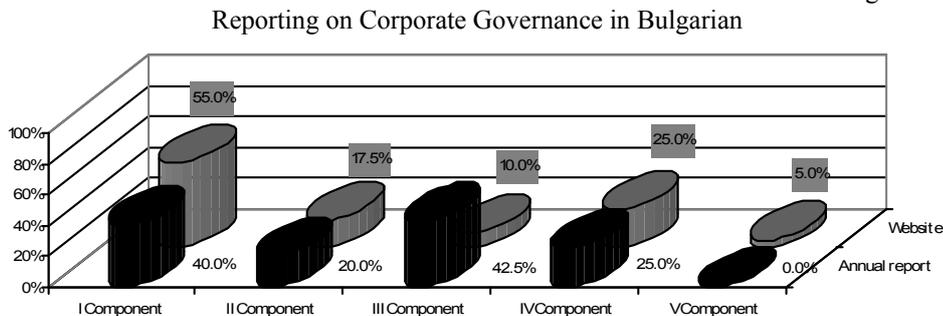
The current “Corporate Governance” section of the inaugural survey provides some initial insights into the reporting of the forty largest listed Bulgarian companies on this issued. Broad generalizations can not be made, and there is no possibility to compare with previous periods. The survey analyzes the following five questions in the field of corporate governance, entitled as Component I, II, III, IV & V:

- **I Component:** Does the company disclose details on its corporate governance structure?
- **II Component:** Does the company report in compliance with a Corporate Governance Code?
- **III Component:** Does the Company disclose audit relation information?
- **IV Component:** Does the company disclose its policy on shareholder rights?
- **V Component:** Does the company disclose and report on its internal Code of Business Conduct/ Code of Ethics?

The two graphs below (See Figure 2 & Figure 3/I Component) show that the majority of the companies publish more information about their corporate governance structure on the Bulgarian/English website than in the Bulgarian/English annual report. The Bulgarian-language version of the website contains slightly more information than the English-language version. Furthermore the analysis show that annual reports available on-line in English present almost twice less information on the issue than the Bulgarian versions.

Figure 2 (Component II) shows that the highest number of the companies surveyed (**20%**) disclose in their annual reports in Bulgarian compliance with Corporate Governance Code.⁷ Disclosures on the local language version of the website could be found in **17.5%** of the companies. The data presented in English (See Figure 3/II Component) reveals the following – **7.5%** of the companies report in the annual report, while **12.5%** disclose on the website.

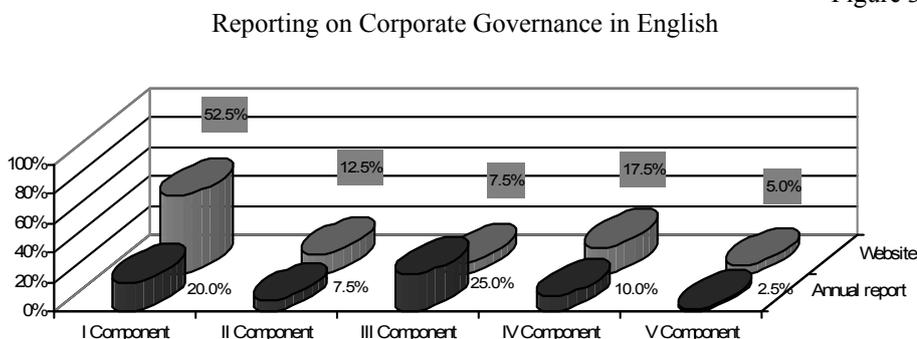
Figure 2



A significant percentage of companies surveyed (**42.5%** in Bulgarian and **25%** in English) present in their annual reports a full audit report and the name of the institution that conducted the audit. (See Figure 2 & Figure 3/III Component.)

⁷ The final version of the Corporate Governance Code was prepared and approved by the Bulgarian Stock Exchange Sofia in July 2007

Figure 3



Another important aspect of the corporate governance is the relationship among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in most markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management.

On the growing capital market in Bulgaria leading public companies realize the importance of comprehensive overview presenting the rights of their shareholders on-line. In this regard the survey shows that many companies publish this sort of information on their website or in the annual report in Bulgarian. However in the English version the research recognized more examples of disclosures on the website rather than in the annual report. (See Figure 2 & Figure 3/IV Component.)

Two companies disclose information about an internal code of business conduct on their websites in both English and Bulgarian, while one company reports only in the English version of the annual report. (See Figure 2 & Figure 3/V Component.)

4.2. Environmental policy

Bulgarian listed companies gradually pay more attention on the fact that the “responsibility”, as a part of CSR has relation not only to the environment inside of the companies, but to this one in which they operate.

In Bulgaria, the incorporation of the environmental policy in the companies’ management is comparatively a new practice. In spite of the low starting levels presented in the figures bellow, it must be said that in the forthcoming future there is room for serious improvement, especially having into consideration the fact that Bulgaria joined the EU at the beginning of the current calendar year. Improvement can be expected also if the positive experience of other countries from CEE in the past few years is taken into account.

As noted above, the data presented here does not allow broad generalizations. There is also no possibility to compare with previous periods, since this is an inaugural country survey.

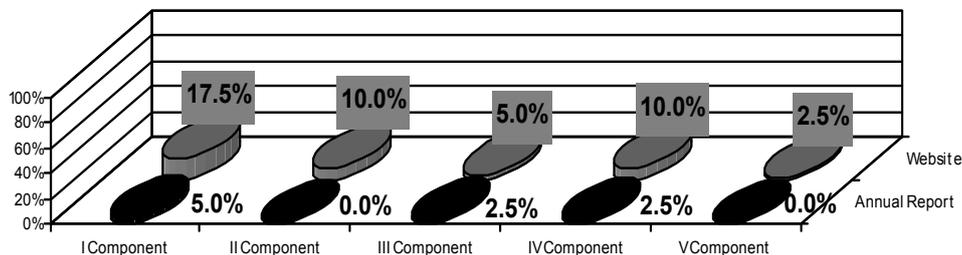
The second section of the survey “Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria” considers the following five questions:

- **I Component:** *Does the company state whether it complies with industry-specific, national and/or international regulations regarding environmental standards?*
- **II Component:** *Does the company disclose the names of individuals (management and/or board members) or the department responsible for environmental management and compliance?*
- **III Component:** *Does the Company report on energy and water use?*
- **IV Component:** *Does the company report on its environmental performance, including efficient use of resources, emissions and waste?*
- **V Component:** *Does the company integrate environmental aspects into its supply chain management policy?*

As noted in the Figure 4 above, **17.5%** of the companies surveyed report on their website about compliance with industry-specific, national and/or international regulations regarding environmental standards (Component I) **10%** of the companies surveyed disclose on their websites the names of individuals (management and/or board members) or the department responsible for environmental management and report on their environmental performance, including efficient use of resources, emissions and waste. In general, more detailed information on environmental policy could be found out on the website.

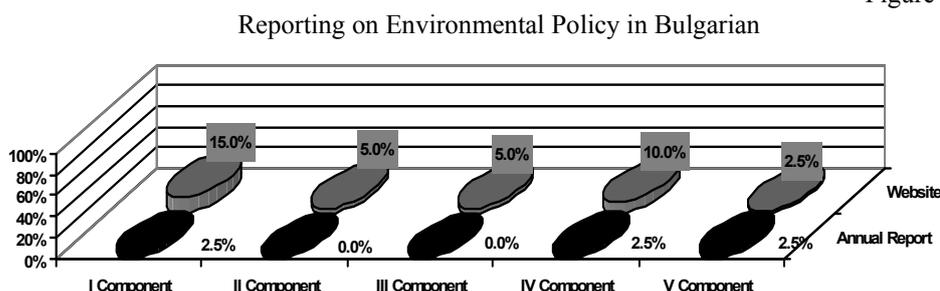
Figure 4

Reporting on Environmental Policy in English



A similar tendency to those of the previous chart (See Figure 4) is related to the difference between the information provided on the websites and respectively in the annual reports of the surveyed companies. The figure above (See Figure 5) illustrates that between 2.5% and 15 % of the companies surveyed disclose this data in the Bulgarian-language version of the website. In comparison, the annual reports present less data; between 0 and 2.5% of the companies surveyed disclose this information in the annual report.

Figure 5



4.3. Social policy

In the increasingly globalised economy, the awareness of the Bulgarian business with regard to the social conditions of workers is constantly growing. In the past years, the leading companies in the state started to publicly manifest their interest and concern in issues related to investing in human capital, employment benefits policies and sponsorship programs. The business is currently strictly following various principles and guidelines in the areas of employment, training, working conditions, and industrial relations.

The following two figures (See Figure 6. and Figure 7.) present the practices of the 40 companies surveyed in reporting activities in the field of social policy, they are providing. The five considered components correspond to the below listed questions and their publishing on the companies' websites or as a part of their annual reports:

- **I Component:** *Does the company disclose compliance with industry-specific, national and/or international regulations regarding human rights and/or labor standards?*
- **II Component:** *Does the company report any community patronage/ sponsorship programs?*
- **III Component:** *Does the company disclose its employee development or employee benefits policies?*
- **IV Component:** *Does the company list its health and safety policy?*

- **V Component:** *Does the company disclose its employment policy?*

Figure 6 shows that the highest number among the surveyed companies report in Bulgarian on community patronage and/or sponsorship programs - **15%** of the companies disclose this information on the website, while **5%** report on this in the annual report. Fewer companies provide data on the website (**12.5%**) and in the annual report (**5%**) related to the employment policy. **7.5%** of the surveyed companies disclose information on the Bulgarian-language version of the website about compliance with specific national/international regulations and about employee development or employee benefits policies. Almost no companies report on their health and safety policy.

Figure 6

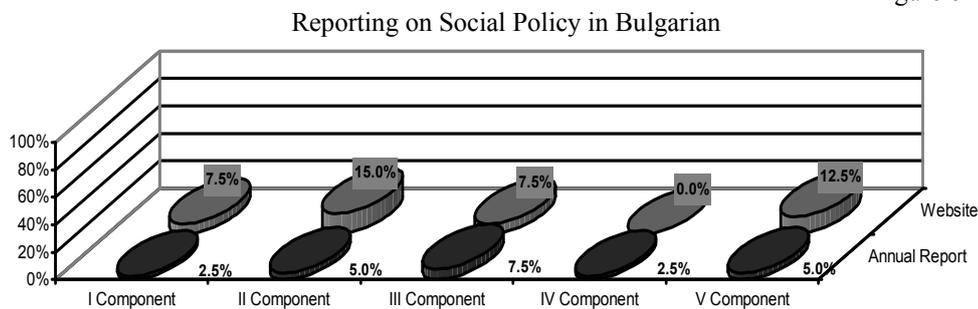
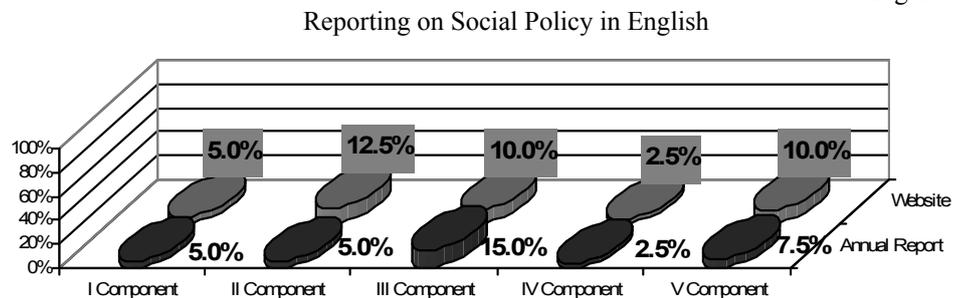


Figure 7



In general, the company website provides more information than the respective annual report. Based on the generally low levels of disclosure, a general observation may be made that the overall level of reporting on social policy should be improved in the years to come.

A comparison between the reporting on social policy in English and Bulgarian shows a better disclosure of information in English, which may be explained with the ambition of the companies to present themselves in a positive light to their foreign partners. The provided data, however, reveal the same tendencies as described above.

5. Conclusions

Increasingly CSR becomes a competitive advantage for the companies in the process of searching for capital, customers and employees. This inaugural survey: “*Reporting on Corporate Social Responsibility (CSR) by the Forty Largest Listed Companies in Bulgaria*” analyzed the current disclosure practices of this peer group and presents current best practices. It allows each enterprise in the observed group to compare its CSR disclosing practices with the disclosures of the rest of the survey’s peers and to draw conclusions on the essence of the companies’ data and information provided in the Bulgarian/English annual reports and websites.

It is to be observed that the companies surveyed disclose more information on corporate governance than on environmental and social policy. This could be partially explained by companies familiarity with the corporate governance principles espoused by the Organization for Economic Cooperation and Development (OECD) and the many initiatives in the field conducted during the past decade. As a result of all of these, Bulgarian business understands the necessity of corporate governance disclosures.

Survey findings might be summarized as follows:

- **GENERAL:** 75% of the companies surveyed disclose information in Bulgarian/English in at least one component of all three categories.
- **CORPORATE GOVERNANCE:** 72.5% of the companies surveyed disclose information in at least one of the five different components of the “Corporate Governance” section in the Bulgarian/English annual report or website. Of these, 96.6% report on the corporate governance structure; 68.9% disclose audit related information and 55.2% disclose information about company’s policy on shareholder rights.
- **ENVIRONMENTAL POLICY:** 27.5% of the companies surveyed disclose data (in the Bulgarian/English annual report or website) about at least one of the five questions of the “Environmental Policy” section. Of these (72.7%) report on compliance with industry specific, national/international regulations.
- **SOCIAL POLICY:** 42.5% of the companies surveyed present information in at least one of the components of the “Social Policy” section in the Bulgarian/English annual report or website. Of these, 58.8% disclose information about employee development and employee benefits policies whereas 41.1% disclose information on community patronage/ sponsorship programs.