

BULGARIAN FIRMS AS ENGINE OF CORPORATE SOCIAL RESPONSIBILITY

CSR has a great importance for assessing the impact of business on society in global, European and national context. It is a complex and multidisciplinary conception it explores the institutional prerequisites for responsible activities of companies and their impact on its stakeholders. This publication systematizes new economic theories in the theoretical field, describes CSR core principle and international CSR Standards and gives empirical information on their application in Bulgarian firms. Recommendations are given for the CSR development guidelines according to European requirements.

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1. Theoretical Background of Corporate Social Responsibility

Concern about the impact of business on society is a global one. The expectations of numerous stakeholders as to the impact of private enterprises to society are increasing. International Guidelines, International and National Standards and company codes are being developed in order to increase the rate of Corporate Social Disclosure and Reporting. All this confirms the relevance of this theoretical direction in economic science. In spite of the rich economic literature in this area, and so far no universal CSR definition has been established.

One of the reasons is that contemporary CSR Agenda is very dynamic and includes ever new guidelines such as the fight against poverty, measures against social exclusion and human and business rights violation, biodiversity conservation and climate change. CSR is a very flexible concept predetermined by increase demand from society and development creating favourable conditions for economic, social and environmental impacts of business operations and their responses to multi-stakeholders. Therefore CSR is also considered as a source of competitive advantages.

Another reason is that different terms are used to represent of a CSR phenomenon-corporate social performance, corporate social disclosure, corporate social sustainability. The CSR definition has undergone substantial modifications over time and it is still evolving along with society and stakeholders expectation. It is generally agreed that CSR is

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constituting actions whereby enterprises integrate societal concerns into their corporate business strategies and operations, including economic, social and environmental concerns. As minimum CSR Standard to observing of enterprises can be established compliance with national law norm. CSR goes beyond that barrier and covers volunteer activities beyond the legal norms. In this context, CSR is not only corporate philanthropy or strict compliance with the law.

Leading international institution offers the following CSR definition.

According to OECD CSR private initiatives should be targeting to reach of public goals. The following definition is proposed – CSR as a business in society is “to yield adequate returns to owners of capitals by identifying and developing promising investment opportunities and, in the process, to provide jobs and to produce goods and services that consumers want to buy” (OECD, 2001, p.7).

Analyzing Performance Standards on Environmental and Social Sustainability, International Financial Corporation (IFC) determines CSR as “dynamic and continuous process initiated and supported by management, and involves engagement between the client, workers, local communities and other stakeholders.” (IFC, 2012, p. 5).

World Economic Forum adopts the following notion. “Business that are able to enhance their net positive contributions to society are more likely to earn the trust of stakeholders and secure their licence to operate in society. A business leader has to think about how to solve the societal challenges of today, because if we do not solve them, we will not have a business.” (WEF, 2016, p. 5).

Guideline for the German Sustainability Code categorically proves the thesis, that “the company discloses how the socially and economically relevant stakeholders are identified and integrated into the sustainability process (Guidance for SMEs, 2014, p. 34).

The Triad of Organizations Sustainability, IFC and ETHOS defining the components of corporate sustainability describes three main dimensions “people, planet profits’ or “social, economic and environmental and, points out engagement with stakeholders as a core of CSR.” (SustainAbility, IFC, ETHOS, 2002, p. 7-8).

Account Ability Organization believes that CSR is Stakeholder Engagement and “fundamental accountability mechanism, since it obligates an organisation to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance.” (AccountAbility, 2015, p. 5).

Despite the various CSR definitions, there are many common features:

- CSR and corporate sustainability are perceived as synonyms
- Inseparable relationship between CSR and Stakeholder Engagement
- CSR reflects in numerous benefits for individual companies and society
- There is a consensus on global norms for business conduct

- CSR requires effective management practice
- Companies integrate concerns – social and ecological – to their interaction with their stakeholders on a voluntary basis
- CSR is an interface between business and society.

The academic theoretical review further deepens the analysis of CSR. Although the specificity, the institutional approach to CSR and Corporate Governance (CG) has many common characteristics. Institutional domain requires unity between actively functioning institutions and formal or informal norms, values, rules, regulations and standards.

In both cases the dominance of the agency theory is overcome and an emphasis has been placed on satisfying of stakeholder interests. The new CSR Agenda in CG context exceeds the main function of CSR as an instrument for shareholder value maximization and sets as requirement the achievement of a balance between different corporate stakeholders.

Between contemporary CSR and CG there are not conflicts regarding to protection of shareholders against managerial abuse on the result of separation of ownership and control and information asymmetry, guarantee of residual control rights, delegation of control to Board of Directors, remuneration and bonus schemes to forcing managers to act according to shareholders interests.

Without denying all this, CSR sets new higher goals to the fulfilment of analogous fiduciary duty towards all the stakeholders of firms and not just to owners. So the fiduciary relationship applies in a wide variety of relationship. The stakeholders are primary subjects, as long as they possess specific investments in the firm without which the firm can not exist- human capital, social capital, environmental capital. This group of stakeholder influence direct on the value of firms but also back – depend upon to meet their needs. Furthermore, different group stakeholders undergo the external effects – positive or negative – from transactions performed by the firm even if they do not directly participate in the transaction. In this context, the firm owes fiduciary duties to all its stakeholders, including the owners.

According to Campbell, the institutional determinants of CSR suggest that “firms are embedded in a broad set of the political, economic, cultural institution that affect their behaviour.” (Campbell, 2007, p. 948). According the author corporations must not do harm their stakeholders – investors, employees, customers, suppliers or the local community within they operate. If corporations do harm to their stakeholders they must brought to their attention. The thesis of Campbell is that this is a definition that sets a minimum behavioural standard with respect to the relationship of corporation to its stakeholders, below which corporate behaviour becomes socially irresponsible.

Can be graded five degrees of Stakeholder Engagement. The lowest grades are inactive and reactive degrees, when decision making ignore stakeholders interests. In the proactive and interactive forms, the management seeks to take account of specific interests of different group of stakeholders (Keremidchiev, 2016; Tchipev, 2012). The sustainable degree means rising of Stakeholder Engagements to the level of Strategic Management.

USA model of CSR is characteristic of liberal market economies and is distinguished by individualism, incentivizing responsive actors, including isolated actors and philanthropy as the main tool of responsibility. This model can be defined as a business in society prevailing corporate strategies, corporate policies and programs. All incentives and opportunities are embedded by the expectation and claims of a different group of stakeholders in corporations. In this sense this model is explicit.

European CSR model, including Bulgarian model, is applicable to coordinated market economies and is characterized with collectivism, solidarity, partnership governance, governance and private policy providing obligations and associated actors. European companies function in unity with a formal and informal institution for interests of society. In their business operations can apply values, norms and rules. Engine of the model is societal consensus on the legitimate expectation of all multi-stakeholders in society. This CSR model may be defined as implicit.

In both models CSR provides to companies license to operate. The concept of earning a Social License to Operate (SLO) is very common and identifies with business risk management. Emphasis is placed on business successful and corporate sustainability than just legal and regulatory compliance. The idea is the business to earn the support of the community and society in which it operates. There is no universal definition, but SLO can mean ongoing acceptance by the people who live and work in the area of impact influence of any business activity. SLO is improved risk management and can contribute to resolving conflicts. It is possible grading of three levels of SLO- acceptance (determine legitimacy boundary), approval (credibility boundary) and full identification (co-management of business and united front against critics). Under legitimacy, boundary are possible shutdowns, boycotts (IFC, 2014, p.17).

SLO contributes to the understanding of business of local context, to building relationship base on trust and transparency, to establish an early grievance instrument for conflict management, to avoid social risks and to create value for local communities.

High form of applications of CSR principles are international CSR Standards.

2. International CSR Standards And Their Application In Bulgarian Firms

The application of the universal principles of CSR as part of CG in practice is carried out through international CSR as the most important standards. The international CSR standards are similar to international CG Standards. They are intended to help companies evaluate and improve the institutional values, norms and rules of CSR to put into practice the corporate sustainability in economic, social and ecological dimension however through soft law mechanism. These Standards aim to provide a flexible reference for corporate subjects to develop their own corporate responsible strategies. To remain your competitive advantages companies need to add international established world norm.

As soft law tool, international CSR Standards skillfully complement national legislation and corporate regulation – self-regulation and co-regulation. All this presupposes voluntary observance of the standards and their not training as strong law or state regulation.

At the same time when CSR international standards are used as a national approved and suggest further regulatory provisions, compliance and sanction, their status in terms of can be more defined.

The International CSR Standards are not binding and do not aim at detailed recommendations to national legislation. Through them defines the strategic goals and the methods for their achievement. The various aspects laid down in the standards contribute to recognizing the interests of employees and other stakeholders. They are an important role for long-term success and firm performance of the company.

These Standards are additional warranty against opportunity behavior of managers which may negatively affect on ex-ante and ex-post rights of stakeholders.

The international CSR Standards are a useful tool to improve their own social responsible activity in companies. They are used as an effective benchmark for relevant company decision making processes and their environmental, anti-corruption and ethical behavior in practice. So that companies can respond to the new societal demands and new opportunity for corporate sustainability and growth.

The implementation of international CSR Standards is of great importance for affirming the confidence of investors. It serves an additional guarantee for the security of their assets. In this context, they achieving of objectives with respect to the trust of shareholders and to capital value creation, too. Flexible implementation standards as international landmarks convincing investors that their rights are fully protected.

They perceive compliance with international universal rules as secure protection for infringement of their ownership rights and avoiding significant litigation costs.

International CSR Standards must design corporate activity to serve of public interests.

Another important point is that the stock market also requires transposition of international CSR Standards in order to provide companies with the performance of the high social and ecological requirements of the international capital market.

Implementation of world recognized standards is very current from the point of view of cross-border cooperation. It is very important for equal treatment for foreign and domestic shareholders which is important for creating a favorable environment for foreign direct investment.

International CSR Standards raise social capital in companies and form the basis of social audit (Dimitrova, Stefanov, Peycheva).

The empirical data shows that 37 % (11 companies) of Bulgarian joint – stock companies have CSR Performance Section of their website², CSR Overview – 30% (9 companies)³ and CSR contact – 3% (1 company)⁴.

² Enemona” AD, „Euroterra” AD, „Industrialen Holding” AD, „Sviloza” AD, „Sofarma” AD, „Stara planina Holding” AD, „Bulgartabak” AD, „Fond Nedvigimi imoti” AD, „Spidi” AD, „Monbat” AD, „Eltos” AD.

However, the survey results show that companies do not assess the importance of instrument as Stakeholder map. Only one of the managers of the 30 surveyed enterprises declares that a Stakeholder map was developed and effectively implemented in his company. The positive experience of “Industry Holding” needs to be thoroughly studied and widely disseminated.

30% of the manager (9 companies)⁵ confirms that companies have developed their own CSR corporate policies and strategies.

13% of companies (3 firms)⁶ provide public CSR information and 40% of Directors for relationship with investors (12 firms)⁷ has a stable connection with social media.

50% (15 firms) has developed ethical codes.

OECD Guidelines for Multinational Enterprises (2011), UN Global Compact and Social Accountability 8000 are main international recognizes CSR Standards.

Bulgarian companies are not indifferent to the current tendencies in the world to comply with the requirements of International CSR Standards. Proof of this are the results of an empirical study of 30 Bulgarian public companies, conducted in 2017. The surveyed sample of companies was proposed by X3 News Information Agency as the main subject for transparent information about regulated public companies in Bulgaria. The analysis was developed on the basis of processed interviews with the managers as well as web company information. Despite the small number of observed enterprises it is possible to reveal some peculiarities in the Bulgarian practice. Public companies in Bulgaria are most recognizing three international CSR Standards – OECD Guidelines for Multinational Enterprises (the Guidelines), UN Global Compact (UN GC) and SA 8000.

The Guidelines is the most comprehensive set of government-backed recommendations on responsible business conduct as compliance of national legislation is a priority. In the Guidelines skillfully are integrating activities of governments (fair regulation, transparency, public regulation), trade unions/ NGOs (proactive engagements, ensuring accountability) and business (responsible business conduct). The implementation of the Guidelines creates effective reputation management, trust for investors, social license to operate, added value for consumers, assets to new markets.

Updated 2011 Version of Guidelines even more strongly emphasized the observance of business and human rights, responsible supply chain management, stakeholder engagement, Employment and Industrial Relations, Bribery, Environment, Consumer Interests.

³ „Enemona” AD, „Euroterra” AD, „Industrialen Holding” AD, „Sofarma” AD, „Stara planina Holding” AD, „Bulgartabak” AD, „Fond Nedvigimi imoti” AD, Spidi AD, „Treis Grup” AD.

⁴ „Sviloza” AD.

⁵ „Albena Invest” AD, „Sviloza” AD, „Industrialen Holding” AD, „Sinergon Holding” AD, „Sofarma” AD, „Sofarma Trade” AD, „Stara planina Holding” AD, „Treis Grup” AD, „Bulgartabak” AD.

⁶ „Industrialen Holding” AD, „Sofarma” AD, „Stara planina Holding” AD.

⁷ „Sofarma” AD, „Spidi” AD, „Bulgarska Holdingova kompanija” AD, „Monbat” AD, „Zaharni zavodi” AD, „Bilbord” AD, „Investor” AD, „Korabostroene” AD, „Petrol” AD, „Eltos” AD, „Kateks” AD, „Agria grup” AD.

Observance of Guidelines by companies is full voluntary but it reflects very detailedly on future expectations. Particularly important is Due diligence requiring a systematic approach to company performance as the process through which enterprises can identify and reduce potential negative impacts and provide information on how to overcome it. This is very important for risk evaluation of different suppliers and determines whether contracts with suppliers will be continued or terminated.

Stakeholder Engagement is very important for Guidelines applying and interactive interaction is recommended. The active consultation and communications are imperative in the mining sectors where most often cause large negative socio-economic and environmental negative impacts.

Good corporate governance and implementation of OECD Principles for corporate governance is a stable foundation for International CSR Standards implementation.

The empirical data show that 20% (5 firms)⁸ of observed companies adhere to the requirements of OECD Principles.

SA8000 is important reporting standard that reveals develop and enforce of corporate social policies and social accountability requires in the following main directions: Child labor, Forced Labor, Health and Safety, Freedom of Association/ Right to Collective Bargaining, Discrimination, Disciplinary Practices, Working Hours and Remuneration of Directors.

None of the observed Bulgarian public companies declare performance of SA 8000. This requires that it be promoted in order to implement it in the future.

The requirements of Standard SA 8000 to companies must be respected by their suppliers and contractors, too. Commitments of top management is the building of effective management systems with respect to international reporting instruments and their interpretation. Reporting Indicators of Standard SA 8000 are in line with The Guidelines and UN Global Compact.

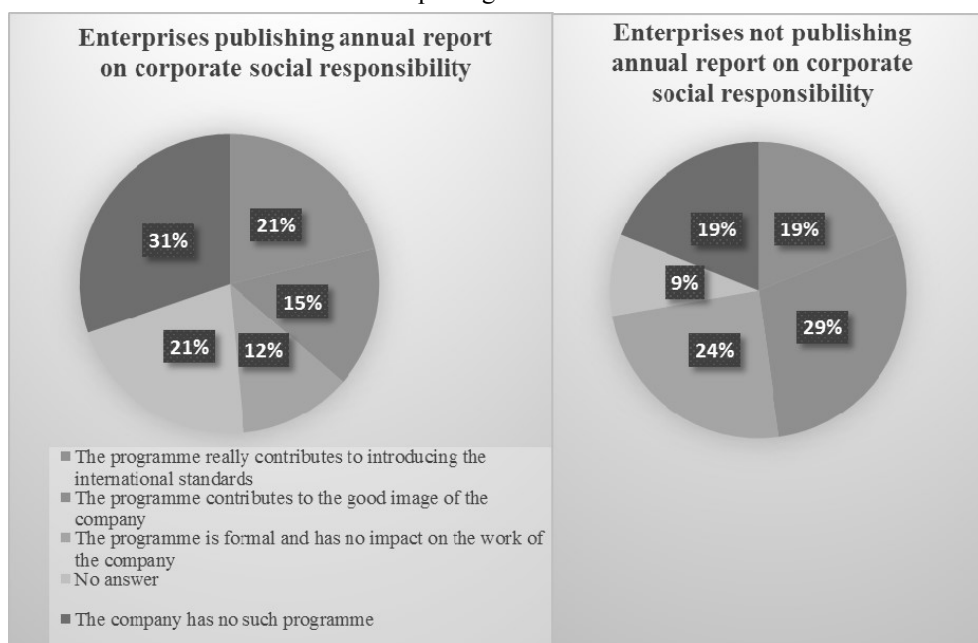
The UN Global Compact as international CSR Standard is directed primarily to the business sector. The Standard is multi-stakeholder initiative and engages different subjects-public institution, NGO and trade unions. The UN Global Compact invites companies to support within their activity the following main approaches – Human Rights, Labor Standards, Environment, Anti Corruption- systematized in 10 principles. Business should support the protection of internationally proclaimed human rights, uphold the freedom of association and collective bargaining rights, elimination of child labor and discrimination, promoting environmental responsibility, activities against corruption. This voluntary international initiative is established as a basis for learning, dialogue and partnership. In this sense, UN Global compact strengthens corporate sustainability and increases long-term value in environmental, social and ethical terms.

27% (8 firms)⁹ of observed public company declare that they comply with the norms of UN Global Compact. Values of UN Global Compact are universal and should be actively promoted and applied.

⁸ „Sofarma”AD, „Sofarma Treid”AD, „Sparki Eltos”AD, „Svilosa”AD, „Optela”AD.

Empirical data show that 21% (6 firms) of the surveyed joint-stock companies apply requirements of International CSR Standards through their corporate program and strategies, 15% (5 firms) believe that corporate initiatives related to the implementation of International Standards contribute to a good image of companies. 12% of companies (4 firms) are of the opinion that corporate standards-related programs have no impact on the company results. 21% (6 firms) of the firms do not answer and 31% (9 firms) not have corporate policies and programs aimed at complying with requirements of International Standards.

Figure 1
CSR Reports in Bulgarian joint-stock companies on the basis of programs for international reporting standards



Bulgarian public companies appreciate the importance of international CSR Standards. Even more active inclusion of corporate policies related to the requirement of the world norms of business conduct is necessary.

⁹ “Bulgarska holdingova kompania”AD, “Euroterra”AD, “Treis Grup”AD, “Sofarma”AD, “Enemona”AD, “Velgraf”AD, “Sparki”AD, “Kateks”AD.

Conclusion

CSR has a great potential for assessing the impact of business on society. International CSR Standards perform the function of a landmark of business conduct. Bulgarian public companies also join the observance of norms and rules of international CSR Standards. Their activity in this direction is recommended to be even more active.

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