



*Original Contribution*

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## CHALLENGES AND IMPACT OF CSR ON BUSINESS PERFORMANCE IN BULGARIA

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### ABSTRACT

Milton Friedman's often cited pronouncement that the "social responsibility of business begins and ends with increasing profits" implies that social issues are best left for anyone but business. Since the international and national organizations have decreased their impact on human development and consequently their funds reduced, it is logical; therefore, in the absence of public funds, or even in partnership with existing institutions, that business must play a greater role in human development issues than ever before. The present paper aims at providing a comprehensive interpretation of the corporate social responsibility (CSR) within the specifics of the Bulgarian legislation and how it finds its practical implementation among companies operating in the market.

The first part formalizes on the specific areas with practical examples for social responsibility in doing business. In the second part a concept is proposed of the institutional framework within which the characteristics of the socially responsible businesses find real support and application. The paper corroborates the necessity for detailed analysis of the relationship between a social model and practices of the socially responsible business in Bulgaria and definition of how the Bulgarian legislation stimulates the entrepreneurial solutions to social challenges. At the same time, both excessive idealism and formal simplification of its use can be discerned in this concept. In practice, however, socially responsible business is not only a good idea, but also the presence of some circumstances that could materialize it into concrete results.

**Key words:** socially responsible business, social entrepreneurship, institutions

### INTRODUCTION

Bulgaria's accession to the EU countries has gained importance as a catalyst for defining the need for stronger social commitments both by the business and the society itself and the various social groups. Indisputably the European social model is the relationship between economic and social activities through the development of socially responsible market economy. This formalizes into its main objective to link competition with solidarity and social justice and to realize economic growth that will enhance social integration. Economic, educational, health and social policy are interrelated and can be considered as a *productive investment*. Social involvement

supports and facilitates structural changes, and employment policy and social dialogue form the basis of social agreement. The logical consequence is the treatment of socially responsible business as a new, more effective way to demonstrate their commitment not only to employees but also to broader social issues and needs. Following the definition of corporate social responsibility given by the World Bank, business has attained importance and is now committed directly to "... *sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development.*" (1). Other specialists in the field suggests that: "CSR is confusing, not only to those that do not yet know what these three letters stand for, but also to those who do and yet see it used in contexts in which corporate environmental or

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*financial performance is the issue (...) we prefer the simple 'corporate responsibility' because it's not at all confusing, does not exclude environmental and financial aspects of corporate performance and does not represent too great a departure from the current, unsatisfactory 'CSR' (2). This responsibility is by itself a sustainable process that brings balance both to economic growth and stability, and development of society and environmental protection.*

### **THE NEW SOCIALLY-ORIENTED INTERPRETATION OF DOING BUSINESS**

It is difficult, in either statistical or quantitative terms, to make a strong causal link between CSR actions and such financial indicators as share prices, market value, return on assets invested and economic value added (EVA). This is because a correlation does not necessarily mean a causal link and a good correlation could simply occur by chance. What most commentators have done up to now is to argue, qualitatively, that there is a business case.

One of the most clear and explicit definitions of corporate social responsibility has been proposed by the European Commission as *"a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only to fulfill legitimate expectations, but to go beyond compliance and investing more in human capital, environment and relations with stakeholders."* (3)

Principles of sustainable and socially responsible business behaviour and activity were formally defined in the UN Global Compact (UNGC) at the World Economic Forum in 1999. In practice, this contract set forth 10 principles in four thematic areas: human rights, labor standards, environment and anticorruption. Corporate sustainability is another parallel concept to CSR that has led to a lot of useful work on quantifying the issue of sustainability. This latter concept arose out of concerns for the environment, but has been expanded in recent years to encompass both social and economic aspects of corporations. Some may quibble with the notion of starting from an environmental basis to expand into CSR issues. Ten measures of business

performance are used (the dependent or endogenous variables), namely: shareholder value; revenue; operational efficiency; access to capital; customer attraction; brand value and reputation; human and intellectual capital, risk profile; innovation; and license to operate. These are then related, in a matrix, to ten driver dimensions (exogenous variables), namely: ethics, values and principles; accountability and transparency; triple bottom line commitment; environmental process focus; environmental product focus; socio-economic development; human rights; workplace conditions; engaging business partners; and engaging non-business partners.

What actually constitutes corporate social responsibility? Corporate social responsibility is based on the Declaration of Human Rights of the United Nations and calls for respect for human rights and ensuring proper working conditions. The very definition is for "promoting diversity", i.e. avoiding any forms of discrimination related to origin, sex, age, and also condemning the use of child or forced labor, etc. It is important to note that corporate social responsibility involves also the relationship of companies with their subcontractors, suppliers and partners, with the aim to achieve social compliance throughout the chain. Some companies encourage or set criteria relating to transparent and clearly established working hours, receiving of salary and compensation, freedom of association and others, and their suppliers are required to comply accordingly. In terms of environment, actions related to social responsibility, are intended to make it clear to companies the effect of their business on environment and calls for reducing the adverse impacts and protecting of environment through the introduction and management of clean production processes. Thus, the idea of "sustainable development", as well as the use of renewable energy sources is advanced. Not least, corporate social responsibility is associated with compliance with legislation and avoidance of corrupt practices, maintaining transparent business relationships with suppliers, subcontractors and business partners.

As any one activity, corporate social responsibility should also be managed. Certainly, one of the main questions is whether it is profitable for the business to be socially responsible? And why in practice should take

care of developing areas, which in most cases are subject to significant government involvement and regulation. Although until presently no research has been conducted to identify purely financial benefits from the application of similar activities, such actions lead to improved production process, reducing of industrial and commercial risks which entail the realization of better profits. On the other hand, the introduction of transparent relationships with customers, local community, and also the study of new products or processes is leading to the enhancement of the business potential and learning of new strategic skills.

In the past several years the so-called socially responsible investments were developed in the financial sector. They should be included in the investment and business plans of the organizations, among other objectives and activities. The "socially responsible funds" which allocate funds at the advantage of companies that are committed to sustainable development is an example of one of the common forms.

And since the adoption of such initiatives and investment activity suggest specific outcomes and control, the adoption of ISO 26000:2010 - Guidance on social responsibility has provided the framework and formulated the main criteria for their implementation. So, only ten years later with the publication of the ISO 26000 standard for social responsibility, the importance of this concept attained real borders and control options. ISO 26000 aims to support and build local capacity to implement the universal principles of corporate social responsibility in business, and achieve equity for all enterprises worldwide, especially in developing countries. This standard provides valuable guidance in relation to socially responsible behavior and the resulting actions. It is not intended for certification by a third party. There are many and different opinions according to which the right approach ranges from strict compliance to full freedom of choice and action. This project seeks to get closer to a compromise solution in order to promote respect and responsibility, as supported by different regulations, but also encourages creativity and innovation in this area.

## **CORPORATE SOCIAL RESPONSIBILITY IN BULGARIA – MECHANISMS AND RESOURCES**

In Bulgaria, the notion of citizenship, identity and social responsibility is extremely diverse and even multidirectional. A number of studies in this area indicate that the roots of these differences stem from the recent past and the political regime of that time (4). Despite the apparent idealism, social responsibility is first secured by the available financial resources at the micro level, as well as sound economic development at the macro level. This is indicated by a series of economic indicators which have projected success of socially responsible business through the prism of its successful business. The influence of a stable economic base can be distinguished into two levels. First, the financial stability ensures greater activity of the company itself, its ability to be present more actively both in the market through advertising means, PR, donor campaigns, and direct participation in public life and development. Second, once strong market positions established, such companies have the opportunity to develop their culture in the direction of evaluation of their success, care of their public image and existing public opinion, and also their links to various social groups. Regardless of the reasons for such public commitment – care for the positive image or compensation for negative environmental impact, and the results of such initiatives almost rarely remain unnoticed. Third, the implementation of socially responsible business is dictated by the presence of representation offices of many companies from the old member states of the European Union. The importance of good practice applied in the context of this country has both illustrative and stimulating effect. The image both in the professional field of business and in connection with fundraising campaigns, public involvement and responsibility takes more tangible forms of combination and practical application.

An important indicator of such findings is the increasing percentage of companies which implement payroll giving campaigns or organize specific social cause campaigns. Not least is the development of the third sector in this country as the missing link between social activities and mutual aid and state regulation. Under current Bulgarian legislation, the wording that can be traced down in the interpretation of the term "social enterprise" is

as follows: "business activity carried on by a non-profit legal entity, having a pronounced social effect on persons from vulnerable groups in the broadest sense with the aim to: improve living standards, ensure employment and provide services and/or other forms of direct support, whose end result is their effective social inclusion"(5). The purpose of the organizations in the sector is not accumulation and distribution of profits, but investment of income in specific social causes. As "vulnerable groups" are defined certain people who need help to improve their social status or quality of life up to the level of the rest of society.

There are three main approaches for implementing the concept of socially responsible business. The understanding of socially responsible business as a care-oriented business for employees and their families is fundamental. In practice, this is the narrow circle within which companies could somewhat contribute to improving living standards and welfare of part of the society. Of course, such practice undoubtedly has its positive sides, but in reality has very limited effect and influence. Therefore, at the next level the business engages part of their capacity to conduct larger-scale campaigns with a broader range of action and expected results. Similar initiatives are related to environment development, charitable campaigns, and in general areas where public funds are inadequate or exhausted and need additional financing. The common between the two types of initiatives is that they are of local range and of short-term effect. Recently, attention is attracted to investments that have a limited perimeter, but at the account of longer-term social impact. This investment activity is associated primarily with health care and education which, as spheres of influence, require permanent commitment by the business. The main reason for the more limited range of application of this approach is not only a lack of sufficient financial resources by companies, but also a lack of corporate strategy and identified practical operative stages for its implementation. Unfortunately, such a finding is valid not only for the private sector, but also for adopted policies and programmes at state level. One logical explanation is that the social situation in Bulgaria has always been subject to a careful

conducted policy and lawmaking and, therefore, references in this regard can be found both in the Social Assistance Act and the Integration of Disabled Persons Act, and the Cooperatives Act and the Commerce Act. One of the missing links is a clearly defined legal framework for organizations providing social service and their categorizing as "social enterprises". The lack of such legal definition allows more types of NGOs to be classified as structures tailored to specific values, which mostly reinvest surpluses, helping social, cultural and even environmental objectives. At the same time, this uncertainty determines the different types of legal entities that can be defined as "social enterprise" in unequal position, taking into account their economic and social proportions.

Similar conclusions have an effect both on the organizations that are specifically formed to provide social services and the business that claims to be defined as socially responsible. A good example and existence of positive models of cooperation suggests a growing interest in such initiatives. In terms of the content, the main problem is the lack of real long-term vision for attracting business and its representatives to support social causes and public needs. Given the limited capacity of the state to deal with problems of this nature, the development of the third sector in Bulgaria, and encouragement of socially responsible business is more than necessary. It is unrealistic to expect the state and municipalities to have unlimited resources and capacity for maintenance and financing of all public services. It is more likely that provided social services do not cover and meet the needs of target groups, and sometimes they are even not properly determined. An important fact is that there is a preference for community services, which are defined as "activities delegated by the state" (education, health, social assistance and care, culture). Consequently, services which are most likely to be provided by the municipal administration are those which have received state financing.

One of the main problems in building a functioning conjunctural framework can be reduced to a trivial lack of transparency, resource constraints and insufficient control (**Table 1**).

**Table 1.** Contents plan of main problems in the social sphere

PROBLEM	CONSEQUENCE	SOURCE OF PROBLEM
Absence of long-term policy at company level	Absence of sustainability of actions and decisions taken	Resource constraints - time, expertise, resources, human resources
Firms are reluctant to deal with a monopoly center	Lack of authority and legitimacy in the conducting of charitable initiatives	Centralized management is not considered to meet the different needs and possibilities to solve them
Insufficient financial support	Lack of focus in the allocation of funds generated	Centralized planning is considered ambiguous, and even skeptically
Inadequate public and community support	Local nature of initiatives taken	Lack of coordination between different participants and stakeholders.

So, a basic restriction seems to be not merely the absence of a legislative framework to define the activities of the organization in the third sector, but also lack of strategies to attract business to social causes and development of socially responsible activities. These two areas are as different as they are identical in terms of expected effects and outcomes. The main negative consequence is: "... *conjunctural solving of one or another issue raised by the media, rather than invest in long-term change in social environment and a more active attitude of people towards their own lives*" (6). In this situation, the activity conducted by the non-government organizations and the adopted functional model are of decisive importance.

Experience to date shows the potential and opportunities of private providers of social services to meet the needs that public providers can not meet (7). Advantages that give arguments in favour of this assertion can be summarized as follows:

- predominant number of private providers of social services contact directly consumers, which gives them the advantage to be closer to sources of problems and relatively optimal solution;
- common practice in these organizations is to rely on external donors not only to invest and develop the institutional and financial capacity of the enterprise, but also to carry out checks on the results and use of available resources;
- organizational hierarchy of the enterprise and its internal control quality improve quality and timeliness of social services provided.

## CONCLUSION

In recent years, comprehensive measures were taken to improve the quality of social services and to attract different members of the public to the social cause. Drawing on foreign experience and practices underlying this process of building the network of public services gave their specific contribution to the development of social involvement and culture also in the business environment. This is indicated by the dynamics of 2010 in receiving of donations (municipal enterprises, hospitals, etc.), with a reported increase in their share of more than 100 per cent over the previous year. The possibility to mobilize and use resources, to which the state has no access, is one of the advantages of such commitment, which effectively implements a significant social impact and tangible results. Despite it, the role of the state remains leading not only with regard to formulated legislative framework but also in relation to proposed incentives for socially responsible behaviour among the business.

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