

TENDENCIES OF THE REGULATORY AND LEGAL BASIS OF THE CORPORATE RESPONSIBILITY AND SOCIAL INVESTMENT¹

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Abstract: *The modern development of CSR in our country coincides with the transition to building a market economy and social democracy. In order for CSR in Bulgaria to become not a temporary trend, but a law for business behavior, as in Europe and the USA, a complex of legislative initiatives and additional stimulating measures are needed.*

At the beginning of the third decade of the XXI century, the role of business in the social life of the country increased. Its influence on the social, economic and social spheres is becoming more and more noticeable. Therefore, it is important to analyze the possibilities and methods of the state regulation of social responsibility, first of all, from the point of view of the design of CSR and SI institutions.

Keywords: Corporate Social Responsibility, Social Investment

JEL Codes: M1, M14

Introduction

The modern development of CSR in our country coincides with the transition to building a market economy and social democracy. In order for CSR in Bulgaria to become not a temporary trend, but *a law for business behavior*, as in Europe and the USA, a complex of legislative initiatives and additional stimulating measures are needed.

At the beginning of the third decade of the XXI century, the role of business in the public life of the country increased. Its influence on the social, economic and social spheres is becoming more and more noticeable. Therefore, it is important to analyze the possibilities and methods of state regulation of social responsibility, first of all, from the point of view of the design of CSR and Social Investment (SI) institutions.

1. Trends to stimulate public support and implementation of CSR practices

Today in the EU there are active trends to stimulate public support and implementation of CSR practices. The content of various public initiatives, regulations and projects in the field of CSR are based on the provisions of the International Labor Organization (ILO); The Universal Declaration of Human Rights; the Organization for Economic Co-operation and Development (OECD); World Summits, etc.

The international documents developed by these organizations set the vector of the national policy in the field of CSR, the impetus for the development of which was created in 1996 by the European Movement of Entrepreneurs for Social Consolidation (EBNSC). State and government leaders of 15 countries adopt a special Address on CSR issues, in which it is noted that the expansion of social responsibilities of business is a factor in increasing the competitiveness of companies.

In 2001, the EC published the working document - "Green Paper," systematizing the goals, ideas and principles of CSR. One year later, the European Commission again issued an act defining guidelines for the relationship between CSR and sustainable development. In 2005, the Lisbon strategy was renewed, which outlined the prospects for economic growth and employment, in which

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a recommendation was made to the member states to support CSR in all ways. The year 2006 will be remembered for the adoption of "Communication 2006", a document that emphasizes the need for a more transparent presentation of CSR practices and states that European business has already succeeded in developing CSR.

In 2011 the long-awaited CSR strategy for the next four years was adopted, based on the principle: "Implementation of partnerships to open and increase jobs for specialists in new professions and make Europe a model for CSR", corresponding to the strategy of the EU "Europe 2020".

In this first European strategy (2011), it is noted that the implementation of CSR practices in organizations is not an imperative instruction of the EC, but is a catalyst for a positive impact on business. It is emphasized that CSR should be developed under the leadership of the enterprises themselves, it is lucrative for all stakeholders, and the public administration plays only an auxiliary role in supporting transparency in the activities of companies and creating incentives for their development. The EC notes that the implementation of CSR practices directly depends on the size of the organization and recognizes that for the majority of SMEs, especially micro-enterprises, *CSR still remains informal and rather intuitive*.

The main directions of the legislative initiative for the development of CSR are laid down in such pan-European acts as the Integrated Product Policy (IPP)², The Eco-Management and Audit Scheme (EMAS)³, The UN Global Compact⁴, ISO standards, the ILO Tripartite Declaration of Principles⁵, The UN Guiding Principles on Business and Human Rights - 4.06.2018⁶ and others.

The system of fundamental documents for regulating relations directly related to CSR contain both international and national legal acts. The formation of a legal order, policy and relations, ensuring the possibility of CSR development in Bulgaria, marked its beginning in the 90s of the 20th century.

The general legal regulator for the creation and operation of Bulgarian corporations is the Commercial Law of the Republic of Bulgaria and the Law on Corporate Income Taxation⁷, which determine the organizational legal norms of legal entities that can be called corporations. The transposition of EU legislation in Bulgaria in 2015 is also related to the adoption of the latest changes in the Accounting Act, in which the requirements regarding the preparation of a non-financial statement were added. These norms are enshrined in Art. 48-50 of the Accounting Act and were transferred when applying it in our country to par. 6 of Directive 2014/95/EU. This declaration is prepared for accounting periods after 01.01.2017. The document is required by those enterprises that are significant for the Bulgarian society as a whole and the information disclosed by the corporations would be of decisive importance for the end users according to two criteria, namely: To be large enterprises of public interest (POI) and which at the end of the reporting period have an average number of staff ≥ 500 people.⁸ Analogous criteria apply to groups of industrial entities with regard to the obligation to submit a consolidated non-financial statement.⁹

Mixed-type corporations in our country are companies registered in the sense of the Commercial Law, the nature of which is mixed. In the Bulgarian business environment, the establishment of a corporation or company of a corporate nature is called incorporation. Corporations are registered in our country, both by Bulgarian legal or natural persons, and by

² <https://eur-lex.europa.eu/legal-content/BG/TXT/PDF/?uri=CELEX:52009DC0693&from=BG>

³ https://www.moew.government.bg/static/media/ups/tiny/file/Industry/EMAS/Info_EMAS/emasleaflet_bg.pdf

⁴ https://www.unglobalcompact.bg/?page_id=150

⁵ ILO Declaration on Fundamental Principles and Rights at Work and a Mechanism for its Implementation, Adopted at the LXXXVI Session of the International Labor Conference, Geneva, 18 June 1998.// https://www.ilo.org/wcmsp5/-/groups/public/ed_norm/declaration/documents/normativeinstrument/wcms_763311.pdf

⁶ https://www.europarl.europa.eu/doceo/document/TA-8-2018-0382_BG.html

⁷ Labor and law publishing complex. // <http://trudipravo.bg/znanie-za-vas/928-zakon-za-korporativnoto-podohodno-oblagane>

⁸ https://mpira.ub.uni-muenchen.de/85615/1/MPRA_paper_85615.pdf; Integrated reporting - a new challenge in corporate reporting - A. Atanasov, R. Marinova // Management and Education, Issue XIII (1) 2017.

⁹ <https://dlib.unisvishtov.bg/bitstream/handle/10610/4430/efd0064bae54c34057785d296bbf3014.pdf?sequence=1&isAllowed=y>, Integrated accountability in the management of enterprises in Bulgaria, V. Vechev, et al. Scientific Studies Almanac. Volume 29, 2021, Svishtov, page 312

foreign ones. In a Bulgarian company, be it OOD, AD or KD, as a corporate form, there may be foreign participation in its founding. Then it falls under the mixed type of companies with limited liability and shareholder or equity distribution. In the Table 1. the financial results of the top 10 Bulgarian corporations that achieved the highest financial results in 2020 according to the Capital Top 100 ranking published in April 2022 are presented.

Table 1. Financial results of the 10 largest Bulgarian corporations for 2021.

2021	2020	Company	Branches	Turn over (x. лв.) 2020	Turn over (x. лв.) 2021	Amend- ment (%) 2021/ 2020	Profit/ Lost (x. лв.) 2020	Profit/ Lost (x. лв.) 2021	Efficiency (%) 2021
1	2	Aurubis Bulgaria	metals	4,842,044	5,401,287	11.55	265,785	264,780	4.90
2	1	Lukoil Neftohim Burgas	fuels	6,387,231	3,028,236	-52.59	-80,310.00	-508,678.00	-
3	4	NO Company	energy	2,817,879	2,564,350	-9.00	-1,260.00	46,314	1.81
4	3	Lukoil-Bulgaria	fuels	3,321,399	2,170,296	-34.66	68,228	9,675	0.45
5	11	Bey Glass Bulgaria	glass	1,156,587	1,835,541	58.70	79,901	127,537	6.95
6	7	Kaufland Bulgaria & Co	chains	1,650,203	1,739,950	5.44	76,424	84,975	4.88
7	5	Astra Bioplant	fuels	1,922,077	1,738,532	-9.55	14,165	39,460	2.27
8	6	Sax	fuels	1,784,185	1,409,016	-21.03	22,827	16,302	1.16
9	10	Lidl Bulgaria & Co	chains	1,164,001	1,355,476	16.45	41,251	65,693	4.85
10	-	AE&K Co - Branch Bulgaria	others	330,351	1,305,743	295.26	1,883	1,802	0.14

Source: Capital K100, <https://www.capital.bg/k100/>

The economic sectors in which the mentioned companies operate are presented in Figure 1.

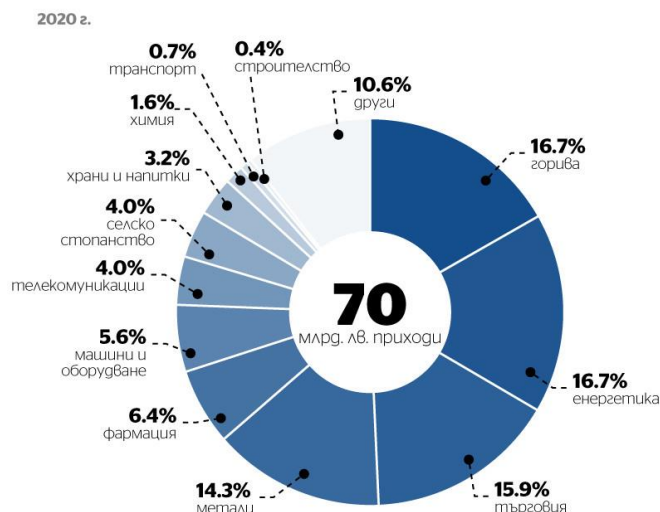
An important role in the legal regulation of the interaction of the participants in public production is played by the social tripartite partnership between public institutions, employers and trade union organizations, which is based on the legal regulations of the ILO, which adopts legally binding conventions, as well as recommendations for the countries- articles affecting different areas of labor law. They establish the minimum standards of the basic labor rights, as well as other standards regulating the conditions of employment, work and social security. Bulgaria has been a full member of the ILO since 1922, with the Minister of Labor and Social Policy representing the government in the international organization and its governing bodies. For the period June 2002 - June 2005, Bulgaria is a titular member of the Administrative Council. During the specified period, our country is one of the most active members of the ILO and among the first 10 countries that have ratified the most conventions of the international labor organization (84, out of a total of 184 conventions adopted until 2002).

In the first two decades of the 21st century, Bulgaria ratified the following set of fundamental conventions of the ILO on human rights in the field of work, which in practice proves the will to conduct an active policy in this area:

- K 29 on forced labor;
- K 87 on trade union freedom and the protection of the right to organize trade unions;
- K 98 on the right to organize collective bargaining;
- K 100 for pay equality;
- K 111 on discrimination in the field of labor and professions;
- K 138 regarding the minimum age for employment;
- K 182 on the worst forms of child labor.¹⁰

¹⁰ <https://www.mlsp.government.bg/mezhdunarodna-organizatsiya-po-truda> (Посл. посетен 26.01.2022)

KI ОТ КОИ СЕКТОРИ СА КОМПАНИИТЕ В „КАПИТАЛ 100“*



* показва общите приходи на компаниите по сектори

Fig. 1. Distribution by economic sector of large companies in Bulgaria for 2020

Source: Capital K100, <https://www.capital.bg/k100/>

The tripartite partnership is characterized by comprehensive legal regulation, and on this basis, it differs from other forms of socially responsible business behavior, which by its nature is informal in nature.

In the first years of building social democracy in the country, some *professional codes of ethics* were adopted:

- 2005 - Code of Ethics for PR specialists in Bulgaria developed on the basis of the Codes of BDVO, BAPRA, IMAGINES Association and IPRA Bulgaria, as well as the Ethics Protocol of the Global Alliance and Codes of national PR organizations;
- 2005 - Code of Ethics of the Union of Brewers in Bulgaria (UBB);
- 2006 - Code of Ethics of the members of the Bulgarian Leasing Association (BLA);
- 2011 - Code of moral and ethical norms, principles and standards for the behavior of employees at "Asarel-Medet" JSC - Panagyurishte;
- 2012 - Code of Ethics of the Bulgarian Natural Gas Association;
- 2013 - Code of Ethics of the Movement Disorders and Multiple Sclerosis Association (MDMSA);
- 2014 - Code of Ethics for Civil Servants in the Ministry of Internal Affairs;
- 2018 - Code with moral and ethical rules of conduct for the members of the Bulgarian People Management Association (BAUH);
- 2018 - Code of Ethics of the Bulgarian Hotel and Restaurant Association BHRA.

A landmark event in September 2020, organized at the initiative of the Center for the Study of Democracy and the Bulgarian Forum of Business Leaders (BFBL) is the adoption and announcement of the *Diversity Charter in Bulgaria*, which aims to promote diversity policies in the workplace. The first 10 companies to sign the Charter are Astra Zeneca, Alaric, Japan Tobacco International, Ecopharm, M3 Communications Group, Siemens, Hewlett Packard Enterprise managed by Selectium, CEZ, Shell and Unique Estates, which set out their reasons for joining the

initiative from its very beginning, as an opportunity to work for a tolerant and inclusive society.¹¹ The Charter emphasizes that for Bulgarian business it is necessary to establish ethical frameworks, beyond which lawlessness begins, the trampling of personal rights and ultimately this leads to the collapse of the economy.

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The composition of the Council includes employees with expertise in the field of social responsibility from state structures, representatives of social partners - employer and trade union organizations, non-governmental associations and unions developing activity in the field of CSR, representatives of academic circles. An important document was the creation of the Memorandum on the principles of CSR, approved by the Advisory Council in 2017. It gives a complete definition of social responsibility and summarizes its main principles, which makes it possible to reveal the new role of business in social development, based on effective interaction with the main stakeholders, the directions for the development of CSR in Bulgaria are defined.

With the active assistance and support of the CS on CSR, the second Strategy for Corporate Social Responsibility 2019-2023 was developed. The strategy was adopted in August 2019 by the Council of Ministers and is in response to the political commitment of the government to improve the quality of life of the population.

The responsible body that coordinates the implementation of the Corporate Social Responsibility Strategy is the Ministry of Labor and Social Policy.¹²

With the implementation of the system for social accountability of companies related to CSR (started in 2000) in Bulgaria there is a need to adapt the relevant international standards to the conditions of the country. In 2005, a Recommendation on the evaluation of the activity and preparation of non-financial statements called *Five steps on the way to the social sustainability of the company* was developed, in which five main types of tools are distinguished to promote the implementation of CSR:

- Legal, which represent a legislative framework including mandatory and voluntary political initiatives, incl. laws, regulations, directives.
- Economic and financial in the form of financial incentives such as tax breaks, subsidies and awards;
- Informational, which include explanatory campaigns and events;
- Partnership, defining the voluntary cooperation between government, business, NGOs in the form of stakeholder forums, joint activities, sharing of experience and knowledge;
- Hybrid, in which legal, economic/financial, informational or partnership means of influence are combined.¹³

In the same year, *Methodological recommendations for the social accountability* of enterprises and organizations registered and operating in Bulgaria were created.

They were prepared taking into account the basic principles of AA1000 and GRI, and in 2008 - Recommendations on the use in the practice of management and corporate non-financial reporting (*Basic Performance Indicators*).

¹¹ Center for the Study of Democracy. <https://csd.bg/bg/events/event/oficialen-start-na-khartata-za-mnoogobrazieto-v-blgarija/> (Last visited 26.01.2022)

¹² Promote the principles and goals of corporate social responsibility. Institute of Public Administration. Good practices. <https://www.ipa.government.bg/bg/dobra-praktika/populyarizane-principite-i-celite-na-korporativna-socialna-otgovornost> (Last visited 26.01.2022)

¹³ Slavova, I., Bankova, Y., Ivanov, H., Kalinkova, S., Tsolov, L. (2014), CSR in Bulgaria – part of European social practices, UNSS Publishing Complex, ISBN 978-954-644 -594-0

At the end of 2017, the Ministry of Finance of the Republic of Bulgaria published Guidelines on the implementation of ch. 7 "Annual reports", section 3 "Non-financial statement" and section four "Consolidated non-financial statement" of the Accounting Law. The purpose of the prescription is to provide clarifications and guidelines for the uniform application of the provisions of Art. 48-52 of the Civil Code regarding the requirements for the preparation and publication of a non-financial statement and the consolidated non-financial statement by large enterprises that are of public interest and have more than 500 employees for the reporting period. This confirms the opinion of the EC that the application of uniform regulatory requirements to corporations regarding public non-financial reporting makes it possible to disclose information about the activities of enterprises in the context of social responsibility and sustainable development and to increase the transparency of social policy of organizations to stakeholders.

Summaries

(1) The social responsibility of business can find the widest field of manifestation precisely in the creation and maintenance of new jobs. The reason for this should be sought primarily in the fact that as a result of the withdrawal of the state from some industries and the contraction of the public economy, a significant reserve of free labor is created, part of which is directed to the sector of service activities. With the act of hiring the new worker, with the obligations for his social and material security, companies can get the favorable opportunity to form and expand the social space. The more jobs companies open, the larger the social space will become and the faster their inclusion into the value system of society will be.

(2) Of essential importance in the development of this process is a very important feature related to the creation of new jobs. It consists in the fact that in most cases the material consequences of holding a certain position (from the conclusion of an employment contract) are transferred to the whole family in the form of family income. In this way, a new social circle is formed, which is superimposed on the social space conquered by the company, significantly expanding it.

(3) Business organizations should publicly announce their specific social programs, in which they explain the goals, tasks and means by which they will achieve social responsibilities. Thus, society receives information not only about the social orientations of its activity, but also sets the parameters of public control. Company social programs can be oriented in the following directions:

- training and preparation of personnel;
- social activities: rest, food, transport, etc.;
- corporate philanthropy;
- integration of people in a disadvantaged position, who can be from various categories - with one or another degree of disability, young people and girls from social homes, people who have undergone drug or alcohol addiction treatment, long-term unemployed and others .
- material support of educational and cultural institutions;
- material support of environmental programs;
- material support of sports and physical events;
- material support of public and social activities: boarding houses for the elderly, SOS children's villages and others.

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