

## IMPROVING THE STANDARDS FOR GOOD CORPORATE GOVERNANCE

In connection with finalizing the project “*Confirming Standards for Good Corporate Governance in Bulgarian Industry*” financed by the Science Fund, a scientific conference on the topic was carried out on 14<sup>th</sup> March 2014 in Economic Research Institute at BAS.

Nine papers were presented at the conference, classified in the following directions:

- legal framework of good corporate governance;
- comparative analysis of corporate governance models;
- monitoring the corporate boards in Bulgaria
- role of the stakeholders in corporate governance;
- European perspectives of corporate social responsibility.

The participants in the science conference were representatives of Economic Research Institute at BAS, University of National and World Economy, New Bulgarian University, Institute for the State and Law at BAS, NGOs, top managers of firms, PhD students, etc.

The Director of Economic Research Institute at BAS *Prof. Mitko Dimitrov, PhD* opened the conference. He outlined the important role of corporate governance as strategic management mechanism in a globalizing economy. He presented the results of a sociological study carried out in 132 companies, listed on the Bulgarian Stock Exchange. The goal of the study was to examine the current trends of standards for good corporate governance. Prof. Dimitrov outlined that the successful start of good corporate governance in Bulgarian industry is a fact, but new challenges are forthcoming in the future, in the context of the membership of Bulgaria in the European Union. Prof. Dimitrov evaluated highly the National Corporate Governance Code, and gave recommendations for its improvement.

*Assoc. Prof. Valchin Daskalov* from University of National and World Economy, in his paper “Good Corporate Governance as a Subject of Legal Regulation”, presented the concept of majority and minority shareholders as main stakeholders. The author defended the thesis of necessity for improving the legal protection of minority partners in shareholding companies. He outlined two main groups of conflicts – between shareholders and members of governing bodies of the company, as well as between majority and minority shareholders.

*Assoc. Prof. Daskalov* presented a classification of government authorities certified to implement an institutional protection of minority shareholders. The major supervisory authorities are Trade Registry, Financial Supervision Commission, Central Depository, Bulgarian National Bank.

His theses on the subordination of the creditors as stakeholders provoked a very interesting discussion. He analyzed the problems on carrying out General Assemblies of the companies. *Assoc. Prof. Daskalov* suggested his own classification of the majority – qualified majority with mandatory low limit, unchanged qualified majority, and full unanimity. He stated that the negative rights (blocking majority) create barriers to the mechanisms, through which the General Assembly manages, and they maintain the status quo,

which leads to statics of the company as a result of lack of effective management decisions.

*Mr. Nikolay Kolev*, in his paper "Obligation for Care and Obligation for Loyalty of the Members of Boards of Shareholding Companies – A View to the Doctrine for Corporate Governance by the American Law", made a comparative analysis between Anglo-Saxon model of corporate governance and Bulgarian experience. Special attention was drawn to the role of audit committees for good corporate governance of the companies. The experience of the US Corporate Law can be applied for this purpose.

The author presented a comparative analysis of the European and Bulgarian legislation concerning the role and the specific functions of the audit committees. In a systematized form the paper presented the requirements of the EU Directive 2006/43. According to the latter, public companies are obliged to have an audit committee, which representatives should be administrative members with no executive functions, as well as members of the Supervisory Council, or appointed by the General Assembly of Shareholders. At least one member of the audit committee should be independent and competent in accounting.

*Mr. Deian Dunavski* from University of National and World Economy, in his paper "State Companies and Good Corporate Governance – Analysis of the Legal Framework", explicitly outlined the big significance of corporate governance for the effective functioning of the state companies. The mechanism of corporate governance is defined as "soft law" with large opportunities for impact on the strategic development of these companies, on the example of the private companies.

The paper of *Prof. Polia Goleva* from the Institute for the State and Law at BAS was very interesting. It discussed the correlation of property responsibility of the shareholders and the corporate governance. The author defined the creditors as stakeholders and subordinated their significance in the context of the legal order of the shareholding companies functioning in Bulgaria.

*Prof. Plamen Tchipev, PhD* from the Economic Research Institute at BAS presented a paper "Monitoring the Performance of the Corporate Boards in Bulgaria". The core of the paper was the analysis of the functioning of the corporate boards as a main structure of good corporate governance. The author presented a systematized panel of theories on corporate governance and their comparative analysis.

Main part of the paper deals with the agent paradigm, an approach distinguishing two economic subjects in the company – principal (owner) and agent (manager) with large economic power. The paper outlined the main factors for the different interests of owners and managers, as well as the methods of solving the conflicts between them. The stimulating schemes of the managers, applied for increasing their motivation to maximize the interests of the shareholders, were stated as some of the mechanisms in this direction.

The paper presented the "owner" paradigm, which states that the managers are strongly bound to the shareholders concerning their future career and pension rights. This suggests similarity of their interests with the shareholders' ones. Prof. Tchipev presented very interesting results of a sociological study on the standards of corporate governance – size of corporate boards, influence of corporate boards on the change of

main executive directors of the companies, merging the positions of Chief Executive Director and Chairman of the Board of Directors, independence of the corporate boards, stimulating schemes for the managers.

Prof. Tchipev made a detailed analysis of the National Corporate Governance Code and discussed the current problems on regulating the corporate boards in Bulgaria, focusing on the risk management in the context of the crisis phenomena in the economy.

*Assoc. Prof. Miroslav Nedelchev*, in his paper "Practices and Tendencies of the Bulgarian Boards", traced back the genesis of corporate governance in a historical context, as well as its main characteristics in the Bulgarian financial system. The paper focused on the role of transnational companies for transferring a positive international experience in corporate governance not only of firms, but also of banks and financial groups. The author presented a data base of quantitative and qualitative indicators, which are fundamental for the evaluation of the corporate governance in the bank system.

*Assoc. Prof. Dr. Spartak Keremidchiev* presented a paper "What Do the Stakeholders in the Corporate Governance Do and Should Do". The author systematized the stakeholders' theory, as well as corporate theories, motivation theories, theories of systems, strategic management, industrial relations, legal and political theories.

Analyzing the essence of the corporation, the author made a comparative analysis between the interests of shareholders and stakeholders, as well as the reasons for conflicts between them. Investigating the motivation theories, *Assoc. Prof. Keremidchiev* distinguished Theory X (suggesting weak motivation of the personnel for responsibility, respectively strong supervision for achieving the set goals) and Theory Y (suggesting minimizing the supervision of the personnel and binding the labour payments to the employees' involvement in achieving the organization's goals).

The author studied the theory of systems as a mechanism for interaction of the firm with the stakeholders. In view of the strategic management he defended the thesis that the managers should be responsible not only to their shareholders but also to all stakeholders. This requires the companies to have a responsible behavior to the consumers, local communities, personnel, as well as being active in developing a system of values, corporate governance codes and ethic codes.

The author defined the stakeholders as physical entities or a group of people with claims to the activity of the enterprise, its resources and results. According to him, the main stakeholders are the state, local authorities, personnel, unions, suppliers, clients, banks, managers and shareholders.

*Assoc. Prof. Keremidchiev* presented the 2004 OECD system of corporate governance principles, compared with the 1999 one. The current version is based on considering the role of the stakeholders in the corporate governance analysis. These principles are set in the National Corporate Governance Code and guarantee an active interaction with stakeholders, following the principles of transparency, accountancy and business ethics, effective interaction with stakeholders.

*Assoc. Prof. Radostina Bakardjieva, PhD* presented a paper "Corporate Social Responsibility – European Perspectives and Bulgarian Experience". The author systematized the main factors provoking the rising attention of the companies to the socially responsible initiatives. The paper outlined the direct connection between corporate social responsibility (CSR) and sustainable development and concluded that

CSR is a core of the sustainable development. The author defined the corporate social responsibility as the most certain “insurance” from reputation risk, as an effective mechanism to form a good image of the companies and an increased trust of the investors.

Assoc. Prof. Bakardjieva systematized the relation between corporate social responsibility and competitiveness at micro and macro level. Competitive advantages of CSR at micro level show that it is a long-term investment. Through CSR firms maintain highly qualified personnel, manage their financial and non-financial risk and confirm their reputation. The alternatives of the companies on the financial markets also expand. CSR at macro level is directly connected with the concept of competitiveness at national, as well as at sector level. The author profoundly analyzed the European CSR Strategy and its focus on socially responsible behavior of the businesses, respected human rights, transparency of the firm financial and non-financial accountability.

Assoc. Prof. Bakardjieva presented a systematic theoretical framework of the CSR concept. The Carroll Pyramid with its main components – economic, legal, ethical and philanthropic, as well as the model: Principles – Processes – Result, were elucidated in details.

The paper analyzed the interaction between stakeholders and their contribution to the companies. It stated that the suggested matrix of stakeholders allows an objective evaluation of their priorities.

The author bound CSR with the non-financial accountability, focused on the environmental, social and governance (ESG concept) as a way to an integrated accountability. Assoc. Prof. Dr. Bakardjieva defined the integrated accountability as a complex form of corporate accountability, which reveals the factors directly influencing the organizations’ ability to create value for a long period of time, and synthesizes all directions of accountability – corporate, financial, social. The integrated accountability refers directly to the representatives of the financial capital, and that is why it will be imposed as mandatory for the companies listed on the stock exchange.

Assoc. Prof. Bakardjieva drew a special attention to the CSR standards, systematized in three main groups – proactive mechanisms for CSR (audit, inspection), report mechanisms for CSR, and informal, voluntary CSR mechanisms.

The paper presented a comparative analysis of CSR standards – SA-800 as a standard for social accountability and audit, OHSAS 18000 as a system for managing health and work place safety, ISO 9001 as a system for quality management, ISO 14001 as systems for managing the environment, AA 1000 as a system for identifying the stakeholders, ISO 26000 as a standard for social responsibility.

Assoc. Prof. Bakardjieva stated that publishing social reports on the corporate sites is worth admiring, and the businesses have the right to choose their own social priorities and look for an optimal balance between the interests of the public and the companies.

The conference ended with recommendations for improving the corporate governance and corporate social responsibility, directed to state institutions, business, NGOs, academic circles, as well as to the National Corporate Governance Code.

Assoc. Prof. Radostina Bakardjieva, PhD