

Corporate social responsibility practices impact on company performance across Bulgarian SMEs in the automotive sector

Emil Velinov

SKODA AUTO University, Czech Republic

Email : emil.velinov@savs.cz

Vasko Vassilev

Transport University Todor Kableshkov – Sofia, Bulgaria

Email: vvasilev@vtu.bg

Abstract

The relationship between CSR practices and the firm performance across automotive SMEs in Bulgaria the paper suggests that development and implementation of CSR measures is critical for the success of the SMEs across the emerging automotive sector in this EU country. The study aims at broadening knowledge at Corporate Social Responsibility literature in the context of SMEs business domain. The study represents quantitative analysis on CSR measures based on the ESG goals set by the United Nations. The collected data in the paper are secondary and it has been collected from the Bulgarian Statistical Institute, the Union of the Automobile Industry in Bulgaria and individual companies' websites. Additional data have been gathered from the Automotive SMEs' annual reports of the companies as well. The paper empirical data findings for the period 2018-2020 show that Automotive SMEs have been adopting westernized best practices on CSR, which positively affect their performance and prosperity.

Keywords: Automobile Industry, CSR practices, SMEs, Bulgaria,

Introduction

The global automotive industry is experiencing one of the most turbulent stages of its renewal. Some of the changes are external to the industry - changes in society, in lifestyle. Others are related to ensuring sustainable growth in line with significant climate change (Hoeft, 2021). The internal challenges for the industry are related to technical and technological announcement. The speed of industrialization follows the speed with which scientific innovations are created. This affects key areas such as propulsion systems, electronic control of

vehicle processes, car connectivity and its integration into traffic and communication systems, driver relief, creating conditions for greater autonomy of the car with predictable behavior in traffic.

It is obvious that car companies have been investing in development activities that are not specific to the classic car industry, whether it is carried out in the companies themselves, or the developments are acquired on the open market by technology companies outside the industry

(Pavlinek, 2018). In the medium term, global car production and new car sales will continue to grow. This growth will undoubtedly be linked to the need created by regulators to renew the car fleet based on sustainable and environmentally friendly propulsion systems. In 2020, this trend is not confirmed. Globally, the forecasts are for a decline in sales by about 18%, with a significant difference in the dynamics of individual regions. For the first 11 months of the year in Central and Eastern Europe, the common market decreased by 25.8% compared to November 2020 and 13.5% in the premium segment (Velinov & Bradáč, 2020). According to HIS POLK institute in Bulgaria the decline is 33.2%, in the premium segment - 28%. Naturally, the first and main factor for this is the decline in demand. It is related to measures to limit the COVID pandemic and reduced consumer confidence. In addition, a significant factor is the limitation or suspension of the production process in the world's automobile plants, as well as the difficulties in the functioning of the logistics system. The second wave of the pandemic leads to an additional downward adjustment of the forecast values. Although the general framework conditions for the development of the automotive industry will maintain the dynamics of the automotive market in 2021, it will be directly dependent on overcoming the medical dimensions of the pandemic and limiting the socio-economic consequences associated with it (Pichler et al., 2021). The maturity of society for the implementation of measures for social distance and the speed and scope of vaccination are extremely important. Also, the topic of Corporate Social Responsibility (CSR) has been emerging across the automotive firms in Bulgaria coming from the Western markets, but it was hit heavily by the global pandemic,

which significantly slashed the companies' budget stipulated for CSR activities (Wolff et al., 2020). Thus, it imminently affects negatively the development and implementation of CSR best practices across the automotive firms in Bulgaria.

The important role of the automotive industry for the country's economy, which is responsible for 11% of gross domestic product. Given the development of cars to digital technologies, Bulgaria can offer a wide base of IT specialists. There is great interest from companies that are willing to expand their business on the Bulgarian market. Not only car companies, but also about technology companies related to the automotive industry are expressing interest in investing into Bulgarian market. The automotive industry enables local companies to become part of its supply chains in the long run. As the pandemic has been evolving, a number of business and social issues arise that need to be addressed, such as ensuring a safe working environment (social and environmental), optimizing supply chains (economic and logistic) and switching suppliers (economic & logistic).

Literature review

According to institutional theory, organizations are susceptible to various pressures which expedite isomorphism in organizational practices and routines (DiMaggio & Powell 1983). The theory holds that organizations that share the same environment will employ similar practices in response to institutional pressures to survive. Accordingly, we understand institutions as supra-individual social entities that cause social as well as organisational phenomena, which cannot be directly

ascribed to individual attributes or actions but to external controls on individual and organizational behaviour. Social institutions in a given country, therefore, influence organisational behaviour through a combination of cultural-cognitive, normative, and regulative factors. Although CSR initiatives have become common among emerging market companies (Velinov, 2017), literature suggests that emerging market CSR is different compared to developed markets, reflecting their specific social and political background. Due to those differences, CSR scholars are faced with the challenge to determine what factors influence CSR in firms from emerging economies. In particular, several studies have researched CSR in CEE, such as Skypalová and Kučerová (2014), checking dependence between the knowledge of the concept of CSR and its application in practice, examining CSR strategies of banks and their effects on customer and employee satisfaction as well as on loyalty. However, only very few studies have explored the relationship between firm performance and CSR in CEE more in depth.

Since the institutional environment is specific to a nation, organizational practices usually vary across countries. With respect to CSR, Campbell (2012) found that the relationship between basic economic conditions and corporate social behaviour is mediated by institutional conditions. While knowledge on CSR in developed Western markets is abundant, the status of CSR in emerging markets is gaining al., and more relevance e.g., (Jindra et al. 2019). More concretely, the political, cultural, normative, and legal frameworks in Central and Eastern Europe (CEE) and those in Western Europe have remarkably differed for several decades given their affiliation to opposing

political blocks. Those differences can be expected to manifest in today's institutional environments and, consequently, to affect organisational phenomena. In recent years, though, due to the accession of many CEE countries to the European Union, an economic and legal harmonization with respect to EU laws and standards and business settings could also be observed across CEE (Sageder & Feldbauer-Durstmüller, 2019).

One of the complex studies, Činčalová and Hedija (2020) examined the relationships between CSR, firm age, firm financial performance, firm size and gender diversity of boards. They described the relationship between firm size, firm financial performance, and CSR practice of firms, but according to them, firm age and gender diversity of boards are not the factors affecting the CSR practice. Another study by Chang et al., (2017) controlled for company age, firm size, return on assets, CEO change, average age of board members, board size, outside director ownership, managerial ownership, and industry dummy variable. Their findings suggest that there is no universal feature of CSR-supportive board characteristics due to the unique characteristics of various institutional contexts. The findings by Yaseen et al., (2019) revealed that board diversity measured by gender is positively related to CSR performance. Moreover, after controlling CEO age and board characteristics, this study found supporting evidence for a positive association between board diversity and CSR.

Methodology

For the purpose of the study, we have studied sample of 50 firms from automotive sector in Bulgaria for year 2021 by their size. Then we

selected the top 5 among them ranked by firm performance. The study research model is based on CSR practices that are measured by five items (environment, human rights and labour, product responsibility, society) inspired by the content of the Global Reporting Initiative (GRI) guidelines. This method is adopted from Godos-Diez et al. (2020). As in the both above mentioned studies, we considered each item through dummy variables, in which a value of 1 was given if the company meets the item requirements and a value 0 if not. We have taken the ISO 9001, ISO 14001 and ISO 45001 as references since these standards imply the firm's compliance with environmental, human labour and quality regulations (Gallego-Álvarez et al., 2011). The ISO 9001 and ISO 14001 certifications guarantee the products or services and respect for the environment (Godos-Diez et al., 2020). The existence of a code of ethics emphasises the importance of moral and ethical principles that everyone in the organisation must respect. By preparing a CSR report, a company expresses its interest in publicly informing about relations maintained with all types of stakeholders and the actions taken with regard to the environment and the community.

Results and Discussion

Bulgaria has a number of advantages over many other countries in terms of attracting foreign investors against the background of the transformation of the global automotive industry - a process that affects both industry and business in general in Bulgaria (see Figure 1). The car industry in Bulgaria: a successful example of production and investor interests in Bulgarian Automotive Cluster. According to big 4 consultancy firms, Bulgaria is in the Top 10 countries with the fastest Internet in the

world, leading the ranking in the number of mathematicians. Furthermore, Bulgaria is third in the world in the number of qualified IT specialists per capita. At the same time, 49.5% of the population speaks at least one foreign language along with the fact that Bulgaria has a relatively relaxed tax system, which is good news for investors from abroad.

The automotive sector (see Figure 2) in Bulgaria boasts 67,735 people employed across 270 companies, as the majority of them are foreign-owned firms. A total of 270 companies operate in this sector in Bulgaria, with an annual turnover of 4.3 billion euros. About 90% of cars in Europe have parts made in Bulgaria. At the same time, 80% of car sensors in cars sold in Europe are built in Bulgaria.

Table 1 depicts how the top 5 automotive firms in Bulgaria have been performing in year 2020, during the global pandemic. We can observe that these five firms have been performing good beside the biggest automotive firm Yaazaki Bulgaria due to its digital and strategical reforms. However, these five companies have implemented higher number of CSR practices than their counterparts.

Clear for all those who operate on the Bulgarian car market or analyze its condition, is the trend of aging. Of particular concern is the fact that institutions and society are unable to find the right approach to reduce the obsolete, technically defective fleet and begin its replacement with modern, environmentally friendly, modern cars. The problem is the social cost of such steps and the lack of sufficient will for sustainable solutions, such as those applied in some of the Central and Eastern European countries with a similar history to Bulgaria.



Figure 1: Automotive sector in Bulgaria
Source: Bulgarian Investment Agency, 2021

Automotive Map of Bulgaria 2020-2021

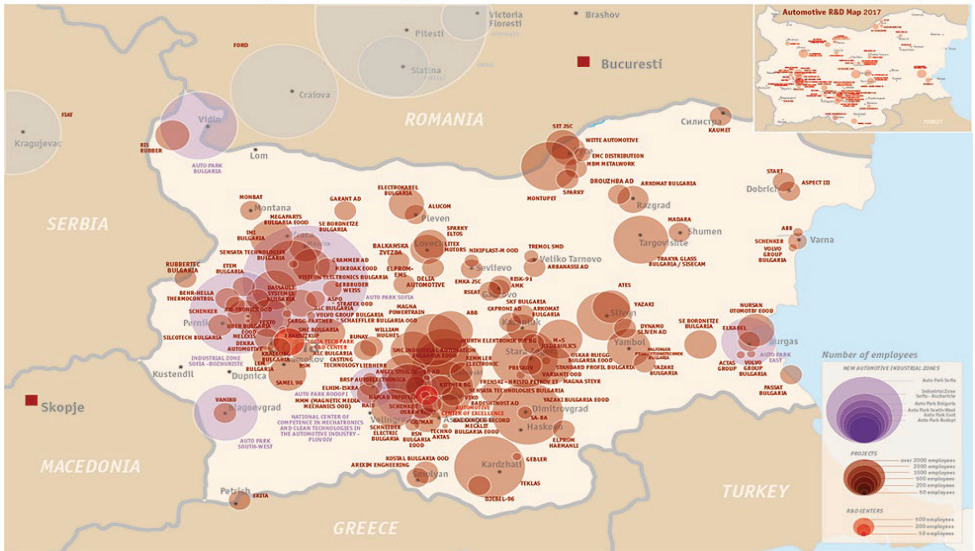


Figure 2: Automotive map of Bulgaria
Source: Bulgarian Automotive Cluster, 2021

Table 1: Top 5 automotive firms by performance in Bulgaria, 2020

Company	No.of employees	Earnings after taxes (EAT) in EUR	Firm Performance (EAT per employee)
Enterprise Service	3163	8 200 000	2592
Alkomet	1111	7 000 000	6300
Yaazaki Bulgaria	7000	-400 000	-57
Teklas Bulgaria	2703	27 000 000	9989
Sensata technologies	3658	13 000 000	3554

Source: Authors own elaboration

The necessary measures are in the field of direct economic support, modern tax policy, as well as measures applied by the regulators in Bulgaria in terms of access to the territory and permission for use. The control system for the implementation of the current legal and technical requirements for the movement of cars on the national road network is extremely important. The recession, which is observed in the main economic markets, undoubtedly affects the opportunities for rapid recovery of Bulgaria in 2021.

Bulgaria is part of the European Economic Area and is undoubtedly an open economy. This implies that export-oriented industries and industries are recovering at a rate different from the recovery of the domestic consumption and investment sectors. Current forecasts show a trend of GDP growth of 2.5% in 2021 against the background of a decline of about 6% in 2020. We expect a positive trend in the

purchase of new cars in Bulgaria. When we consider the decline in 2020, it is clear that the levels of 2019 and even 2018 will not be reached in 2021.

Our forecast is for growth on the double-digit limit, and this trend will be clearer than the second quarter of next year. Specifically, for Bulgaria in comparison with other countries in Central and Eastern Europe is the more dramatic reflection of negative trends in financial and economic development. As in the crisis of 2008-2009, in Bulgaria the decline is more intense than in Poland, the Czech Republic, Hungary, and the recovery rate is lower. This is also related to the high share of refinancing or leasing the purchase of new cars.

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One of the important trends in car consumption, which we are seeing in the current crisis, is the relatively higher stability of consumption in the premium segment compared to the general market. This specific model of consumption for developed markets is confirmed in our country. Naturally, even in Bulgaria, despite the lack of sufficiently effective measures to stimulate the entry of electric mobility, there is an increased demand for electric cars (BEV) and a particularly strong trend in rechargeable hybrids (PHEV). For example, in the BMW Group the latter marked a 370% increase compared to the previous year.

Conclusion

Even during periods of active restrictive measures in the country, the automotive sector continued to operate continuously. In the automotive industry, employment has remained the same. The search for highly qualified specialists continues. Companies operating in the wholesale sector and retail operators have implemented aggressive measures to control and limit costs. Limited and delayed production has also led to a reduction in stocks to levels adequate for consumption. At the same time, the regulations on the emission levels of newly registered cars and introduction of CSR practices are not affected by the economic downturn and the decline in consumption. This puts car

manufacturers to the test in the context of cost-cutting to keep the pace of renewal of the product line up and even speed it up. Otherwise, the cost of fines would be significant. The biggest change that accompanies our entire life in a pandemic is related to the role of the digital economy and trade and changes in the model of our communication. These changes have a major impact on the global automotive industry and are reflected in both R&D and automotive CSR activities. Last but not least, there is a process of accelerating the creation of a single car register, Bulgaria's accession to the registers of leading European countries and the possibility of electronic registration of new cars in the country.

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