

Chapter 2

Environmental Accounting: Conceptual Framework

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2.1 Emergence of Environmental Accounting and Reporting

With the rise of industrial facilities in the world, increased the costs and losses for activities related to environmental protection. Their value is already hundreds of billions of dollars. For this reason in the 70s of the twentieth century, many industrialized countries are beginning to involve in calculation enterprises the environmental performance indicators.

The turning point was in 1987, with the book by Rob Gray, David Owen and Kate Maunders, *Corporate Social Reporting*:¹ “No, that resistance is gone at this point—or actually disappeared as active hostility to environmental issues in the field of accounting until 1990, but the passive hostility or, at best,” a sweeping indifference “(Gray)—with which we are faced in Bulgaria, in an attempt to hold seminars on EA [Environmental Accounting]—still persists in the profession and academia.”

Until the early 1990s, social accounting was applied and developed mainly in non-profit organizations, and then started going into powerful corporations.

In the first 90 years of the twentieth century, large manufacturing companies already fell into the network of governmental environmental regulations, consisting of multiple orders, judgments, decrees, laws and acts. The law in some countries required a number of environmental and nature conservation activities, which in turn triggered the need to collect information about them, to establish a system for recording them and, ultimately, for disclosure—because they were not reflected in the financial statements, these funds were not reported. Many businesses do not like to show environmental accountability to the public, do not recognize the scale of the pollution produced from their activity, do not like to disclose the amounts of the salaries of their employees and management, working conditions, morbidity among

¹Gray et al. (1987).

staff, the state of family relationships, which often suffered from excessive workload of employees, the opinion of their workers of management and condition of the companies.

Traditional tools of economic analysis did not and do not allow management to determine how effectively they carry out environmental activities.

Environmental costs—costs that must be compensated for the maintenance of natural resources at the level that corresponds to the reference period for traditional accounting—are excluded from conventional economic analysis.

By the early twenty-first century, social and environmental accounting had become almost a major destination (mainstream) of economics practiced and developed by professional accountants, by theorists of economics and management, accounting historians of and scholars in the field of applied economic disciplines like tourism.

A turning point in the adoption of environmental accounting is 1992 with the United Nations (UN) Conference in Rio de Janeiro on the environment, which adopt Epistle to the twenty-first century for sustainable development. In connection with it is accepted concept for environmental accounts as a major instrument for carrying out research and development of a consistent policy of sustainability.

2.1.1 European Commission for the Approaches and the Future of Environmental Accounting

2.1.1.1 Extending National Accounts to Environmental and Social Issues

Integrated Environmental and Economic Accounting²

The first strategy for “green accounting” was presented by the European Commission in 1994. Since then, Eurostat and Member States, in cooperation with the UN and the Organisation for Economic Co-operation and Development (OECD), have developed and tested accounting methods to an extent that currently allows several Member States to provide the first sets of environmental statements.

²Report from the Commission to the Council and the European Parliament (2009).

The most common are physical flow accounts on air emissions (including greenhouse gases) and on material consumption, and the monetary accounts of costs and fees in connection with the environment.

As a next step, the Commission began collecting data in these areas from all Member States. Began compiling the physical and monetary accounts for energy consumption, waste generation and treatment of waste, and for environmental costs. The Commission aims these accounts to be fully available for policy analysis by 2013. To ensure the implementation of these accounts, the Commission intends early next year to propose a legal framework for 'green accounting.'

A second category of environmental reports refers to natural capital, in particular changes in stocks; the most important among them are the accounts on forests and fish stocks. The Commission will contribute to the work currently undertaken at UN level.

The next challenge in the development of environmental accounting is complementing reports physically with monetary values based on valuation of the damage caused and prevented, changes in natural resources and the products and services of the ecosystem, so as to obtain representative, robust, comparable and reliable monetary measures at national and European level.³ Valuation of the costs of environmental damage and the benefits of environmental protection can help to focus policy debate onto the idea that prosperity and well-being depend on the nature of the available products and services. At micro level such valuation is reasonable. It is covered by several studies devoted to the Economics of Ecosystems and Biodiversity, ongoing wide-ranging valuation services in connection with the ecosystem, conducted jointly by the UN program for the environment, some countries and the Commission. Valuation is widely used in assessing the impact of the Commission. The European Environment Agency intends to continue its work on valuation and reporting products and services in connection with the ecosystem in order to create an internationally recognized method. The Commission intends to step up work on monetary valuation and the further development of conceptual frameworks.

2.1.2 Basic Theoretical and Research Characteristic: Institutional Framework of Environmental Accounting and the Problem of Social Cost

For the first time the problem of social cost is theoretically defined and discussed in the environmental sense in the article by Professor Ronald Coase, "The problem of

³The EXIOPOL research project (an integrated project funded by the European Commission under the 6th framework programme, priority 6.3 Global Change and Ecosystems) aims to create an expanded framework of incoming and outgoing information for the assessment of environmental impacts and external costs of economic sectors of final consumption and resource use in the EU: <http://www.feem-project.net/exiopol/>

See also: Handbook on estimation of external costs in the transport sector, February 2008 http://ec.europa.eu/transport/sustainable/doc/2008_costs_handbook.pdf

social cost”.⁴ The social cost is also called “external cost” or “externality”,⁵ as well as “external not—savings”—or “*Diseconomy*”.⁶

There are many studies on the problem of social cost and many definitions have been suggested, but generally speaking, in this case, we must understand by this term and concept of social cost largely located on public issues due to the environmental impact of specific activities of certain companies and other organizations or other unidentified units.

For example, damage to health suffered by third persons, or damage to forests or agriculture due to the impact on the environment as a result of the business of the company or other organization, does not lead to the direct economic burden of such a company or organization, provided that there is no evidence of a causal link. Nevertheless, the society may consider that it has suffered losses because it pays for these damages, and the company passes them on to society, taking for itself only the profit.

This situation occurs if there is no released system by which to identify the effects that companies and organizations have on the environment and society as a whole, and to identify which impacts should be paid for by the public, if they do not pay the damaging side (causative).

For this reason and sense, environmental accounting is a part of social accounting. It demonstrates who causes injury or damage and require disability to pay for it and not transfer it back to society, appropriating only benefits. This concept is precisely set by Ronald Coase and developed in many other studies of neo-institutional theory.

Environmental data that are reported are not linked to financial data and the system of collecting and reporting of financial data.

Environmental accounting highlights errors and deficiencies in the data collection in the organizations.

2.1.3 Types of Academic Study

2.1.3.1 Study of Organization

Environmental accounting is part of the academic study of the organization. It develops in two directions:

1. Development of the theory
2. Improving practice

⁴Coase (1960).

⁵The problem of external effects or “externalities” is put in science for the first time by Arthur Cecil Pigou, but the solution is treated by him in the neo-classical sense.

⁶Diseconomy—contrary to the economy (of scale): economic disadvantage, such as increased costs resulting from the increase in the size of the organization or due to damages caused by a business. In an ideal world, non-savings should be minimized.

Problems that have arisen from this are:

1. Academic research with a theoretical nature does not include information derived from the practice within the organization.
2. Academic research that does not engage in the practice of the organization cannot show us how to change the organization because change is a major problem facing the neo-institutional economy. Desire to see how to really change the organization environmentally and socially has led to research into social and environmental accounting.⁷

2.1.3.2 Neo-Institutional Framework of Environmental Accounting

Environmental accounting is an extension and application of accounting theory and the practice of the theory of neo-institutionalism. Development of institutional theory helps to achieve uniformity and stability in environmental accounting and reporting.

Institutional theory provides the link between understanding and learning institutions, institutional change and organizational change. This relationship is better systematized by Larrinaga-González (2001).

It provides a framework for the study of institutionalization, and the development of institutional theory is due to the assumption of homogeneity and stability studies in the field of social and environmental accounting.

It provides a framework to understand both institutionalization and change (see: Adams 1999).

2.1.3.3 Engaged Research

“Engaged research”⁸ is a term used in accounting disciplines such as management accounting, social and environmental accounting and others, mainly to illustrate the ways in which research is approaching and studying organizations.

The term “engagement”—with the meaning of the French word “*engager*”—dates from the early seventeenth century, when it was used to define a “legal or moral obligation” to something or someone. In other words, engagement—from the verb “to engage” and the suffix “-ment” (as in “environment”)—shows “the act of making or participation”. In particular, from this perspective, the commitment to the study outlines a specific approach to studying organizational practice, including social and environmental accounting, which requires the “reflexivity and empathic

⁷Adams and Larrinaga-González (2007).

⁸Contrafatto (2011).

engagement of the researcher with the organization and with members of the surveyed organization in the course of its research”.⁹

In the context of social and environmental accounting, research has the potential to provide valuable resources to enhance the descriptive and theoretical understanding of the processes and dynamics of social and environmental issues.

As Adams and Larrinaga-González note, “engaged research” is a “privileged” approach that can be used to study the social and environmental aspects of the organization and its interaction with other organizational processes.¹⁰

If so, they are not just searching strategy for instrumental solution in order to satisfy to the needs of the researcher. Through this approach, researchers and scientists can actively participate in the process of organizational change to less unsustainable way of operation and business.

In recent years, there have been increased calls (Adams 2002; Gray 2002; Parker 2005; Dey 2007) for more fieldwork in social and environmental accounting research by engaging with the participation of people from organizations, and these are being explored as a means to study the deficits and conflicts in some of these explanations. In response to these arguments, more researchers are engaging members of organizations to study various aspects of social and environmental accounting and its environment.

2.1.4 Why Is It Important to Conduct Environmental Accounting?

The environmental performance of a company is an important measure of business success for the following main reasons:

1. Many costs associated with the environment can be significantly reduced or eliminated as a result of business solutions for environment-friendly production based on investments in “green” technology in the production process, and adjustment or modification of processes and/or products. For example, savings can be realized by the replacement of toxic materials with non-toxic substituents used in manufacture, thus eliminating the high and increasing costs of processing hazardous waste and the costs associated with the use of toxic materials.
2. There are potential cost savings that are neglected in cost management and are mainly expenses related to the environment. These are costs that are included in the group overhead costs. For example, energy and water utility costs are included in the overhead costs of conventional accounting.

⁹Oxford Dictionary of Advanced Learners.

¹⁰Adams and Larrinaga-González (2007).

3. Opportunities exist to generate revenue for the company, such as through the sale of waste by-products.
4. Through environmental accounting and reporting, competitive advantage can be achieved by greening design of manufactured goods, while greening manufacturing processes, products and services, which are increasingly preferred by customers. Companies can demonstrate that they offer environmentally preferable products and services by adhering to certification systems and proving their ecology.
5. Accounting for costs associated with the environmental and natural line performance of the company can support its development and establish the functioning of a comprehensive system for environmental management, such as ISO 14001, EMAs and others; this can lead to significant benefits for human health. Therefore, environmental accounting is part of social accounting.

2.2 Environmental Accounting and Social Accounting Relationships

Social, Environmental Accounting Research (SEAR) is an important current of research that involves relations in society and social, environmental and economic systems (Gray et al. 1996, 2014). It has been directed towards studying the processes and instruments to account and disclose to stakeholders and others.

In a system in which SEAR is involved, some evolutionary philosophical currents are progressively emerging. Among them we propose the following.

The first philosophical current regards the limits of stakeholder theory (Freeman et al. 2010) that does not involve subjects that do not have a stake in the enterprise, but that are at the same time important and involved in terms of damage (e.g. when in one part of the world there is waste and others cannot eat or have clothes because the economic system is not able to grant this) (Alford and Compagnoni 2008).

The second current is that people are more and more strictly connected to each other. For society to survive, it is required that everybody becomes responsible and, at the same time, people must understand that their actions are deeply correlated to each other and they must learn to act for the benefit of the other (MacIntyre 2001, p. 148).

The following ways of thinking more immediately interest SEAR processes.

The first way of thinking regards the boundaries of the system of society: in other words, that it is not possible to talk about sustainability without actively involving—in the economic/social/environmental systems and thus in the company system that is within it—some subjects that have different abilities (e.g. blindness, disabilities) (Nussbaum 2007).

The second current of thought is that there is not only one direction of responsible action, but a double-direction of how to find key subjects for the SEAR process, key persons who can sustain disclosure and go on to revitalize society.

When these key persons leave the business world, this creates great damage and the disclosure process risks stopping.

The third philosophical school concerns the contribution of SEAR to important research that actively turns the situation around and places all the different reasoning into a single whole. In Italy, one general research scheme helped researchers in these fields find evolutionary ideas and deeper integrated analysis among various disciplines.

Later, the organizational processes and key factors of accountability motivations influenced the attributes of SEAR, underlining transparency first of all, then democracy and, finally, sustainability.

Beginning in 1996, Gray, Owen and Adams traced the urgent need to pass from accounting to accountability, which is a larger process that is oriented to relate to economics and social system relationships and to try to change them in a future challenge concerning sustainability direction (Gray et al. 1996, p. 292; 2014).

In the past, Gray et al. (1993, p. 21) reminded us of the importance of accounting for the construction of social reality and the need for a cultural change to drive a better world.¹¹ The author considered the subject of environmental issues and how to manage these issues and to face the challenges that derive from this.¹²

Our attention is focused on one aspect: sustainability, and in particular that of eco-efficiency, which is measured through environmental costs.

This perspective fully incorporates environmental accounting, which can be defined as the set of surveys regarding the use of natural resources, which fall within the sphere of influence of the company. Environmental accounting is for the measurement and evaluation of natural resources and includes assigning an economic value to environmental goods and services, which are appreciated and recognized as important in society.

The environmental information can be found either from surveys conducted in the sphere of external communications, and therefore managed by the general ledger, including: the environmental costs, cost of provisions for environmental risks and environmental investments.

¹¹Regarding this: “the ‘tone from the top’ is as important in environmental matters as it is in ethical ones. . .this becomes even more apparent when it is realized that what is needed is a cultural change” (Gray et al. 1993, p. 45).

¹²“If the business and accounting environmental agenda are the only games in town, one can choose to play or not to play” (Gray et al. 1993, p.305). Again: “But such incremental change will mean little without fundamental systemic change. Only a complete change of paradigm is likely to allow humanity to become part of ‘environment’ rather than its exploiter” (Gray et al. 1993, p. 307).

The dimensions on which to base the environmental impact have been enriched over time by new aspects that have made more and more complex the treatment of this type of problem. In fact, while initially recorded aspects of pollution and sewage stress the importance of corrective action, the case study of the ecological impact has assumed some new but increasingly important as that of the human health (Miolo Vitali 1978) and energy (Burrit and Shaltegger 2001, p. 11).

2.3 The Historical Development of Institutional Factors Influencing Environmental Accounting in Italy

The Italian historical background is very different in the respect of Bulgaria, because the national Unity, 1861, oriented Italy toward a common base of institutional and environmental factors that orient to economic development (Baldarelli and Nesheva Kioseva 2012).

After the Second World War, Italy solved some problems adhering to the Marshal Plan and then became one of the most important developed countries in the world; the intervention of the state in the market and organizations was very important after the war. Twenty years ago the state left to private ownership a lot of enterprises (e.g. banks), leaving more freedom for the product, service and financial markets.

Italy developed under civil law orientation, freedom and good political behavior, thanks to some large enterprises and numerous small and medium enterprises that faced a lot of economic challenges during that time.

But we think that Italy grew up because there were some people—politicians, economists, entrepreneurs and civil citizens—who sacrificed their lives for the quality of life of others and “the common good”.

The expanding economic wealth and relative political stability were some important factors that oriented toward a sensitivity in the respect of accountability and transparency in publishing enterprise information.

Financial accounting and reporting regulations followed different steps, as you can see:

- 1882: The Code of Commerce named the publication of the financial statement without considering analytical, clear content.
- 1942: The Italian Civil Code was printed and contained only the assets and liabilities accounts and the income statement without any analytical content.
- 1974: Law 136/1975, the reform of limited companies specified the minimum content of income statements too.
- 1991:127-and 503/94-Low act of receipting the IV EU directive (Giannessi, 1960; Ceccherelli, 1968; Amodeo 1970; Campanini 1979; Paganelli 1974; Amaduzzi & Paolone, 1986; Matacena 1993).
- 2003: The reform of enterprise rules
- 2003: IFRS (International Financial Reporting Standards) adoption (Baldarelli et al. 2007).

Along with Law rules, from the 1970s, accounting professions made some “standards”/principles to fill up the gap between the abstract law and operative praxis for each element of the financial statement (D’Ippolito 1975). The present organization that is invested in this role is the Italian Accounting Organization, by which accounting professions continue to adapt IFRS to Italian culture and praxis.¹³

The last document of 2010 that the accounting professions made, regarding for-profit enterprises, was about the Administration Report, and includes a section in which the enterprise can explain its impact on the environment.

In Italy there are some important factors that sustain the need for social and environmental accounting and reporting to emancipate economic and social relationships and democracy.

Following Contrafatto and Rusconi’s idea (2005, p. 3), SEAR theory in Italy had its origins in the 1970s (Miolo Vitali 1978), but we didn’t find empirical social and environmental reporting until the 1990s, excluding the Merloni-Battelle experience. The reason for the interest in this theory was that financial accounting and reporting law was not so exhaustive, so there was an open space to cover with social and environmental accounting theory.

In the 1980s there were a lot of publications about this subject (De Santis and Ventrella 1980; Bandettini 1981; Matacena 1984; Vermiglio 1984; Rusconi 1988; Catturi 1993), but organizational culture was not yet ready to involve these subjects, as we can read: “This was partly, at least, a result of mutual distrust between corporations, public authorities and trades unions” (Contrafatto and Rusconi 2005, p. 4).

A further reason for theoretical interest in SEAR was the difficult socio-political situation and its many conflicts: “Fear of transparency was set within a climate of mistrust between capital and labour” (*Ibidem*, p. 4).

Despite these difficulties, there are some important factors that are in favor of SEAR; among them is a common platform of “Economia Aziendale” (Contrafatto and Rusconi 2005), where financial accountants and social and environmental accountancy scholars can have dialogue without as many problems.

The concept of an organization following institutional theory (Lai 2004) opens a holistic view of it and involves social and environmental subjects too.

The involvement in the economic system of different organizations—such as the state with public organizations, for-profit organizations and private, not-for-profit ones—pushed transparency to face a crisis and to go on globalization challenges. This evolution made it more and more important to have one common platform of information for dialogue, and so all economic partners were more oriented to disclose their behavior in the respect of stakeholders.

In the following years, SEAR developed in theory (Buscarini 2005; Molteni 2004; Bagnoli 2004; Buscarini 2005; Rusconi and Dorigatti 2006; Arena et al. 2006; Del Baldo 2007; Baldarelli 2010), but above all in practice, because of a lot of European initiatives (Stakeholder forum and Green papers 2001 and subsequent).

¹³<http://www.fondazioneoic.eu/>

There are two important SEAR projects we must remember among the others. The first project had its origins on 1988 and the name is GBS–SBG (Gruppo di Studio per il Bilancio Sociale/Social Balance Group) that stated and it is stating some principles to made SEAR.¹⁴

The second important initiative was CSR–SC (Corporate Social Responsibility–Social Commitment). 2003, for Italy, represented the year of the progressive spread of the debate about corporate social responsibility, both because the Italian government placed it among the top five priorities of its European semester, and because the European Campaign, promoted by the European Commission, the CSR Europe and the Copenhagen Centre, realized events and actions (EC 2001, 2002).

Following that, the durable action was proposed by which a series of dispositions could be summarized in the sentence, “Nevertheless, new forms of social and commercial pressure induce the companies to progressively modify their values and horizons”.¹⁵

The Commission in question identifies some guiding trains of thought regarding socially responsible conduct, like the codes of conduct, managerial rules and regulations, accounting, auditing and the drawing up of reports, labels and socially responsible investments.

From the point of view of provisions and policies by the government, the partial Italian response was also substantiated in the CSR–SC project promoted by the Italian Ministry for Labour and Social Policy.¹⁶

SEAR implementation in Italy was voluntary until the introduction of the Italian law 24 March 2006, n. 155: “The discipline of social enterprise” and at the art. 10 required the compulsory making of social reports. This was the first time that Italy stated a compulsory rule about SEAR.

Summarizing some orientation derived from this excursus concerning social and environmental accounting can be synthesized in:

1. Financial statements are not completed separately from SEAR thanks to the common scientific base of the *Economia Aziendale* (Signori and Rusconi 2009).
2. There are different models of SEAR in Italy such as GRI (Global Reporting Initiative) and GBS (Gruppo di Studio per il Bilancio Sociale) model (Rusconi 2006). In Italy started immediately social auditing activities to guarantee the quality of information in SEAR (Hinna 2009).
3. In Italian SEAR there are qualitative such as quantitative elements in accountability. Consequently, accountant are facing the theory and empirical problems.

Following Hofstede (1980) and Gray (1988), we can try to understand Italian cultural factors that orient to disclose social and environmental information in theory and (eventually) in practice.

¹⁴<http://www.gruppobilanciosociale.org/>

¹⁵EU documents, European Commission, Green Paper 2002, p. 5.

¹⁶<http://www.camcom.gov.it/cdc/>

Following Hofstede:

1. Individualism versus collectivism: in Italy there are both dimensions, because the firm orientation is to think to oneself, but the small prevailing dimensions of entities push to create networks (and so to develop transparency instead of secrecy) so we can observe a good presence of collective interest. This favored, thanks to institutional theory too (Lai 1991), disclosure about social and environmental accounting subjects.
2. Large versus small power distance: in our opinion, in Italy there is a small power distance and so there is an open mind about disclosure.
3. Strong versus weak uncertainty avoidance: Italy is in the middle, because it is a civil law-based country and regulation and weak uncertainty avoidance, because professions and enterprises face the present crisis with creativity and not only with rigid regulation.
4. Masculinity versus femininity: Italy is in the middle, because there are all the characteristics that orient enterprises, such as heroism, modesty, material success, quality of life and so on.

Following Gray:

1. Uniformity versus flexibility: more developed Latin countries are nearer to uniformity because civil law countries push in this direction. In Italy there is not so much flexibility, at least at the time of writing.
2. Statutory control versus professionalism: Italy is more about professionalism, because accounting professions have an autonomous code of conduct and, thanks to the Italian Organization of Accounting, the accounting professions suggest the content of reporting.
3. Conservative versus optimism is another paradox, because on financial accounting there is conservative perspective that is prevailing as Gray told. About social and environmental accounting and reporting there is optimism and transparency, that are more important to joint new doors to implement information tools.
4. Secrecy versus transparency: at present we have some paradoxes. Different dimensions of Italian entities are publishing too much information—financial, social and environmental—at the same time, making it very difficult for readers to find useful information quickly.

2.4 The Historical Development of Institutional Factors Influencing Environmental Accounting in Bulgaria

The modern Bulgarian state was founded in 681 by the union of three ethnic groups: proto-Bulgarians who imposed their Eastern state tradition; Slavic tribes from the Southern group of Slavs living in the territory of the Eastern Roman Empire (Byzantium); and the older indigenous population, known as Romanized Thracians, known to inhabit the lands of modern day Bulgaria since deep antiquity.

Since its inception in 681, Bulgaria has been situated at the junction of the Balkan Peninsula between Europe and Asia. The state has lost its independence twice. The first time, from 1018 to 1185, Bulgaria was conquered by the Byzantine Empire; the second time, from 1393/1396 until 1878, Bulgaria was under Ottoman rule. Bulgaria was liberated as a result of the Seventh Russian–Turkish War of 1877/1878. From then until 1944, Bulgaria was integrated into the European world economy, and in 1944 became a member of the Soviet Bloc.

This historical experience strongly influences the present condition of Bulgaria and the institutional factors of its development. As Bulgarians say, “we weigh too much history”. Economically, frequent changes in the foreign policy orientation of the state under the influence of powerful countries, and changing economic models under the influence of foreign powers, have had a negative impact on the ability of state and society to make stable and progressive self-development. Bulgarian economic system is generally inert or low-activity economic system. Frequent changes of style and economic order have not allowed economic evolution to foster creativity, which is essential in order to promote innovation, which favors growth. Alexander Gershenkron, a famous researcher into economic development, called the economic growth of Bulgaria “growth without development (Gershenkron 1978)”. The main reason for this is precisely the impossibility of stable continuous institutional evolution in order for Bulgaria to foster its development, as it is often interrupted by radical, drastic change. With these radical changes in Bulgaria came the destruction of the existing formal institutions and the importation, imposition and intrusion of new institutions which were alien to the established traditions, manners, customs and religion of the country. For example, Christianity was imposed during the ninth century, the Ottoman economic model was imposed in the fourteenth century, the socialist model was imposed from 1944 to 1989, and in 1989 a sharp turn was made in the direction of liberal Western society. This new Western paradigm, with its changes to the economic model—representative electoral democracy with its multi-party and multi-candidate system—resulted in distrust by Bulgarians for a number of reasons. These included the forcible imposition of foreign institutions, high inflation, high unemployment and reduced living standards. This occurred against the will of many people within Bulgarian society. As a result, this was another historical example of the continuing negative reaction Bulgarian society has had to changes in their economic and social paradigms, and resulted in deep suspicion and mistrust of its political system.

It is against this backdrop, as well as the recent accession of Bulgaria to NATO and the European Union (EU), that we now find Bulgaria taking strides to develop a market economy that is competitive within Europe and globally.

The first book on accounting (accounting services) in Bulgaria was “Diplografiya¹⁷ or how to keep the books”, written by the brothers Hristo and Stoyan Karaminkov (participants in the Bulgarian national liberation revolution in the nineteenth century) and published in 1850 in Constantinople (Spasov 1999). In 1884, the curriculum of the trade school in the town of Svishtov began including the discipline of accounting (accounting services).¹⁸

For the first time in 1898, accounts in Bulgaria were regulated by legislation, when the first Bulgarian Commercial Law was enacted. In that enactment, there was a chapter titled “Commercial Paper”, which set out the essential requirements which must be respected by traders in the regular maintenance of their accounts.

According to Trifon Trifonov, the famous Bulgarian researcher of the development of accounting in Bulgaria, “Up to the Second World War in capitalist Bulgaria there was the development of manufacturing accounting in full accordance with the European accounting school (mainly in France and Germany)”.¹⁹

After the victory of socialism in Bulgaria in 1944, accounting was reorganized on a socialist basis. Some socialist countries, such as Bulgaria and Romania, inherited a rather low standard of accounting (Mackevicius 2005, p. 49).

The first Bulgarian Accountancy Act entered into force in early 1948, but unfortunately accounting was regulated by legislation for a period of only about two years. At the beginning of 1950, the Accounting Act was repealed and transferred to the legal regulation of accounting, through administrative regulations, decrees, rules, regulations and letters from the Council of Ministers.

One of the most important works in the sphere of the reorganization of accounting on a socialist basis was the writing of governmental documents that regulated the strengthening of the socialist accounting system. The most significant of these documents were the Decree on Calculation (1946) and the Law on Financial Accounting (1948). Bulgaria then became a member of the Council for Mutual Economic Assistance (CMEA). In all the CMEA countries, the process for improving the charts of accounts was set to continue. In Bulgaria, a number of measures were accepted, including: a common plan of accounts; individual charts of accounts of enterprises; and the common charts of the accounts of the national economy, on the basis of which branch/departmental group charts of accounts were worked out. The stage of creation for a common model of accounting for the socialist camp started in the year 1970. International symposiums were held from 1972 to 1985 and occurred in Bulgaria (1972), the GDR (German Democratic Republic) (1974), the Soviet Union (1975, 1981), Hungary (1978) and Czechoslovakia (1983). At these symposiums, issues of a common model of accounting were dealt with (Mackevicius 2005, p. 50).

¹⁷Diplografiya = dual accounting.

¹⁸Spasov (1999).

¹⁹Trifonov (2010).

In 1989, there was a government takeover in Bulgaria, which removed from power the leader of the Bulgarian Communist Party, who had ruled the country for 32 years under an authoritarian regime. With this started the change from a centrally planned economy to a market economy.

From the beginning of 1991, the legal framework of accounting in Bulgaria was restored. Adopted on January 3rd, 1991, the Accounting Act enabled companies to develop and implement accounting policy whereby the management of each company would set its own principles, rules and procedures for the accounting treatment of returning objects and their presentation in financial statements. From early 1998 until the end of 2001, a very substantial change in national accounting law was made, which was aimed at harmonization with the requirements of International Accounting Standards (IAS) rather than the requirements of EU directives.

The third stage of reform in accounting legislation in Bulgaria started in early 2002 and continues today. With the amendments to the accounts by the end of 2001, IAS was adopted for direct application in the country. Since the beginning of 2002, Bulgaria adopted new accounting regulations governing the application of IAS. In a new Accounting Act, the problems of independent financial audits were governed. As a result, all national accounting standards have been aligned with IAS. Since early 2005, the compilation and presentation of financial statements of companies has been based on IAS. This has eliminated the mandatory nature of the national chart.

The main document in Bulgarian accounting law is the Law of Accounting, which came into effect from January 1, 2002 and is the third line in the history of the Third Bulgarian State. From January 1, 2007 up to this moment, in the Law of Accounting are made substantial changes and amendments that affected the organization and methods of accounting. This resulted from the reflection of the Council Directives of the European Community and in particular the Fourth Council Directive on the structure and content of annual financial statements, and the Seventh Directive on consolidated financial statements. Each enterprise accounting system built its own individual plan.

Bulgaria currently applies three accounting bases for the preparation and presentation of financial statements including IAS, national standards for financial statements of SMEs (Small and Medium-Sized Enterprises) and national accounting standards for preparing and presenting reports of companies terminated by liquidation or bankruptcy.

IAS applies to the following groups of companies: companies that are issuers under the law for the public offering of securities, credit institutions, insurance companies, investment companies and companies for additional social security funds managed by them. Large enterprises are enterprises that do not meet the criteria for small and medium-sized enterprises under accountancy law. IAS is applied by small and medium-sized enterprises that have selected IAS as their own guidelines in the compilation of financial statements. Basic regulations for companies include IAS Regulation 1606 from 2002 and Regulation 1725 from 2003, as well as many subsequent regulations.

According to renowned Bulgarian economist Professor Garabed Minassian, Bulgarian social and economic development is key to improving the quality of institutions. He has stated that:

1. Basically, the imbalance in our contemporary socio-economic development results from the gap between the quality of institutions on the one hand and the degree of development of productive forces and society on the other.
2. There is an imbalance and disparity between current expenditure and consumption on the one hand, and capabilities (qualitative and quantitative capacity) of the economy on the other.
3. There is an impossible triad of low taxes, the need for an acceptable quality of public services and the inefficient functioning of institutions. The government is persistently distracted when it comes to improving the institutions, and the reasons are understandable—increasing the efficiency of the functioning of the institutions builds interests (both collective and personal).
4. There is an imbalance between short- and long-term effects in macro-economic management (Minasian 2009).

The transformation of the economic system, as in the case of Bulgaria, inevitably entails the modification of basic institutes. Accordingly, the transition from an industrial to an information economy—which is now held by scientists in the field of economic development to be the key to overcoming the negative externalities of globalization—relies on market institutions and with them the conditions of competition change. The transition to an information society brings with it an increased demand for information on socio-economic-ecological processes.

Management authorities, including state and local administrations, carry out the transformation of the existing external institutions through institutional policy and regulation.

The institutional policies in this work are those conducted by the state and its actions in the formation of new modes of action—removing or transforming the existing institutions of property, labor, financial, social and economic institutions (i.e. economic elements of social structure, characterized structure, forms of organization and regulation of economic life). The transformation of the economic institutions has a place in the process of economic reform, including the transition from traditional forms of accounting to new, which may be based on environmental accounting estimates and the new understanding of the value and full cost accounting. The socio-economic-ecological system is not self-organizing.

The essence of the institutional regulation of the economy is done by adopting different rules and patterns of behavior that are defined in the legal standards and public institutions.

Institutional elements of socio-environmental-economic regulation include the perfection of the state governance system in the following areas:

1. Macro and micro economic indicators, taking into account the environmental factor specification of property rights on resources.
2. The formation of policy for the protection and preservation of natural resources aimed at the introduction and implementation of tools for the economic impact of green production.
3. The stimulation of the development of the market for environmental services.

The introduction of environmental accounting and reporting concerns directly to 1.3 and 4 institutional elements of regulation and the requirements of the transition toward an increased demand for information at this stage of development.

The institutional aspects of state environmental regulation concern solving the problems at the macro and micro level:

1. Macro-level policy in environmental protection includes the development of the institution of environmental entrepreneurship and the formation of market-oriented environmentally friendly products, technologies and so on.
2. The micro level includes the selection and adoption of decisions on limited environmental goods and environmental quality, assessment of externalities and their internalization, and so on.

Particularly important is that the role of institutional regulation is determined by a number of specific factors in Bulgaria:

1. Externality: failure of the market mechanism to deal with market failures that are associated with externalities.
2. Price: absence of a clear vision for the economic category, price of resources and the consequent lack of assessment of their value.
3. An accounting system in which the benefits of resource use are easily measurable, but the benefits of natural protective actions are not reflected in the analysis of cost-benefit ratios and therefore not evaluated.
4. An accounting system which does not take into account the impact of business on the living conditions of people.
5. A vicious system of exploitation of resources as public goods. Many natural resources are “public goods” and a system of inefficient use is currently in effect. This issue is related to the problem of improper pricing for profit (e.g. the pricing of water, heating and electricity). This leads to uncontrollable mountain rivers and tributaries with intermittent high water. This often leads to their complete or intermittent drying and the disturbance of ecological balance in all areas. This results in a deficit of water resources for the respective areas, the disappearance of animal and plant species, as well as permanent destruction of river habitats. Meanwhile, Water Power Plants (WPPs) are profitable, as are investments with a fast payback because of the commitment of the government to produce and buy renewable energy.
6. Outdated perceptions of management for economic growth: they are narrowly expressed in the use of methods for increasing production which do not include environmental considerations. These were typical during the early years of the Industrial Revolution in England during the eighteenth century. As a result, there are anomalies in the measurement of national production due to a lack of indicators in the system of national accounts to measure the characteristics and impacts of the socio-economic-ecological system.

Anomalies in productivity led to hypertrophied targeting of resources and manpower to two areas: construction of houses, hotels and buildings for the tourism industry (which is expressed mainly in hotels and restaurants), and logging. This led

to a 20-year expansion of the construction of homes and hotels in Bulgaria, which caused irreversible destruction of the environment and nature in the Bulgarian Black Sea coast, mountains and urban systems. Along with this was an increase in the extraction of inert materials, including those from river waterways. Over the past 10 years, there has been a sharp increase in the exploitation of aggregates along the Maritsa River, Tunja River and other Bulgarian rivers. This in turn leads to many negative consequences, such as the destruction of riparian habitats, the extinction of species, the reduction of groundwater, the danger of flooding and the destruction of roads and buildings. Open mining and extraction of aggregates, such as gold mining with cyanide, resulted from shortsighted government policy during the period 1992–2008. By this time, 12–15% of Bulgarian forests had been destroyed because of predatory exploitation and indiscriminate logging. Bulgaria is one of the few countries in Central and Eastern Europe where forest areas are decreasing at an alarming rate. In some areas such as river valleys, 80% of forest area has been destroyed over the past 15 years. Along with this are whole depopulated areas in Bulgaria resulting from the concentration of construction in the capital and tourist areas. Bulgaria is the EU country with the lowest population density outside the capital and an overall population density comparable only with the Scandinavian countries.

These disparities require more consideration of environmental factors that constitute sustainable economic development through state intervention, and also rethinking the system of values and institutional change.

The legal system of Bulgaria belongs to the Roman–German legal tradition. The legal culture of the country was formed for centuries under the influence of the Byzantine legal system and is therefore comparable and close to the legal systems of Russia, Serbia and others. The modern legal system in Bulgaria began to form after the Liberation in 1878 and the first laws were adopted based on samples from Belgium, Hungary, Germany and Russia. The first Bulgarian constitution was drawn up by Russian lawyers using the Belgian model.

2.4.1 Institutional Policies of Governments for the Transformation of State Property into Private Property and the Protection of Property Rights: The Privatization of State Assets—The Greatest Externality

After 1989, Bulgaria started the process of the privatization of state property. This is a variant of the so-called “shock therapy”.

As a result of privatization, in 1996 the private sector produced about 45–50% of GDP. Unfortunately, the method of privatization does not appear to have been the best way to form a stable market and entrepreneurial class of owners. Many strategic industries that were not originally scheduled for privatization were

owned by foreign companies who were attracted by promises of lower production and payroll costs, and people who have entrepreneurial skills and a working spirit.

The practice of privatization in Bulgaria (as in Romania) resulted in extremely negative consequences. In terms of economic liberalization, the state lost the ability to control the company. Change in the property owner actually lost became the subject of abuse. In Bulgaria there is a characteristic tendency to sell businesses as quickly as possible and to buy them much cheaper. Bulgaria is the only country in Eastern Europe to resume the practice of the privatization scheme “Brady bonds”, which provides for the sale of state-owned enterprises to foreign investors and the implementation of environmental events of international importance in exchange for repayment of its external debt. (At the end of 1995, government debt exceeded the amount of 1000 milliards Euro, representing 122.3% of GDP.)

Statistics show that for 13 years during privatization in Bulgaria, property sold for 6.8 milliards BGN,²⁰ and contractual payments were over 8 milliards BGN. In private growing hands proved 89.2% of state assets. The state received only 3.5 milliards BGN and 3.3 billion was paid in compensatory notes and “compensation vouchers” which very quickly lost any value. A number of companies, such as the huge metallurgical company Kremikovtzi, were sold for \$1 or 1 BGN and then resold for much higher amounts. For example, Kremikovtzi was sold (privatized) for \$1 696 and then resold by its new owner for \$ 600 million. For a long time Kremikovtzi was draw off from business groups using the scheme of “input and output”. Due to systematic exploitation on these sheme, without environmental regulations, as well 20 years mismanagement, it may not meet environmental requirements due to failure to invest in environmental-benefits activities and facilities.

Thus, privatization in Bulgaria happened essentially as a process of the enrichment of a small group of people through their acquisition of valuable public resources created by generations of Bulgarian citizens. Thus, privatization in Bulgaria caused huge negative externalities on society and benefited a small group of well-connected people.

The amount of “informal privatization” is underestimated. The illegal privatization of long-term assets and income in the real economy and the banking system reached epic proportions. The institutional defects of privatization in Bulgaria, and the economic structure created as a result, deeply influence the current state of the economy and society in Bulgaria.

The de facto plundering of the assets of the state, and their concentration in a limited range of people, resulted in high unemployment which was caused by the inefficient management of enterprises by the new private owners. It also resulted in the deindustrialization of the country and the decline in living standards. These issues are associated in the minds of Bulgarians with the requirements of Brady scheme deindustrialization that was required in order to meet environmental criteria.

The development of energy-intensive industries and environmentally acceptable technologies in Bulgaria results from a whole range of reasons, but is mainly due to the irrational economic policy of Bulgaria after World War Two.

²⁰BGN (lev) = 1.95583 EU (fixed course in situation of Currency Board from July 1st, 1997).

In the early 1990s, all this led to lower volumes of material production and an increasing share of services. This is another embedded risk. The positive effects of the development of the tertiary sector are not sustainable when there is an undeveloped real sector of the economy. Under such a scenario the rapid development of the tertiary sector loses all meaning, as it has no economic foundations unless it is severely internationalized.

In Bulgaria in the early 1990s there was a rapid decline in GDP. In 1991 it was 44% lower compared to 1989, real income fell by more than 50% and there was high inflation (“gozishniyat”, the index of consumer prices, increased by 438%). As a result of privatization, there was the emergence of strong social stratification. This especially impacted young people, pensioners, people with low levels of professional qualifications and minority groups.

Since 60% of Bulgarian production was exported to Russian markets, there was a significant fall in trade due to the collapse of the Soviet Union and the privatization issues there. Russian production in the areas of electronics, electrical goods for agriculture, the military–industrial complex, oil processing and computing declined significantly.

The foreign economic policy of governments is directed towards new trading partners and in particular to the countries in Western Europe. Of all the former socialist countries, Bulgaria is currently the most disadvantaged within the restrictive measures of the EU. Along with this, Bulgarian goods themselves are uncompetitive in the European markets due to lower quality and the lack of marketing capacity. Bulgaria appears to have a large external debt, primarily to private external creditors (the maximum amount was reached in 1995: \$12.5 billion). The repayment of about \$1 billion annually deprived the Bulgarian economy of important financial resources for modernization, including measures needed to meet the requirements of environmentally friendly production. This is the main reason for the lack of environmental accountability. Any requirement for ecological sustainability requires that investments be paid by the “polluter pays” principle. The common practice is for the private owners not to invest in ecology but rather to transform their profits into the personal consumption of consumer goods such as cars, luxury holidays and property in the country or prestigious locations around the world. On the streets of Bulgaria there are luxury cars, while the production system is depreciated and aging and few new green technologies are being developed.

Privatization and the institutional understandings of capitalism and the free market system mean that profit is becoming the most important goal for most new capitalists in the country, rather than the consideration of other negative externalities. This enables them to eliminate from their accounting costs all “unnecessary” social costs, known as socialist enterprises, which were mandatory under the centrally planned system.

Meanwhile, foreign investors and participants in privatization, seeking lower costs, are less involved in the approach to introduce corporate social responsibility. Bulgaria is promoted to foreign investors as the country with the lowest labor costs and promises to attract the country’s state institutions as shown in Table 2.1. Commitments to carry out company policies of corporate social responsibility and the introduction of social and environmental accounting are not enforced.

Table 2.1 GDP—output method—national. Time series 1995–2009 at constant prices of 2000^a

Economic sectors and groups in economic activities	Gross value added at prices of 2000 BGN														
	Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture and forestry, fishing and hunting	3,882,962	2,477,853	3,367,080	3,455,937	3641	3251	3271	3440	3357	3475	3168	3153	2292	2971	2866
Mining and manufacturing, production and distribution of electricity, gas and water	22,746,020	4,997,300	4,759,882	4,991,442	4562	5113	5372	5670	6137	6368	6647	7107	7953	8164	7508
Construction	2,654,938	890,437	787,938	1,059,908	1085	1095	1163	1194	1225	1299	1437	1651	1884	2069	1968
Trade, repair of motor vehicles and household appliances, hotels, hostels and catering, transport and communications	8,479,661	4,931,432	4,614,828	4,645,732	5207	5634	6209	6714	7070	7641	8309	8868	9404	9812	9641
Finance, credit, insurance, real and personal property, business services	2,371,035	5,533,660	4,861,904	4,424,403	4413	4638	4796	5147	5461	5810	6276	7010	7798	8532	8562
Government, education, health, other services and activities of NGOs	5,605,691	3,534,208	3,271,603	3,728,283	3915	4251	4184	4394	4426	4518	4878	4942	5213	5193	5217

(continued)

Table 2.1 (continued)

Economic sectors and groups in economic activities	Gross value added at prices of 2000 BGN														
	24,340,022	22,006,391	21,694,275	22,317,406	22,825	23,983	24,995	26,560	27,711	29,152	30,812	32,875	34,971	37,169	36,167
Total for the economy	2,726,203	2,601,064	2,512,714	3,093,855	3085	3416	3541	3295	3782	4425	4874	5142	5493	5805	4867
Adjustments (taxes less subsidies on products)	27,088,979	24,642,830	24,237,324	25,415,589	25,915	27,399	28,536	29,863	31,507	33,633	35,772	38,101	40,558	43,068	40,938
GDP															

^aSource: National Institute of Statistics, <http://www.nsi.bg/otrasal.php?otf=10>

Table 2.2 Structure of private enterprises in Bulgaria in terms of size and some of their economic indicators (2007)^a

2007 year	Micro-enterprises (1–9 employed)	Small enterprises (10–49 employed)	Medium enterprises (50–249 employed)	Large enterprises (more than 250 employed)	Total
Number	225,550	22,937	4738	746	253,971
Share	88.81	9.03	1.87	0.29	100
Fixed assets (thousand BGN)	16,023,277	11,296,588	12,310,359	12,310,359	
Fixed assets per company (thousand BGN)	71.04	492.51	2598.22	26,840.34	
Turnover per employee (thousand BGN)	67	90	85	129	
Value added (thousand BGN)	4,678,788	6,001,455	6,850,562	9,849,864	

^aSource: Annual report on the status and development of SMEs in Bulgaria in 2008; Ministry of Economics, Energy and Tourism, pp. 9, 25, 26 and 35.

The size of the business economy in Bulgaria equalled 1.5% of the EU-25 total in terms of employment, 1.3% in terms of number of enterprises, but only 0.3% in terms of turnover. The value added generated per person employed (apparent labor productivity) in Bulgaria (EUR 4700) was also around one tenth of the EU-25 average.

The structure of the business economy in Bulgaria is quite different from the average in the EU-25. The largest difference is in textiles manufacturing, which employs over 10% of the business economy workforce in Bulgaria, over five times the EU-25 average. Mining and quarrying of energy and non-energy products, electricity, gas, steam and hot water supply and collection, purification and distribution of water are other activities which account for a much larger part of the business economy in Bulgaria than in the EU-25.²¹

Bulgarian enterprises are smaller than those of developed countries. Micro-enterprises in Bulgaria have 1–9 employees; small businesses have 10–49 employees, medium-sized enterprises have 50–249 employees, and large enterprises have 250 or more employees, as shown in Table 2.2.

Typically, small businesses with relatively low value added have no motivation and few opportunities to train their accountants for implementing social and environmental accounting.

Competition is the key institution of a market economy. Bulgaria has still not solved the problem of increasing the competitiveness of its economy and it is

²¹Johansson (2007)

unlikely that an institutional program will achieve this in the near future. The main reason for this is the inadequate protection and specification of property rights, stemming mainly from the way in which privatization was carried out.

The low competitiveness of the Bulgarian economy would be reversed if it included the costs of ecological damage and internalized externalities. This would improve the competitiveness of Bulgarian production of goods and services and the openness of the economy to foreign markets.

The reasons for this are rooted in the ways in which privatization was carried out and in the creation of private property. The assets state fell into the hands of a limited a group of persons from the former oligarchy of the Communist Party and secret police them privatized. There was favoritism under socialism towards Bulgarian athletes, including wrestlers, boxers and representatives of other strength sports. The Bulgarian society called them “goons” and spoke of a “mugging economy”. These “new capitalists”, coming from the circles of the Communist Party, do not have the entrepreneurial style, education, skills or knowledge for the effective management of property. This results in profits being invested in expensive cars and luxurious houses instead of modernization and development projects.

This privatization creates problems with the specification of property rights and contract enforcement. These problems relate directly to the efficiency of the judicial system. The judiciary is still not independent and free from the influence of political and business groups. This is known and indicated by the European Commission in many annual reports on Bulgaria. These reports mention that reforms in creating a healthy democracy have still not been fully implemented. (There is no optimization time of the court ruling, leading to dilution of property rights. There is no complete information on legal judgments and the reasoning and accountability of the judiciary. There is no real copyright protection and enforcement. There is no transparency and information about the actions of law enforcement, judicial authorities and the various ministries on corruption.)

The influence of various business and social groups on administrative decisions is widespread at all levels and leads to corruption and inefficiency in government spending.

The Index of Economic Freedom²² also measures the inviolability of private property. With a score of 7.31, Bulgaria ranked 36th on this metric between 125 issued countries. The legislative structure and integrity of private property was 5.21 (compared to 5.29 in 2007), showing that this is the most problematic area for the country. The impartiality of the judiciary is assessed only at 3.0 and its independence at 3.2 in the scale of Index of Economic Freedom between 5 (max) and 0 (min). This shows that the courts are amenable to pressure from the government, special legal and illegal business groups and those of the countries concerned.

The International Property Rights Index for 2010 is a comparative analysis between the protection of property rights and the economic development of countries.

²²International Property Index Report 2010, <http://www.internationalpropertyrightsindex.org/>

Table 2.3 The main indicators and the placement of Bulgaria among other countries

Index of competitiveness in 2010	Author	Result of Bulgaria	Place of Bulgaria
Global competitiveness	World Economic Forum	4 (out of 7)	71 st (out of 139)
Readiness for e-government	UN	0.6 (out of 1)	44 th (out of 192)
Perception of corruption (2009)	Transparency International	3.8 (out of 10)	71 st (out of 180)
Economic freedom of the world	Fraser Institute and the Economic Freedom Network	7.3 (out of 10)	36 th (out of 141)
Property rights	World Economic Forum	5.2 (out of 10)	59 th (out of 125)
Economic freedom	Heritage Foundation and <i>Wall Street Journal</i> newspaper	63 (out of 100)	75 th (out of 183)
Conditions for doing business	World Bank	–	44 th (out of 183)

Its purpose is to examine the effects of a stable legal and political environment and respect for the physical and intellectual property rights necessary for economic development. The report covers 125 economies representing 97% of global GDP. The results range from 0 (lack of protection of property rights) to 10 (high protection of property rights). The index focuses on the relationship between effective protection regimes of property rights and their importance for economic development. Countries with more strongly protected property rights have higher income per capita. Bulgaria's place in this ranking represents the average score for Central and Eastern Europe, and in the world is equal to the outcomes of Turkey, Trinidad and Tobago, Ghana and Thailand. Therefore, with 5.2 points out of 10, the country was ranked 59th out of 125 surveyed countries and 10th out of 25 countries in the region. In 2009, when ranking covered 10 countries at least, Bulgaria was again in the same position but with a score of 5.1 points.²³ Table 2.3 shows some indicators.

One of the most problematic areas in Bulgaria is its institutions. The worst results were seen for Bulgaria in the Global Competitiveness Index in the following indicators (Table 2.4: 7 is the highest rating and 1 the lowest).

The specifics of institutional factors are directly related to the peculiarities of information as an economic good. Intangible nature of information products makes them closer to the definition of public good as "not excludable."

Information products generate high transaction costs related to clarification of property rights, sale of goods, high environmental and social costs. The high transaction costs significantly restricts the competitiveness of entrepreneurs. This is characteristic of the economic environment in Bulgaria (Table 2.5).

²³Source: World Economic Forum 2009, <http://www.weforum.org/404.html#network1>

Table 2.4 Some indicators and the placement of Bulgaria among other countries

Polls	Result of Bulgaria (2010–2011)	Place of Bulgaria (out of 139)
Basic requirements	4.4	72
Institutions	3.3	114
Property rights	–	121

Table 2.5 Corruption

Country	Corruption Index 2006	The Control of Corruption Index 2008
Bulgaria, “BGR”	4.0*	–0.17**

*Units: Index units, 10 = least corrupt, 0 = most corrupt [Source: EarthTrends (<http://earthtrends.wri.org>), searchable database results, provided by the World Resources Institute (<http://www.wri.org>), Environmental Governance and Institutions—Corruption: Corruption Perceptions Index (Transparency International)].

**Units: Index values are indexed to have a mean of 0; positive scores indicate better governance [Source: EarthTrends (<http://earthtrends.wri.org>), searchable database results, provided by the World Resources Institute (<http://www.wri.org>), Environmental Governance and Institutions—Politics and Freedom: Control of Corruption Index, Source: Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996–2008. D. Kaufmann, A. Kraay and M. Mastruzzi (2009), World Bank Policy Research Working Paper 4978. Available online at: <http://info.worldbank.org/governance/wgi/index.asp>].

The Control of Corruption Index is a measure of “perceptions of corruption, conventionally defined as the exercise of public power for private gain”. The authors of the paper argue that corruption stems from a lack of respect for the country and its institutions by both government officials and the private sector, thus representing a failure in governance.

Corruption in Bulgaria is still high and the situation is not improving. As that study and the data for previous years shows, corruption remains a major problem for Bulgaria. It erodes the functionality of important domestic institutions and values. This reflects the attitude of the national administrative workers and society as a whole to vital issues, such as those of corporate social responsibility as well as the environment.

In Bulgaria before 1989 discontent with the communist regime was at first publicly announced in the public space and was centered on environmental problems. This led to the emergence of an organized opposition and dissidents in the creation of the Club for Glasnost and Perestroika, “Eco-publicity”. It was connected with the problems of air pollution in the Danube city of Ruse, but grew in opposition to the ruling Communist Party. Now, 20 years later, this club has lost its social and civic importance and is inactive for various reasons and therefore does not participate in political life. Today in Bulgaria there are two “green” political parties. There is the political party “Greens”, which first participated in elections for the Bulgarian parliament in 2009 (Table 2.6).

Only about 0.5% of the votes cast in the 2009 elections for national parliament were given to the Greens.

Table 2.6 Election results for the Bulgarian parliament in 2009: the Greens^a

	Number of votes in elections for National Parliament (2009)	Percentage of all actual votes
The Greens	21,841	0.52%

^aSource: Republic of Bulgaria, Central Election Commission, <http://www.is-bg.net/cik2005/index.php>

The pre-existing political party, the “Green Party”, and the political party “Green Bulgaria–Bulgarian Green” joined forces. The new unified political entity is called “Nature Green Party/Bulgarian Green”. The party is a member of the European Green Party but has not registered for parliamentary elections.

In the country there are non-political movements with environmental objectives, but these have a small staff and no significant public presence. The biggest of these is the network “Green Balkans”, which as of 2008 had 4500 individual members who are united in four regional offices and 25 correspondent centers.

In these parties’ public documents, it is indicated that their green movements will programmatically *not* request for the introduction of environmental accounting in Bulgaria.

2.5 Public Attitudes

The Institute of Sociology at the Bulgarian Academy of Sciences conducted three studies (in 1992, 2004 and 2007) concerning the evaluation of Bulgarian society and the importance of environmental issues.

The comparison between these years is given in Table 2.7.

However, the fear of the Bulgarians from the effects of contamination of the environment on their health increases (Table 2.8).

Studies have shown a very strange picture. The first Bulgarian estimates show that the environment is a significant problem, but when it comes to the impact of the environment on health, the issue seems less severe. In 2007 only about 20% of respondents showed very strong concerns about pollution, but about 20% also did not fear for their health because of the impact of pollution.

According to the “Eurobarometer” poll of 2007, the average EU citizen indicated that solving environmental problems is a primary concern. One third (34%) of European citizens indicated the environment as a priority problem. For Bulgarians the most important focus of the work of public institutions should be tackling social problems, and the environment is only in fourth place.

Fears among Bulgarians of environmental pollution increase but do not translate into preservation and active citizenship. The reasons for this are a limited

Table 2.7 What is your assessment of the environmental situation? (%)

Scaling	1992	2004	2007
1. No problem	1.7	7.6	2.7
2. Slightly important problem	3.1	15.9	8.6
3. Relatively significant problem	19.2	29.5	23.8
4. Particularly significant problem	27.8	21.1	24.5
5. Very serious problem	39.1	18.8	33.6
6. Do not know	8.9	7.2	6.8

Table 2.8 How afraid are you that environmental pollution is dangerous for your health? (%)

Scaling	2004	2007
1. Very seriously afraid	8.2	21.1
2. Especially significant fear	12.3	15.8
3. Significantly afraid	18.9	21.1
4. Low	19.2	17.0
5. No fear	35.6	20.9
6. Do not know	5.8	4.0

knowledge of the concept of sustainable development and especially the low empowerment of citizens.²⁴

A statistical comparison showed no major differences; the results of 2007 confirmed the existence of a passive consumer model of citizenship, registered in the earlier study.

A study by the UN Global Compact and the Charities Aid in Bulgaria in 2007 on “Corporate Responsibility in the Bulgarian context” found that giving and socially responsible practices have evolved slowly due to activities of limited scope, unclear focus and their fragmentation. Major companies show some beginnings of socially responsible activities. In smaller Bulgarian companies, such activities are still fragmented and mostly motivated by the personal characteristics of their managers and not by companies making a clear distinction between sponsorship and social responsibility in their mission statements. When a distinction is made, it is often for accounting purposes and not for the determination of corporate policy (Gancheva 2007).

In 2006, Bulgaria held its first national conference on corporate social responsibility. It was represented by state institutions, social partners, business representatives and experts from NGOs and from other Member States of the EU.

For only the fifth time, the Bulgarian Donors’ Forum awarded the following prizes for donations in 2010:

- The “largest volume of financial donations” was won by mobile operator M-Tel, with donations totalling 707,015 Euro.
- The “largest volume of non-financial donations” was won by television station bTV (5,052,431 BGN).

²⁴European Commission, Eurobarometer, 67, 2007, p. 35.

- The “biggest contribution through volunteer work of employees” was won by VIVACOM. 3300 employees volunteered and this was valued at 62,386 BGN.
- The “most generous donor” was won by cosmetics company Rosa Impex. This was estimated by the volume of donations, calculated as a percentage of profit before tax. The financial support volume was 189000 BGN, while profit before tax was 5.358 million BGN.
- The “best charity program” was awarded to a combined effort by DANONE Bulgaria and the Foundation of Dimitar Berbatov (a Bulgarian footballer of the English first division club Manchester United) called “Active and Healthy”. Within this project the sports facilities in nine schools in the country were built or refurbished.
- The award for the “most transparent donation program” was awarded to Raiffeisenbank (Bulgaria) for their campaign “Choose to Help”, which was a fundraising platform that promoted and raised funds for more than 20 causes.²⁵

The biggest social activity took place, however, in Caritas Bulgaria, a part of the international confederation of Catholic organizations, Caritas Internationalis. The total operating expenses for 2008 were 1283 million BGN, and for 2009 were 1080 BGN.²⁶

At the state level, the draft of the National Sustainable Development Strategy in Bulgaria was created in 2007. The draft identifies project objectives, priorities and measures to improve the quality of life in Bulgaria for present and future generations, as well as trying to give a vision for the medium- and long-term development of the country. The strategy is based on the renewed Sustainable Development Strategy of the EU and the renewed Lisbon Strategy.

The framework of the draft national strategy consists of three main sets of issues: environmental problems associated with maintaining a state of natural balance, economic and social problems. The main challenges for the strategy are:

1. Climate change and clean energy
2. Sustainable transport
3. Sustainable consumption and production
4. Conservation and management of natural resources
5. Public health
6. Social inclusion and demography
7. Good governance

The new (and current) government of Bulgaria came to power on July 27, 2009 and adopted a new “Strategy for corporate social responsibility for the period 2009–2013”, as well as a plan for its implementation by 2010. According to the government, “The strategy aims at creating and strengthening an enabling environment for socially responsible practices for active voluntary participation of all

²⁵Foundation “Charities Aid for Bulgaria”: <http://bcaf.bg/Bulgarian/NewsArticles2.aspx?article=25392>

²⁶Annual financial statements, profit and loss account, Caritas Bulgaria for 2009.

stakeholders—government institutions, businesses, organizations, social partners, NGOs, academia, media and others.” The strategy refers to the objectives of the renewed Lisbon Strategy, as well as many other documents of the European Commission in providing guidance for the implementation of corporate social practices in the Member States in which companies integrate voluntary activities for the conservation of the environment and social initiatives into their business strategies and interactions with all stakeholders.²⁷

The first plan for implementing the strategy for corporate social responsibility covers the period 2009–2010 and includes measures to raise the awareness and capacity of stakeholders regarding the nature of the concept of collective social responsibility and its implementation, as well as creating a supportive legal and institutional environment for initiatives in transparency.

The new government adopted a new National Environmental Strategy 2009–2018 g.i Action Plan approved by the Council of Ministers Decree No. 353 of May 15, 2009.

None of these documents include a recommendation, order or requirement to conduct social and environmental accounting. This clearly shows that central government management institutions have not placed the issue of social accountability on the agenda.

In Bulgaria, the Constitution itself, the main external institution, can be seen as an ineffective document or a “dead letter”.

Since the accounting service is physically the embodiment of the results of the company, its quality is evaluated by the customer through comparisons with actual services received in such a way as it is the expectation of the customer to be received. Therefore, in Bulgaria the orientation of the accounting service is to respond to the expectations of the company to pay fewer taxes (as mentioned above in relation to the characteristics of the class of “new capitalists” in Bulgaria).

The accounting community in Bulgaria, which is concentrated mainly in two centers (Sofia and Svishtov), will not be able to take action on the introduction of social and environmental reporting and accounting in the country.

The Bulgarian accountancy community has not separately developed a code of ethics. It will likely adopt the “Code of Ethics for Professional Accountants”, revised from the International Ethics Standards Board for Accountants in July 2009; the Code enters into force on January 1, 2011.

The major institutional factor impeding the development of practices of social and environmental accounting in Bulgaria is the abandonment of government requirements on its part to introduce social and environmental accountability, and the lack of laws and government regulations for the regulation of accounting firms with regard to social and environmental accounting.

These institutional factors reflect the specific institutional environment in which economic actors operate.

²⁷Republic of Bulgaria, Ministry Council, Government has adopted a strategy for corporate social responsibility, <http://www.government.bg/cgi-bin/e-cms/vis/vis.pl?s=001&p=0228&n=362&g=>

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