Chapter 64
Building Sustainable Enterprises through Innovations in Bulgaria

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ABSTRACT

This chapter aims to focus on the role of innovations for achieving sustainable development of Bulgarian enterprises. Following an analysis of the Bulgarian economy, the chapter explores a model for transforming businesses towards sustainability through innovations in production processes. The socioeconomic and environmental implications are considered in terms of defining the major outcomes of implementing sustainable business practices in Bulgaria. A comparison is made with the sustainable development levels in some EU countries to serve as a basis for identifying and further elaborating the main political and economic targets for Bulgaria.

INTRODUCTION

The countries from the former Eastern block have gone through a number of drawbacks in terms of their economic and industrial development as a result of the long period of transition. This has led to an abundance of underutilized resources and a deterioration of the production technology. The severe economic downfall has also significantly contributed to the fragmentation and polarization of the party system, which in turn undermines the capacity to manage the economy effectively (Haggard, 1995). Many firms in emerging economies have become trapped in dependent relationships as low-cost providers of technology, low-value manufactured goods or services, and have failed to develop their own design of new products (Bessant & Tidd, 2009).

The Bulgarian economy, in particular, went through all stages of the transition period – high inflation, drastically decreasing GDP, unemployment and income inequality, industrial stagnation, political instability and corruption. The accession of the country to the European Union in the beginning of 2007 and the following years that coincided with the financial crisis have also contributed to the transformations in the profile of the Bulgarian economy. Therefore, the analysis on the transition period of the

DOI: 10.4018/978-1-7998-1760-4.ch064

country is of crucial importance in forecasting future trends of its economic development and drawing up scenarios for sustainable policy implementation, based on the increase in innovations.

Most commonly, in an economic downturn the response of the industrial enterprises is to make employees redundant, to sell out assets and to dispose of adjoining business operations in order to bridge the gap of financial resources. This, respectively, results in a significant reduction of valuable resources, alienation of key customers and loss of competitive markets. A number of macroeconomic studies in the late 90s have analyzed the determinants of growth in transition economies (Havrylyshyn, Izvorski, & Rooden,1998; Fischer, Sahay, & Vegh, 1996; Svejnar, 2002; Abed & Davoodi, 2000). Among their key findings is that structural reforms and reduction of government expenditures are required in all sectors of the economy and albeit the initial effect of reforms on output may be negative, over time the best growth performances are in those countries which make their greatest progress when implementing reforms. Also, growth performance in general is better in those economies where stabilization has been achieved earliest and where structural reforms have progressed most (Havrylyshyn et al., 1998).

It was generally believed that the transition would start with a recession, caused both by restrictive macroeconomic policies and by restructuring of the economy as a result of the shift to a market economy (Fischer et al., 1996). All countries experienced almost similar initial setbacks in their economic growth. Hence, they also carried out similar reforms in terms of macroeconomic stabilization, price liberalization, small-scale privatization and the break-up of state enterprises. Countries that developed a functioning legal framework and corporate governance have performed better than others (Svejnar, 2002).

The privatization process of state industrial enterprises was of paramount importance but it was performed in a disorderly manner and at a rather slow pace. The first laws on privatization were adopted in 1991-1992 but only for the small-scale enterprises, whereas the privatization of the heavy industry commenced in 1994-1996 and in some countries in 1997-1998. The mass privatization, carried out by privatization funds, ended up in the formation of corporate holdings. In Bulgaria, the majority of these state enterprises were bought by the new holding structures at a price which was below the market price of the assets. Due to the loss of markets, outdated technology, vague competition and poor management, the privatized industrial enterprises gradually became insolvent and were declared bankrupt in the late 90s.

In general, all of these factors contributed to the severe negative transformations in the structure of the GDP. In the 90s, in 2/3 of the CEE (Central and Eastern European) countries the industrial share in the GDP was drastically reduced and the agrarian sector aquired a growing proportion. This tendency continues nowadays and characterises the economies with sectoral imbalances along with output produced in the shadow economy, which slow down the R&D process and the introduction of industrial innovation in the 21 century.

This paper identifies the need for innovative mechanisms in transition economies as a measure against the post effects of an unstable political system and the recent financial crisis. It aims to highlight the role of innovations for achieving sustainable development in Bulgaria, particularly in the undertakings of small and medium enterprises.

The first part of the analysis provides an overview of the Bulgarian economy over the last 20 years - the dropdown of industrial production, the difficulties in setting up and managing SMEs, and the general decline in the country's economic activity. Furthermore, the paper explores the development impacts which will be achieved through the introduction of innovations. A comparison is made with some sustainable innovation levels in EU countries to identify and further elaborate the main political and economic targets for Bulgaria in the short and the long term. The last part of the paper summarizes the main findings and concludes.