

## PROFIT AND PROFITABILITY OF PRIVATE LANGUAGE SCHOOLS IN BLAGOEVGRAD

**Boryana Dimitrova**

SWU "Neofit Rilski" - Blagoevgrad, Republic of Bulgaria b\_dimi@swu.bg

**Petar Parvanov**

SWU "Neofit Rilski" - Blagoevgrad, Republic of Bulgaria petarparvanov@gmail.com

**Abstract:** Educational entrepreneurs are economic agents in the social economy that meet the basic needs of citizens and organizations, providing the necessary foreign-language-competence education to individuals. On this basis people have more opportunities for further education and finding/keeping jobs, mobility, social integration, etc.; their employers have more competitive organizations and can more easily carry out business abroad and with foreigners, etc.; and society is more integrated and boasts reduced unemployment and higher quality of life.

It is interesting to look at the profit and profitability of these educational entrepreneurs and to assess how attractive their niche is. This article summarizes the results of a survey, conducted in the period May - August 2017, of organizations in Blagoevgrad, Bulgaria, offering language training in the framework of the *I Can More* Programme and is a complement to a previous article focusing on the legal and social dimensions of these organizations.

**Keywords:** Educational entrepreneur, profit, profitability, social economy.

### 1. INTRODUCTION

At European level, eight combinations of knowledge, skills and attitudes are defined as key competences, including communication in foreign languages, digital competences, social and civic competences, and others. In line with the *Recommendation of the European Parliament and of the Council of 18 December 2006* on key competences for lifelong learning, they are crucial for the realization and development of each individual. In this respect, in Bulgaria as a member of the European Union, different programmes, aimed at the development of the key competences in citizens, are being implemented, incl. the *I Can* Programme (budget: BGN 51,000,000) and its sequel *I Can More* (budget: BGN 107,673,342.05). A significant part of the education/training in these programmes is carried out by private language or other schools, and so a significant financial flow is directed towards these organizations. This raises the interest in the niche market of private educational and training entrepreneurs.

Over the last decade, the social economy has become more and more important for the development of the countries. Gradually, in scientific theory, the notion that it is a people-centered economy is gradually becoming a reality, an economy that invests in social capital. This capital also leads to profit, but it can benefit both business and society<sup>141</sup>.

In a previous text the authors examined schools in Blagoevgrad, offering language training under the *I Can More* Programme as an example illustrating companies in the sphere of social economy. Of the six companies dealing with language training under the programme, five are registered under the Commercial Act (CA) as limited liability companies and one under the Non-Profit Legal Entities Act (NPLC). Since, according to Art. 3, para. 6 of the Act the NPLE are not allowed to distribute profits, but are entitled only to income for carrying out their activity; here we will address only the commercial companies, which, despite the social purpose of their activity, make profits from it.

### 2. LEGAL DIMENSIONS OF PROFIT IN BULGARIA

The activities of the limited liability companies are regulated in chapter thirteenth of the CA. According to Art. 113, para. 1 of the same law, owners are entitled to only part of the profits in proportion to the shares, unless otherwise agreed. According to the Accountancy Act, Art. 38, para. 1, companies publish annual financial statements. From para. 5 of the same Article this also applies to all medium or large limited liability companies or those with a public interest in their activities. Undoubtedly, language schools also fall, as they are aimed at the sphere of social economy. According to Art. 54, para. 2 (b), these companies in their annual report on payments to governments must also include their profit for the relevant period.

Profits of commercial companies are subject to taxation under Art. 1 of the Corporate Income Taxation Act (CITA) and according to Art. 2, para. 1, item 1 the local legal entities specified in Art. 3 are also included.

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<sup>141</sup> Kotler, F. *Marketing moves: a new approach to opportunities for profit, growth and renewal*, Sofia: East-West, 2015; Chelevish, A. *Legal aspects of the right to profit in different types of commercial companies*. In: *Commercial Law*, 2014, is. 2, 63-80; Rafailov, E. *Corporate dividend policy: theoretical models, empirical analysis and practical solutions*. Varna: PH Steno, 2011.

According to Art. 18, para. 1 the accounting financial result converted under the CITA is called a tax financial result and it is a tax profit if it is positive (para. 2) or a tax loss if it is negative (para. 3). The accounting financial result itself is defined as the "profit (loss) in the income statement for a defined period before the income tax expense is charged".

Tax profit serves to determine the tax base (Art. 19). The types of taxes that are attributable to profits are governed by Art. 5 of CITA. The profit realized by the considered companies falls under para. 1 of the same article, and according to Art. 20 the tax rate in this case is 10%.

According to the Corporate Income Tax Act, the tax financial result is determined by converting the financial result with the taxable permanent and temporary differences. In this sense, certain revenues and expenses are not recognized and thus the taxable base is adjusted, which in turn leads to another amount of profit remaining for distribution in the company. Examples of such costs are: costs not related to the activity; costs that are not documented; the cost of fines, seizures, and other sanctions for violation of normative acts; overdue interest on public state or municipal obligations; the cost of donations beyond those specified in Art. 31 of CITA and others.

CITA also regulates the possibilities for allocation of profit, which influences the determination of the tax burden. Thus, by providing a portion of the profit for donations, it can be transformed into an expense that, on the other hand, creates symbolic capital as part of the social economy. Profit can also be reduced through various financial instruments, as well as tax reliefs on it, if the activity is done in municipalities with high unemployment, for example. The general tax concessions are regulated in Section III. of CITA - these concern cases of recruiting unemployed people, granting scholarships, employing people with disabilities and others.

Regardless of the dispositions of profit, it should not be abused, because there is a criminal liability under Art. 267 of CITA.

### **3. PROFITS AND PROFITABILITY OF PRIVATE LANGUAGE SCHOOLS IN BLAGOEVGRAD**

Between May and August 2017, the authors of the publication made a survey of organizations based in Blagoevgrad, which offer language training under the *I Can More* Programme. In a previous article their social initiatives were outlined, and in this article the focus is on their financial results and how much they are due to the participation of the organizations in the implementation of the aforementioned programmes. The hypothesis of the authors is that in some of the organizations, the revenues from organizing foreign language training under the *I Can* and *I Can More* voucher programmes represent a significant part of the revenues from operating activities.

For the purposes of the survey, the following documents were analyzed: the public lists of the vouchers paid by the *Employment Agency* under schemes BG051PO001-2.1.11 and BG051PO001-2.1.13 *I Can* and BG051PO001-2.1.14 *I Can More*, and the annual financial reports of the organizations, published on the web-site of the Commercial Register. The study was complicated because one of the organizations under review did not publish its financial statements for the years after 2010 on the Commercial Register's site. Another difficulty arose from the fact that the paid vouchers are indicated by years only in the spreadsheets of *I Can More* Programme, and not in the spreadsheets of the schemes 2.1.11 and 2.1.13, where the sums are summarized and this makes comparisons in calendar years difficult, all the more so that two schemes operate in one calendar year (2012).

As a result of the study, it was found that:

1. Organizations based in Blagoevgrad offering education in Key Competency 2 "Communication in foreign languages" under schemes 2.1.11, 2.1.13 and 2.1.14 and are registered as limited liability companies, i.e. have the right to form and distribute profit are 5: "AVS-E", "Alexander Business Center - ABC", "Lingua", "Magnaura-99", "Institute Alexander"; hereinafter referred to as C.1-C.5 (the numbering does not correspond to the above order). Along with foreign language courses, most of them offer training in digital competency and/or vocational training within the schemes mentioned above.

2. According to their annual financial statements published in the Commercial Register (CR), most of them make a profit in the period 2010-2014, when the main part of the vouchers under schemes 2.1.11, 2.1.13 and 2.1.14 are paid to their accounts. There are significant differences in the mass of profits, which is an indication of the size of the organizations and the volume of their activities, but for the latter it is more adequate to draw conclusions on the basis of operating income. Table 1, given below, shows their financial results for the years 2007-2015 for which there are published on the CR's site reports. It should be noted that one of the companies was created only in 2009. Before 2010 as a whole, all companies (for which data are available) without one, make small and/or smaller profits. And in 2015, when voucher payments under these schemes fall, the profits of the organizations are also falling.

**Table 1. Current profit/loss in thousands of BGN according to annual balance sheet data, 2007-2015**

Company	2007	2008	2009	2010	2011	2012	2013	2014	2015
C.1	26	315	168	3	n.a.	n.a.	n.a.	n.a.	n.a.
C.2	n.a.	n.a.	-8	-9	296	73	77	67	-8
C.3	-4	2	7	11	12	55	8	26	14
C.4	0	2	3	0	0	-4	0	2	0
C.5	-8	53	27	140	316	775	313	13	n.a.

2. Operating income (OI) shows a significant volume of activity in the period 2010-2014 for two of the companies (C.2 and C.5). In one of them (C.4), the comparison of revenues and expenditures shows almost complete comparability of revenues with the wages and social security costs. It can be concluded that it functions mostly as a small family business venture aimed at providing normal salaries to the employees in it, and not as much to the realization of high profits.

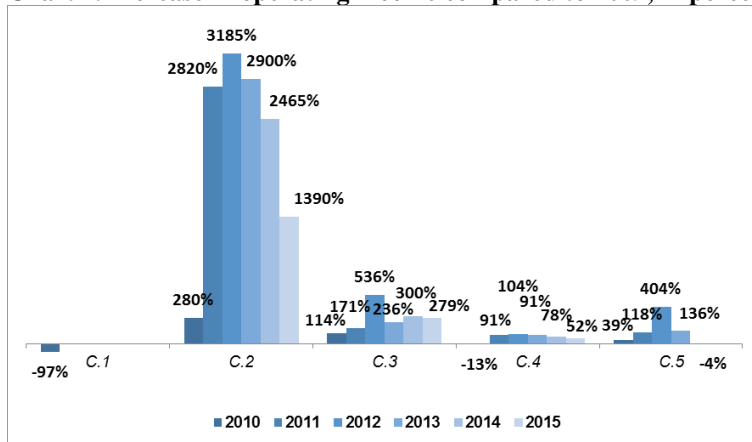
**Table 2. Income from operating activities in thousands of BGN according to the income statement, 2007-2015**

Company	2007	2008	2009	2010	2011	2012	2013	2014	2015
C.1	270	752	335	10	n.a.	n.a.	n.a.	n.a.	n.a.
C.2	n.a.	n.a.	20	76	584	657	600	513	298
C.3	9	11	14	30	38	89	47	56	53
C.4	26	32	23	20	44	47	44	41	35
C.5	259	378	305	424	666	1538	720	293	n.a.

The following Chart 1 shows graphically the operating income's increase of the organizations under review, in comparison to the accepted as a base year 2009. For companies for which data are available, there is a sharp rise in revenues in 2011, a peak in 2012, followed by decline. More importantly, however, it should be noted that for each of the last four companies the revenue has increased by at least 100%, i.e., have at least doubled in the year when *I Can* Programme ended and the payments on *I Can More* commenced. This is a serious increase that can hardly be realized in any training business based on the payment of the courses by the trainees. In C.5, the highest increase compared to the base year was 404%, in C.3 - 536% and in C.2 - 3185%. Such rapid and excessive growth is almost impossible in traditional business. It can be explained by the specifics of resources-procurement by the educational/training business, namely: the possibility of renting premises in which to carry out the activity (training halls), the availability of enough such free spaces in the cities (including rooms in schools or at the businesses which encouraged their staff to join these schemes); the possibility of employing the trainers under the so-called civil and second-employment contracts to carry out the training, which reduces the employers' costs for insurance payments and payments of benefits upon termination of the contracts; availability of enough free lecturers (incl. because in Blagoevgrad there are several universities graduating the required teachers); low inventory costs, and more.

It is noteworthy that with the completion of the *I Can More* scheme, the revenues of the companies are sharply decreasing. Compared to costs and profit, it can be seen that the huge expansion of activity has been temporary and cannot be sustained over time.

**Chart 1. Increase in operating income compared to 2009, in percentage**



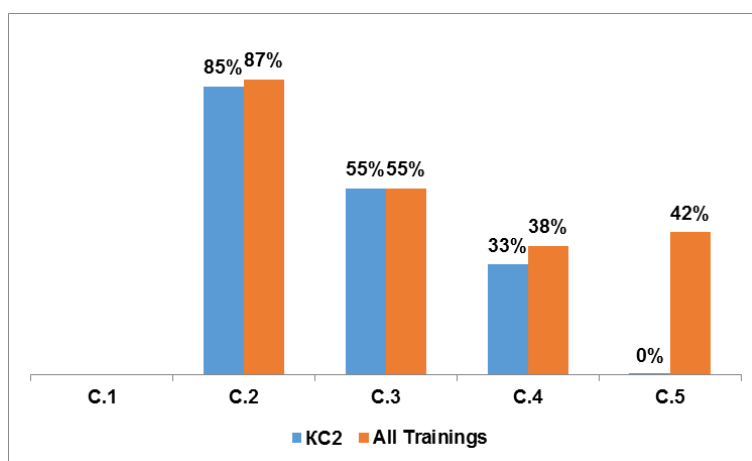
Source: own study

4. The proceeds of paid vouchers under schemes 2.1.11, 2.1.13 and 2.1.14 in the companies under review in the period 2010-2014 are substantial sums and represent a significant part of their operating income, as evidenced by Table 3. and Chart 2.

**Table 3. Income from operating activities and from vouchers in thousands of BGN, 2010-2014**

Company	Income from Operating Activities	Income from Vouchers for KC2 – Foreign Language Training				Income from Vouchers for All Trainings			
		Scheme 2.1.11	Scheme 2.1.13	Scheme 2.1.14	Total	Scheme 2.1.11	Scheme 2.1.13	Scheme 2.1.14	Total
C.1	n/a	456	104	121	682	525	135	305	965
C.2	2430	643	433	995	2070	657	453	1012	2121
C.3	260	0	45	98	143	0	45	98	143
C.4	196	0	10	54	64	0	21	54	75
C.5	3641	0	0	1	1	110	246	1175	1531
<b>Total</b>		<b>1099</b>	<b>592</b>	<b>592</b>	<b>1269</b>	<b>1291</b>	<b>899</b>	<b>2644</b>	<b>4834</b>

**Chart 2. Percentage of revenue from vouchers versus operating income, 2010-2014**



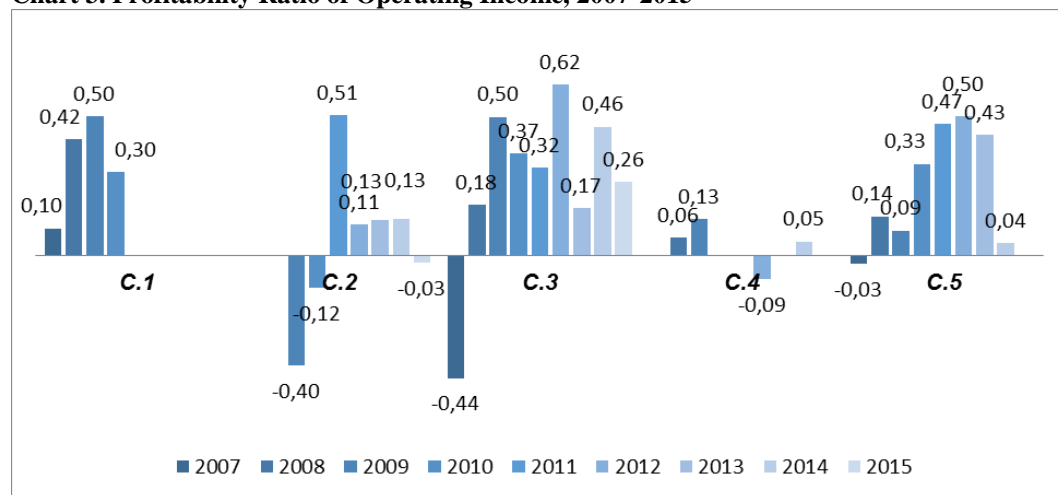
Source: own study

The comparison about C.1 is impossible because its reports for the years after 2010 are not published on the Commercial Register's site, but it also has significant revenues from the above mentioned schemes. In fact, it has the third biggest revenue, looking at all the trainings, and second, analyzing only the foreign language training. At C.2 the foreign language courses on the above mentioned programmes account for 85% of the operating income, at C.3 -

55% and at C.4 - 33%. These are significant shares, which is an indication that with the suspension of the programmes, their revenues will decrease significantly and their financial survival will be questionable. As seen from Table 1., the company with the largest share is experiencing a current loss as early as 2015 when the last *I Can More* vouchers are paid. The reports for 2016 are due to be published and the data will validate *or not* the above assumption.

5. It is interesting to trace the profitability of operating income over the years for these enterprises. It is calculated using the formula: Profitability Ratio of OI = current financial result / operating income.

**Chart 3. Profitability Ratio of Operating Income, 2007-2015**



Source: own study

The authors' assumption that the profitability ratio of the companies with higher activity under schemes 2.1.11, 2.1.13 and 2.1.14 will be higher in the 2010-2014 period, is being somewhat confirmed. The same smooth rise and fall as in Chart 1 is best seen at C.5 and C.3. At C.4, in some years, profitability is zero or even negative, due to the fact that it is poorly involved in the schemes and generally has little other training revenue, making it difficult to cover costs and accumulate profit. The biggest mismatch between the profitability ratio and the earnings is at C.2. A more careful review of the company's financial statements shows that much of the revenue received in 2011 is left in the company as undistributed earnings, mostly as bank deposits - where the returns are minimal. Over the period 2012-2015, the highest share of expenditure was spent on staff and on external services, which is expected for companies in the education sector. Revenues from operating activities cover operating costs and generate profits until 2015, when they are not sufficient and there is a current loss.

Chart 3. shows that on the basis of the calculated profitability coefficient, in general, C.3 and C.5 have a more efficient activity in the period 2010-2015 and not C.2, which has received the most revenue from voucher training under Schemes 2.1.11, 2.1.13 and 2.1.14. The explanation lies in the management of the companies. Recommendations can be made: first of all - better investment of the accumulated capital (not its freezing in deposit accounts), and second - better management of running costs and especially of the so called external services.

#### 4. CONCLUSION

The private language schools based in Blagoevgrad have made a significant turnover as a result of the trainings under the Programmes *I Can* and *I Can More*. The good management of some of the companies and their active inclusion in the Schemes 2.1.11, 2.1.13 and 2.1.14 have ensured high profits and profitability of operating revenues. Expansion of activity in some of them was too rapid and significant and could not be sustained over a long period of time, especially at the end of the programmes. The attractiveness of the niche of educational entrepreneurs is determined by the possibility of participating in similar programmes; when the organization has a weaker position and cannot attract enough voucher-holders as clients, it operates with minimal profit or even loss. The competition in Blagoevgrad in the sector under consideration is significant and the entry of new organizations would be difficult and may not have a serious success.

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