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CONTENTS

ARTICLES

1. Prof. Dr. Ec. Sc. Penyu Mihaylov
   Classics – 130 Years Since The Birth of John Maynard Keynes: A Few Finishing Touches to a Portrait ............... 5

2. Chief Assist. Prof. Dr Valentina Makni
   Direct Sales And Network Marketing: Dynamics, Structure And Tendencies in a Global Aspect ................................................. 15

3. Assist. Prof. Dr Bistra Nikolova
   Assessment Of The Internal Financial Control System For The Needs Of Tax Practice ......................................................... 29

4. Assist. Prof. Dr Sven Ivanov
   Marketing Effectiveness Of Small Firms Investments .................................................. 42

5. Assist. Prof. Pavlina Ivanova
   Forms Of Employment In Bulgarian Agriculture .................................................. 53

6. PhD student Diana Shopova
   Development And Problems Of Tangible Fixed Assets (TFA) Of Cooperative Retail Trade .................................................. 65

7. PhD student Ivan Ilkov
   Financial, Economic And Political Fundamentals Of The Eurozone ............... 77

8. PhD student Dimitar Stoynov
   Resort Complexes As A Separate Category In The Theory Of Tourism ........ 88
CLASSICS

130 YEARS SINCE THE BIRTH OF JOHN MAYNARD KEYNES: A FEW FINISHING TOUCHES TO A PORTRAIT

Prof. Dr. of Economics Penyu Mihailov

Introduction

I’ve given this article the title of “A few finishing touches to a portrait” for the following reasons: first, it is meant to mark an anniversary, it is connected with the fact that it’s been 130 years since the birth of John Keynes (1883 – 1946); second, the article is limited in size and cannot fully explore the wealth of ideas that are covered in his works; and third, as far as I know, economic literature in this country has failed to address the anniversary.

Led by this assumption and by John Keynes’ magnificent work, I decided to express, in a short, concise form, in a few finishing touches, as the saying goes, my deep reverence and respect for him, for his contribution and merit in the development of the idea of the economic crisis.

John Keynes is a great British economist, the father of modern macroeconomics and it is widely considered that the economic theory of the last and present century would be inconceivable if it hadn’t been for his name and the landmark nature of his work, so great is his contribution to economic thought.

John Keynes brought a new life to the prestige of economic thought, turning it into action and practical guidance. While at the end of the 19 century economic theory was mainly associated with the names and works of A. Marshall and L. Walras, the 20 century leading figure was Keynes, no matter how appreciated or rejected he was. His works are so varied in nature, so deep into the hot issues of his time that they were always given front place in the press.¹

1. Short biographical notes

John Keynes was born in 1883 in Cambridge in the family of a renowned logics and economics scholar. Educated in King’s College, Cambridge, John Keynes later held a job at India Office.

In 1909, following an invitation from Alfred Marshall, Keynes started lecturing at Cambridge. At the time he was greatly influenced by Marshall and shared his views and ideas.

In 1913 he published his phenomenal book “Indian Currency and Finances”. He also produced “Economic Consequences of the Peace” in 1919, followed by “A Tract

¹ Part of this is covered in Zoya Mladenova’s study, see “Neoclassical theory at the end of XX – beginning of XXI century: Achievements, Problems, Perspectives”, Varna, STENO, 2011.
on Monetary Reform” (1923), the scathing pamphlet “Economic Consequences of Mr. Churchill” (1925) and “The End of Laissez-Fair” (1926). Because his wife was Russian, he visited Soviet Russia at a time when the country was influenced by Lenin’s New Economic Policy and in 1925 published the article “A Glimpse of Russia”. In 1930 his fundamental two volumes of “Treatise on Money” came out and in 1936 his most influential work “General Theory of Employment, Interest and Money” was published.

2. Keynesian theory – a result of certain economic circumstances

Keynes transfers economic analysis from a micro to a macro level. The need for such an approach stems from the fact that at a macro level there are certain objective laws that cannot be explained by means of microeconomic laws. He did not reject A. Marshall’s economic analysis but found it not comprehensive and applicable enough regarding macroeconomics. In his search for a new solution, Keynes was also driven by the complicated interdependences of social division of labor, the difficulty of selling the goods as well as the Great Depression.

To begin with, the Great Depression (1929 – 1933) shattered the foundations of capitalist economy. Its consequences – stagnation of manufacturing, large-scale bankruptcies, high prices and inflation, huge unemployment, etc., made government officials and economists look for the reasons for the crisis. The Classical school of economic thought failed to provide an answer. Keynes, however, did provide one, by explaining whether an economic crisis is a fortuity or a law, or whether it is an outcome of natural phenomena.

Secondly, the Great Depression disturbed the macroeconomic equilibrium. The question was how to restore it, could this be done by conventional means or was a different set of tools necessary? Microeconomics was unable to deal with this issue, so a macroeconomic analysis was required.

Thirdly, economic equilibrium should be maintained with the help of the state that operates within the economy as an in-built stabilizing agent, protects it from social turmoil, injects it with regulations and thus restores the equilibrium.

In the fourth place, the Great Depression acted as a detonator for socio-economic contradictions. New contradictions were generated and the economic science had to provide a way for them to be resolved. The issues are as follows: economic growth (limits and opportunities); the state and economic growth, inflation, unemployment, mechanisms for regulating economy, turnover of funds, commodities and capital on a national level; analysis of the major drivers of production and the main economic subjects that participate in the economic processes.

Finally, it has become clear that crises are not a fleeting, temporary phenomenon, but an attribute of market economy. The reasons for them should be sought not in natural processes, but deep in the essence of economy itself, in unemployment, inflation, in the imbalance between savings and investments, etc. Economic equilibrium can also be achieved under conditions of underemployment as there isn’t a mechanism to completely eliminate unemployment, and economic development is perfectly possible and justifiable under certain levels of unemployment and inflation.
3. Basic principles of Keynesian theory

Keynes seeks the reasons for the crisis in the following areas:
- reduced aggregate demand;
- low marginal efficiency of capital;
- high interest rate.

Income grows proportionally faster than consumption. With the rise in employment, aggregate real income also rises; aggregate consumption, however, does not rise to the same degree as income. This is a psychological law, as Keynes points out.\(^2\)

Given that income grows faster than consumption, then consumption’s share in income decreases, aggregate demand falls, economic proportions are shifted, the desire to invest wanes and all of this reduces employment and crises are born. Reduced consumption makes aggregate demand shrink and discrepancies appear between aggregate demand and aggregate supply and as a result, goods cannot be sold.

This is what classical economists were unable to predict. Keynes overturned their postulates of macroeconomic equilibrium and in particular Say’s Law. Say believes that every supply is met by a corresponding demand and consequently economy is not threatened by instability. No disparities are possible between them. Supply itself creates demand and this viewpoint precludes any catastrophes in the functioning of economy.

According to Say, if demand exceeds supply in a given sector, there will always be another sector where supply exceeds demand and thus economy will be balanced. Income resulting from output sold is equal to the production costs for these goods, which automatically ensures the purchase of said goods. Every manufacturer is also a buyer. In other words, there is no difficulty in selling output, as there is always equality between output and consumption and between demand and supply. Money, as Say claims, is nothing but a medium of exchange, it is consumed and then disappears in the process of exchange.\(^3\) Goods are exchanged for money and money for goods. For this reason neither under-consumption nor overproduction are possible.

Ricardo also agreed with this statement. In his work he wrote: “Everyone produces only to consume or sell and always sells with the intention to buy another product that will be directly useful to him or will help future production. Therefore, by producing, one is bound to become either a consumer of one’s own output, or a buyer, a consumer of someone else’s goods. Products are always bought in exchange for products or services; money only serves as a unit of measurement with the help of which the exchange is performed.”\(^4\)

Ricardo saw no contradictions between output and consumption. He believed that every output is consumption, which absolutely excludes crises.

The thesis above suffers from some major flaws: first, the worker buys (here capitalist output is meant) only those goods that are within the range of the worker’s individual consumption in order to restore his ability to work; second, as far as goods

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\(^2\) Keynes, J. General theory of employment, interest and money. . Progress, 1978, p. 61.
\(^3\) Say, J-B, tract on Political Economy. . Delo, 2000, pp. 43-45.
are concerned that are productively used and consumed in order to manufacture new capital goods – means of production, they are neither bought nor used by the worker. So it is not every manufacturer who is also a buyer – a worker does not buy the means and subjects of labor. On this basis we should not assume that a manufacturer equals a consumer.

This theory cannot be applied to simple commodity production either. It could perhaps be valid on a desert island, whose only inhabitants are Robinson and Friday; Robinson manufactures and Friday consumes. But life is a complicated matter. It does not happen on a desert island but within a social system with multitude of manufacturers and consumers and with people involved in manufacturing activities where thousands invisible economic strings are pulled.

Keynes overturned the classical postulates. Not every purchase is a sale. With the advent of money, the link between a purchase and a sale is no longer a direct one, while Say’s theory boils down to the following: recipients of income spend their entire income on buying goods, so there cannot be crises.

Well, it’s different in real life. Income can be used not only to buy goods, it can be saved. People making the decision to save, are not the people who decide to invest. Savings holders and investors are two entirely different categories of people with different interests and objectives throughout their lifetime.

So, the Great Depression demonstrated that the theory of the classical school of economic development could not stand the test of time. Keynes overturned it and offered a viewpoint of his own. Other theories came to the foreground.

Keynes believed that the times of automatic regulation of economy were gone. We cannot let things follow their natural course. It does not always lead to the best results. We cannot, he emphasizes, let people suffer and starve, if nature itself does not provide a solution; wealth cannot be appropriated by certain individuals only and the living conditions of the rest be reduced to the bare minimum. In such cases the state must interfere. The strategy of economic policy should be tied up to the social ideal.

Keynes developed a general theoretical model of the economic system, the factors and conditions that maintain its stability and sustainability. He stood up for the state’s multidirectional, active policy concerning the market, brought persuasive arguments in its defense, pointing out that the market mechanism is only an observed fact and not an inevitable principle that cannot be modified and, consequently, equilibrium can be altered and restored. Keynes joined state regulation and the market system.

As we can see, market self-regulation is not discarded. It is however, not effective enough and needs to be supplemented by state regulation. If left uncontrolled by the state, market self-regulation can deteriorate social outcomes. People don’t possess complete freedom on the market, nor the ability to realize this freedom and therefore market self-regulation cannot develop in an arbitrary manner. No automatic mechanism exists for self-regulation of the economy. The market is incapable of such self-regulation. The laws that regulate it generate imbalance and injustice. The crisis-engendered

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economic imbalance further deteriorates the situation. Under the influence of the market the natural and social environment are damaged, becoming an object of commercialization.

This is precisely what calls for the market self-regulation being augmented by state regulation. The government should focus its attention on activities that cannot be covered by private enterprise. The state is to do what now nobody does. There are certain economic activities which are not attractive to private capital and investment. There is no motivation available. It is the state that has to find and strengthen this motivation. The government may also work towards lowering the uncertainty of risk and create an atmosphere of security, whereas private capital is not always able to achieve that. The state is also able to develop an anti-inflation programme. Inflation can hardly be regulated without the state’s interference. Instead, all facts point out that the role of the state in the development of the economy these days should not be underestimated.

So, the state’s interference in economy is justified from the point of view of macroeconomics. Keynes finds the question of the character of interference to be very important, as well as the concrete forms of participation, of the compatibility of one or another method with the basic principles of democracy. When in 1933 free markets forces were discredited, Keynes wrote that in the field of economic activity, unlike that of centralized control, he favoured the preservation of private assessment, private initiative and private enterprise. He was not against them but was for an interference guided by the principle of economic efficiency. Interference is justified if it is economically viable.

According to Keynes, the economic system retains the viability of its elements and in particular that of their foundation. If they give in, the system’s sustainability is compromised. The state should restore it. This is achieved by striking a balance between aggregate demand and aggregate supply, that is, between the volume of output and the volume of consumption. If output falls, the state should stimulate it by means of investment. This is also true about consumption.

The second reason for the insufficient aggregate demand is low marginal efficiency of capital – an outcome of a high interest rate. If the margin for this rate exceeds the profit margin, entrepreneurs will no longer invest their capital in production but will instead keep it in a liquid state. This will weaken the willingness to invest, will lower aggregate demand, will generate disparity with aggregate supply and goods will not be sold. As a result, a crisis occurs, employment declines, unemployment grows, the economy is in stagnation.

If marginal efficiency of capital surpasses the interest rate, aggregate demand grows, the economy is booming, consumption increases. The higher the income, the stronger the stimulus for saving and investing.

Marginal efficiency of capital determines the conditions for demand of borrowed funds in order to invest, and the interest rate determines the conditions under which loan funds are currently supplied.

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Footnotes:

6 Again there, p. 453.
7 Again there, p. 230.
Interest rate depends on marginal efficiency of capital and current loan funds, on their supply and demand. Depending on their correlation a psychological proclivity to saving is manifested. The state has to keep the interest rate low. Keynes links this necessity to the weakening tendency of liquidity and a rising willingness to invest, which can be achieved by increasing the amounts of money in circulation.

The basic instruments for regulating the economy are monetary and credit policy and the interest rate. They can largely mitigate the severity of crises – inflation, stagnation, etc. Marginal efficiency of capital is placed in a dependent position towards state-regulated interest rate. However, Keynes believed that not many hopes should be set on the interest rate, particularly under conditions of falling output. No direct link is found between the changes of the interest rate and investment, which generates a certain doubt as to the use of monetary and credit mechanisms as an instrument for regulating the economy. Keynes certainly observed this weakness. He pointed out that these mechanisms are not reliable enough to overcome crises.

Keynes stated “I expect to see a state which, being able to calculate the marginal efficiency of capital goods in a long-term perspective and on the basis of common social benefit, should assume the growing responsibility for directly organizing investment”. The state should exercise a leading influence on the willingness to consume, partly through its taxation policy, partly through setting the interest rate and perhaps partly through other mechanisms.

Keynesian theory contains elements of general economic analysis. The theory justifies the need for state regulation which could easily adapt to the modified production conditions. Keynes argues that the state should turn into an in-built stabilizing agent for the economy.

Budget and credit mechanisms are the key factors of this incorporation. The budget plays the role of an inflow and outflow channel in the fluctuations of the economy. In boom times the budget expropriates parts of funds by means of taxes. In bust times the budget assumes the opposite role. When the economy is in decline, because of the low marginal efficiency of capital, entrepreneurs are not interested in investing in production. To avoid this, income tax rate should be reduced. This will encourage investment and thus ensure an economic boom. The same refers to workers income. In other words, in boom times taxes should go up and in bust times they should go down.

John Keynes is a supporter of direct socialization of investment as the only means of providing approximate full employment. In his opinion ownership over instruments of production is not of greatest importance for the state. The state authority should co-operate with private initiative. He emphasizes that if the state is capable of defining the aggregate value of resources aimed at increasing the means of production, then the state will have performed everything that was necessary.

So Keynes should be given credit for overturning, though with considerable delay, the neoclassical school of thought in the economic theory, which denied the need for...

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8 Again there.
9 Again there, p. 229.
Articles

government interference in the economy. He not only revealed the logical flaws in the analyses created by the representatives of this school of economic thought but suggested practical working mechanisms for overcoming the imbalance of macroeconomic system. Keynes was a supporter of reform but he was not a dictatorial reformer. He endeavoured to prove that when the economic system makes judicious use of the levers of state power it can preserve and stabilize itself. Keynes, however, never questioned the economic system postulates. He himself observed that his recommendations concerning economic policies are only valid in times of crisis.

4. A critical view

Every theory is imperfect and liable to development. This is also true about Keynesian theory. Until the mid-1970s this theory gave results, but it then came across obstacles, determined by time. Many scientists expressed their doubts in the credibility of Keynesian theory. New theories appeared, some of which overturned Keynesian theory and others tried to embed it into new theories. We shall enumerate some of them, without elaborating on the details and intricacies of the problem:

a) Samuelson’s neoclassical synthesis. Essentially it puts forward the following arguments: After the state has stabilized the economy, old “classical laws” must gain the upper hand. Adam Smith’s theory of the ‘invisible hand’, retains its significance. Many scientists adopt this theory as an unshakeable principle (an axiom) of economic analysis. It is to demonstrate that the economy can function effectively even without state interference.

b) Neoclassical models. Unlike Samuelson’s, this approach does not combine Keynesian analysis with neoclassical analysis - the notion of “synthesis” is absent. According to this theory macroeconomic analysis has to be based on the microeconomic one. There is a lot of similarity between macro and microeconomics. In recent times the theory of rational expectations is also covered.

c) Neo Keynesian models adjust the microeconomic principles to macroeconomic analysis. Macroeconomics is to be built on the foundations of microeconomics but it should be augmented with imperfect competition, asymmetrical information and other mechanisms regulating the movement of capital.

With regards to the above mentioned alternatives, I would like to express some concerns and disagree on certain points:

First, one cannot accept the thesis of neoclassical synthesis that on some occasions the old ‘hidden’ laws function and on other occasions they don’t. Society is not a technical system but a complete organic one. While a machine, for example, is built according to certain principles of functioning and another machine is constructed following quite different principles, the same cannot be assumed to be true regarding the economic system. All economic laws within the economic system act as a whole and generally form a system of subordination. The fact that certain laws occupy central position in the hierarchy and other laws a lower one, does not mean that the
lower-level laws stop functioning.

Second, the claim that laws developed in Adam Smith’s time fully retain their power and significance today leads us to believe that no changes occur; that capitalism now is the same as capitalism then that no socialization occurs. However, this is not the case. A law is an aspect of essence and in the essence there is a substratum. The essence changes and the law also changes, enriched by new content.

Third, the idea that macroeconomics has to be built on microeconomic foundations, with the latter adapting to the imperfect competition, asymmetrical information, etc., needs further clarification. Microeconomics is part of the whole, it could even be the foundation of the whole, but it is not the entire whole and does not exhaust the content of the whole. The 1970s attempt of this country, for instance, to experiment with a new system of management of the national economy (an economic mechanism) in certain business enterprises, ended in failure. This fact comes to show that a microeconomic analysis cannot be mechanically transferred to macroeconomics. The weakness of macroeconomics science lies in the fact that it views macroeconomics as a mechanical sum of microeconomic units.

Keynesian theory is not immune to certain weaknesses either. In this line of thought we would like to formulate some considerations and express skepticism concerning certain points Keynes made.

First, to a degree, we accept the thesis that with the increase of real income the willingness to consume declines, that is, the share of real income in consumption falls. In most cases this is valid about employers, where consumption really lags behind income, while poorer social layers are less concerned by this law. Many individuals from this social group live only on their salary and its raise increases consumption, as many of their needs which had been neglected in the past can now be addressed. Willingness to consume does not fall, it goes up.

It’s a debatable issue whether insufficient consumption is a cause of crisis or whether it is an effect of the system, or whether cause turns into effect and vice versa. Under-consumption being a cause of crisis is nothing new in Keynesian economic theory. Under-consumption was discussed long ago by Sismondi. Elimination of under-consumption, however, does not eliminate crises. The reasons for them ought to be sought in a complex of factors.

The following is not a debatable issue: consumption lags behind production; capital strives to expand production driven by the greed for a higher profit; expanding production, however, cannot be matched by a growth in consumption. Consumption is limited by the value of workforce, by its purchasing power, that is, by its salary.

The faster increase in the share of profit in GNP than the increase in salary means that the consumption share in real income drops, hence the relative shrinking in the purchasing power of the population, or the so called under-consumption. In our opinion, however, under-consumption cannot fully explain the crisis character of capitalist economy.

There used to be under-consumption as early as in the pre-capitalist forms of production, but there were no crises then; in as much as similar signs did appear, they
Articles

were the result of natural phenomena. Contradiction between production and insufficient consumption is a necessary condition, but not a sufficient one. The reasons should probably be sought in a number of factors beyond the scope of this article.

Crises in capitalism are a product of capital and simultaneously a form of resolving its contradictions; a means of restoring disturbed equilibrium; a prerequisite for renewal of fixed capital, replacing old equipment with a new one, involving new investment in production. In its movement, capital itself sets obstacles before its growth, and as a result crises occur periodically. In times of crises, as Marx said, that part of capital gets forcefully destroyed which allows capital to move without committing a suicide – a condition for capital development and for equilibrium in economy.

**Second**, one cannot deny that growing income results in growing saving. This is not a psychological law, however, but an objective necessity; a proportion of income is put aside, that is, postponed, for a future purchase of additional goods as well as money for rainy days (old age, illness, emergencies, etc).

**Third**, not every increase in income is tantamount to a stimulus for investment and an increased demand for labour. A link between them certainly exists, but it is not a direct one. Growing investment does not always lead to growing employment. It depends on the level of technological development and production facilities whereas the size of investment will be determined by the existing technology base. Effects will be different in different situations.

Updating of fixed capital is performed on a qualitatively new basis, the investment made will not result in growing employment but in its reduction instead. The claim that employment grows in proportion to additional investment is not confirmed by modern reality.

**Fourth, the link between savings** (accumulation of capital) and personal consumption is given a wrong explanation. This link is not a direct but an indirect one. Accumulation of capital can be done without necessarily expanding personal consumption, while the latter can be expanded without accumulation of capital. A number of factors outside personal consumption influence accumulation of capital while consumption is affected by factors beyond accumulation of capital.

So the relation between output and consumption limited by solvent demand is not always expressed in direct proportion.

In conclusion, Keynesian theory has not lost its meaning in modern times. This is the most important assumption resulting from the modern interpretation of his legacy and confirmed by modern practice. We need to find our own general theoretical model of economic development, a model to encompass all conditions and factors for self-development and regulation of economy. This can happen when we base our work not only on Keynesian theoretical legacy, but also on all achievements of the economic thought, enriched by and consistent with our own experience.
130 YEARS SINCE THE BIRTH OF JOHN MAYNARD KEYNES: 
A FEW FINISHING TO A PORTRAIT

Prof. Dr. Ec. Sc. Penyu Mihaylov

Abstracts

The article is of a jubilee nature, dedicated to 130th anniversary of John Keynes’ birthday. In broad touches there is outlined his portrait, discussed is his theory as the product of certain historical circumstances; analysis of the main principles of the doctrine, its weaknesses and strengths; their significance to the socioeconomic transformations in the country. There is traced the grand work of John Keynes for the development of economic theory.

Keywords: investments, consumption, marginal propensity, government regulation, crises.
DIRECT SALES AND NETWORK MARKETING: DYNAMICS, STRUCTURE AND TENDENCIES IN A GLOBAL ASPECT

Chief Assist. Prof. Valentina Makni, PhD

Clarifying basic concepts

As a method for reaching consumers, modern direct sales are part of the bigger sector of retailing and its trend non-store retailing in particular. Their essence lies in explanations and demonstrations of products or services with the help of personal communication with consumers, most often in the client’s home or office. Direct sales are one of the oldest forms of sales policy that emerged much earlier than the other methods of sales, yet today, they still retain their significance. Their origin dates back to USA at the end of XIX C and the first companies operating in the field – Avon and Singer. Sales were carried out in two main types – traditional sales through single-level distributors and direct sales in a multi-level network. From the 1950s sales started improving and step by step classical direct sales were pushed behind, leaving more and more space to the innovative form – network marketing (multi-level marketing or MLM). It is especially popular in the context of information society in which creating products and services, as well as adding value, are done through social networks globally.

From the point of view of the science of economics, network marketing is a concept guided by network economy in which, according to Kotler & Achrol “the hierarchic organizations of XXI C disintegrate into multitudes of network structures, including inner, vertical, inter-market networks and networks of opportunities.” In a similar dynamic and information-wise rich environment, by principle the radical

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1 The paper is part of the study in the Contract for scientific-and-applied research work with UE-Varna, SP 73/2012 „Network marketing – unknown reality”.
intervention of marketing is its transition from a salesman’s agent to a purchaser’s agent, from marketing products and services to consulting clients and managing their consumer assets. In this sense network marketing appears to be an optimum connecting link between an organization and consumers “with a broad social calling, through an unusual combination of organization practices and management strategies”.6

There is no widely accepted definition of MLM yet. The American marketing association defines it as a strategy and selling approach of companies to carry out direct sales by using independent agents (distributors), structured on many levels in order to sell the company goods/services to other agents or end users.7

The main difference between classic direct sales and multilevel ones lies in the enlarged opportunities for the distributors (direct representatives) of the second type – besides carrying out personal sales to end consumers, they can build up their business organization with a team (network). Thus they can make money not only owing to the margin in their clients’ sales, as well as to extra income from selling to people whom they have attracted, motivated or trained.8

According to the US tax office IRS direct sales and network marketing in particular, offer significant advantages, on the one hand, for people seeking opportunities for more income and setting up their own company and business and, on the other, for consumers who prefer the alternative of shops and shopping centres; on the third hand, for the market of consumer goods.9 IRS outlines those as a substitute and addition for traditional employment both for people who search for flexible opportunities for earnings in order to increase the family income, and for those who are not able to work full-time. This specific feature of MLM in the form of flexible employment is in unison with one of the characteristic tendencies of network economy – transformation of traditional employment and individualization of labor.10

The study gives generalized data on direct sales, including the traditional forms for carrying out network marketing too, the latter accounting for the prevalent share in the industry.11 In 2011 more than 50% of all direct-sales companies and 95% of those in the USA apply network (multi-level) approach.12

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8 The European Direct Selling Association, What is direct selling?
9 Internal Revenue Service, Retail Industry ATG – Chapter 3: Examination Techniques for Specific Industries (Direct Sellers)
11 In specialized literature direct sales and network marketing are defined as an industry (Pilsers, 2010; Internal Revenue Service); profession (King, 2000, business model (Poe, 2008, Wall Street Journal), distribution channel (World organisation for direct sales).
12 WFDSA, Global Report on Sales Methods and Compensation Plans – 2011, Published 6-2-2012
Global direct sales by countries and regions

In the course of decades North America has been developing as the largest region for direct sales and network marketing. Since 1990s this business model has even more actively set its foot on the Asian markets. In doing it, the Asian-Pacific region holds a leading position. In 2012 it accounts for 44% of the global market for direct sales, followed by North and South America – 39%, Europe (16%), Africa and the Middle East (1%) (Fig. 1)

Source: WFDSA, Global Sales and Direct Selling Community – 2012.

Figure 1. Regional markets for direct sales in 2012

In national aspect, the ten leading countries with the largest relative share of direct sales in 2012 account for 76% of the world market. USA is the largest market with a share of 19%, followed by Japan (14%), China (12%), Brazil (9%), Korea (8%), Mexico (4%), France (3%), Malaysia (3%), Russia (3%) and Germany (2%). (Fig. 2) Unlike past years, in 2012 on the ten leading markets the ratio between developed and developing/emerging markets prevails for the benefit of the latter.

3 An organisation which published an annually comparative data on direct sales worldwide is the World federation for direct-sales associations (WFDSA). Until 07.2014 the latest relevant data about the industry concern 2012 and can be found at www.wfdsa.org
Since the 1990 there has been a tendency of a growing number of countries which make an annual turnover of direct sales amounting to USD 1 bn. Until 2000 the number of these countries is 14 and most of them (eight) are developed. Until 2012 the countries with direct sales over USD 1 bn per year were 23 already, yet, the number of the developed countries among them remains the same. A fact is that the increase is completely due to the developed countries and the emerging markets. Currently 15 developing countries and only 8 developed ones make an annual turnover of more than USD 1 bn. (Table 1)

The main prerequisite for this is the combination of intensive internalization, especially in the last 2-3 decades, opening markets to the East and the developing private sector and entrepreneurship on these markets. Direct sales are an exceptionally labor-intensive industry which, together with the low barriers for penetration in the distribution business, is an especially favorable factor in the less developed countries.

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<th>Countries</th>
<th>2000</th>
<th>2012</th>
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<td>Developed</td>
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<td>Developing/emerging</td>
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**Source:** Author's interpretation of data by WFDSA.

In 2012 net sales of the ten largest transnational companies for direct sales amounted totally to USD 44 bn\(^4\), with which they account for more than 1 of the

global direct sales.\textsuperscript{15} This fact shows that on the whole, the structure, dynamics and tendencies in the industry to some extent depend on the development of the leading companies in it.

Undoubtedly, in the last two decades the main driver of world economy has been the transnational corporations (TNC) and their direct foreign investments (DFI).

At the time of the world economic crisis in 2008 global economy and many sectors marked decline and slowdown. The period of time of high growth of TNC since the 1990 until today has been characterized with strong dynamics and double drop – once in 2002-2003 (when the technological balloon burst, known as dot.com balloon-pop) and in 2007-2009 (at the time of the world financial-and-economic crisis). (Fig. 3)\textsuperscript{16} A similar tendency of global flows of TNC is followed by the sale of their overseas branches. (Fig. 4)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Global flows of TNC' DIF (1995-2012)}
\end{figure}

\textbf{Source: UNCTAD, World Investment Report 2013.}

\textbf{Figure 3. Global flows of TNC’ DIF (1995-2012)}

Almost all industries and sectors were affected to a different extent by the last crisis – car-making, chemical, metallurgy, construction, business services, financial intermediation, transport, communications and many others.\textsuperscript{17} The tendency among retailing companies, direct sales in particular, is different. In 1993 global direct sales amounted to USD 62 bn. In 2012 they reached 167 bn (an increase of 170\%). For the same period the number of people registered as direct representatives in the industry increased 6 times – from 15m to 89m in 2012.\textsuperscript{18}

\textsuperscript{15} Transnational corporations make direct foreign investments in the form of mainly mergers and takeovers or in the green, in which they possess or control production, commercial or other assets abroad. See Младенова, З. в Гаргов и колектив: Международен икономикс, Глава XI: Преки чуждестранни инвестиции и транснационални корпорации, “Наука и икономика, ИУ - Варна, 2010, с. 403-441.
\textsuperscript{16} UNCTAD, World Investment Report 2013.
\textsuperscript{17} UNCTAD, World Investment Report 2010.
\textsuperscript{18} WFDSA, Global Sales and Direct Selling Community - 2012.
Unlike the common tendency in TNC and their overseas sales, since the beginning of the 1990s global direct sales have marked a constant growth in their development. Until today, in the course of two decades, only a slight fall was reported only in 2000 and 2001 (Fig. 5). Since 2007 when almost all industries were affected and reported big drops, global direct sales have marked an annual growth of 10% average. Indicative is the fact that the growth in time of and after the crisis is even larger than before it, estimated per year.¹⁹

Therefore, one needs to have in mind that the analyzed data on TNC sales refer only to selling their overseas branches, while in the industry of direct sales global ones have been reported.

¹⁹ Data for 2011 and 2012 have been estimated in dollars by constant prices and all data shown are without VAT.

**Source:** UNCTAD, World Investment Reports 1996, 1997..., 2013.
One of the reasons for this fact is the unfavorable economic environment in corporate business which results into a strong increase of unemployment internationally.

Using assessment, globally every day more than 70,000 people join direct sales.\textsuperscript{20} In 2011 in Europe 25\% of the newly joined distributors were unemployed.\textsuperscript{21} For 2012 the Irish association for direct sales reported a 60\% increase of young newly registered distributors aged below 25, where the share of the youth segment in Irish industry reached 13\%. The share of young people who joined direct sales in Great Britain, went up by 29\% compared to 2001, their share in national industry reaching 19\%.\textsuperscript{22}

I share the opinion that recession helps the growth of network marketing\textsuperscript{23}, because when traditional sectors lose job vacancies many people seek alternative opportunities. In turn, young people are attracted by the flexible MLM model of doing business, international at that. Maybe network marketing is one of the few industries that offer employment to a limitless number of people, the reason for it being its especially difficult labor intensive ability and the lack of barriers for settling in the business.

### Gender distribution in direct sales

The industry has a proven strong gender effect. According to WFDSA globally 75\% of its representatives are women and 25\% - men. And this is hardly by chance – network marketing is called “the Pink economy”.\textsuperscript{24} In 2010 in USA women generated annual direct sales of USD 29.6 billion. The gender distribution is most strongly mismatched in Central and South America where direct sales are carried out mostly by women (92\%). The smallest difference is in Asian countries. Women there are 68\%.\textsuperscript{25} (Table 2)

\textsuperscript{21} The European Direct Selling Association, Promoting the Benefits of Direct Selling, SELDIA Annual Report 2011-2012.
\textsuperscript{25} WFDSA, Global Sales by Sales Methods - 2012.
According to a study, among 2500 distributors in India (on this market 64% of those employed in direct sales are women) network marketing gives women an opportunity for financial independence and self-esteem. In USA, for example, three out of every four adults living in poverty are women. It is a proven fact that it is harder for women to find employment, with less payment, at that; besides, they rarer keep their job for a long time due to natural family responsibility. Not by accident, a big part of the representatives of the industry are mothers with children. The very nature of network marketing - striving for cooperation instead of competition, good relations through more communication with other people, sense of justice – is an inherent characteristic advantage of women. From economic perspective for women network marketing is a tool for a bigger income, reaching independence and increasing the family budget.

Product distribution in direct sales

Product distribution in global direct sales falls into three prevalent categories of products: beauty and personal care or BPC – 35%, wellness – products for health – 25%, household products and appliances for long-term use (14%). The share of all remaining categories is below 10%. The product range in the industry is another obvious reason for the prevalent activity of women. The main reason for the data given above is the fact, that among the ten global leading companies for direct sales, which accounted for j of global direct sales in 2012, six come from the category of beauty and personal care (Table 3)

Source: wfdsa.com

Table 2

<table>
<thead>
<tr>
<th>Representatives by regions</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>South Africa</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>North America</td>
<td>77</td>
<td>23</td>
</tr>
<tr>
<td>Central and South America</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>Western Europe</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>CEE</td>
<td>86</td>
<td>14</td>
</tr>
</tbody>
</table>

WFDSA, Global Sales by Product Category – 2012.
**Table 3**

The ten largest global companies by net sales in 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Key product category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Amway</td>
<td>USA</td>
<td>Wellness</td>
</tr>
<tr>
<td>2. Avon</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>3. Herbalife</td>
<td>USA</td>
<td>Wellness</td>
</tr>
<tr>
<td>4. Vorwerk</td>
<td>Germany</td>
<td>Household appliances</td>
</tr>
<tr>
<td>5. Natura</td>
<td>Brazil</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>6. Mary Kay</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>7. Tupperware Brands</td>
<td>USA</td>
<td>Goods for home</td>
</tr>
<tr>
<td>8. Nu Skin</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>9. Oriflame</td>
<td>Luxembourg</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>10. Belcorp</td>
<td>Peru</td>
<td>Beauty and personal care</td>
</tr>
</tbody>
</table>

Source: directsellingnews.com

The products sold most often in the industry of direct sales are strongly personalized ones and have direct contact with oneself (beauty and wellness products). They enable sharing one’s personal experience and the results of using them, which stimulates even more the closer link and more active communication between the distributor and his/her clients, thus leading to more successful sales. In the industry of direct sales the ruling statement says that a distributor needs to be the product of his products and he himself is the best advertisement, in which one’s personal use of the products is especially important. To have good social relations that often result into economic benefits is a sufficient motivation for many people to become part of network marketing.

**Methods of product marketeering in direct sales**

In direct sales there are applied two basic methods for rolling out products and reaching clients. The first and more popular, is person-to-person. In it the distributor meets a potential client and presents the product and the business opportunity. The second and less applied method is group presentation or the so called party plan. The distributor hosts it in his home. There products are presented, samples and tasting are offered, in which a certain number of the people invited make a purchase. Internationally, 80% of direct sales are carried out through person-to-person, 18% - through a party plan and 2% - through other methods (personal and official company sites, social media, automatic offers and others.)

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30 Companies which distribute their products through the method of direct sales and network marketing have the rule not to use advertising as a means of promotion, since instead of it they pay a commission to their independent representatives who also do live advertising by word of mouth.

31 WFDSA, Global Sales by Sales Methods 2012.
Tendencies in the industry of direct sales and network marketing

In the last decade of the development of the industry of direct sales the following tendencies stand out:

• Globally, more and more countries make a turnover from direct sales amounting to USD 1 bn; yet, their number goes up at the expense of developing and emerging markets which is exactly the tendency in the dynamics of TNC as a whole. The biggest contribution in this respect is that of the countries in Asia-Pacific and Latin America. In USA, where network marketing originated, there is a certain saturation of the market, since 10% of the workforce in 2012 was part of the industry. More and more developing countries become active participants in direct sales which shapes a tendency for providing income for the population in these countries.

• Against the background of the world financial-and-economic crisis, direct sales and network marketing are one of the few industries that report neither fall, nor stagnation, instead they mark an annual growth of 10%. A prerequisite for this is the fact that they offer employment without any restrictions in respect to gender, race, education or skills. This allows labor-intensive countries to decrease the pressure on their labor markets.

• Unlike past centuries when growth in the industry was due mainly to the product category of beauty and personal care, in the last couple of years one sees a stable growth in two other basic product categories – wellness (nutrition additives, products for losing weight, healthy foodstuff) and services (utilities and financial). Forecasts say that the products aiming at one’s care for health will be the leading channel in direct sales in the future. Compared to institutional healthcare, personal-care products in some countries (e.g. USA) are assessed as a more economic and efficient way for decreasing future costs for healthcare. In turn, the tendency for aging of population globally, especially in developed countries, and the specifics of the “baby boom” generation create a favorable market for those companies which aim to sell natural products for health and rejuvenation.

• Demographically and gender-wise, one observes several characteristics. Women are the prevailing gender in the industry of direct sales which is an indicative factor that they are offered good opportunities for generating income. In the years after the world crisis, however, men take even more active participation. To some degree this refers to a lot of job vacancies in the sector of industries. It is a fact that the young generation is more involved too.

33 Euromonitor International, Direct Selling in the US, April, 2013.
34 The baby-boom generation are the people born after World War II (between 1946 and 1964) who caused a strong demographic growth in developed countries. This generation had a significant impact on and boosted the development of economy. In the course of decades it caused the origin and change of whole industries. At this stage it stimulates the development of the wellness industry.
some extent this results from growing youth unemployment in many countries\textsuperscript{35}, as well as from the more active application of modern information and communication technologies in network business, which attracts more young people.

**Direct sales and network marketing in Bulgaria**

The surveyed retailing subsector made its first steps after the changes in the 1990s. According to data from Euromonitor, out of the four channels for non-store retailing in Bulgaria direct sales account for the biggest share (54\%). In the last five years their tendency has been to grow steadily (Table 4). The second most developed channel is Internet sales, whose share in total non-store sales in 2013 was 38\%. Even though having a smaller relative share, Internet-sales growth is bigger than that of direct sales, respectively a growth of 52.3\% compared to one of 31.8\%. The forecast is for a growth of 3\% in direct sales in the coming years.

### Table 4

<table>
<thead>
<tr>
<th>Sales channels</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct sales</td>
<td>94.3</td>
<td>104.1</td>
<td>107.0</td>
<td>111.6</td>
<td>118.5</td>
<td>124.3</td>
</tr>
<tr>
<td>Shopping from home</td>
<td>4.1</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Internet sales</td>
<td>58.6</td>
<td>65.1</td>
<td>70.1</td>
<td>77.4</td>
<td>82.4</td>
<td>89.2</td>
</tr>
<tr>
<td>Vending sales</td>
<td>13.0</td>
<td>13.4</td>
<td>13.2</td>
<td>13.4</td>
<td>13.9</td>
<td>14.4</td>
</tr>
<tr>
<td>Total non-store retailing sales</td>
<td>169.9</td>
<td>186.1</td>
<td>194.0</td>
<td>206.0</td>
<td>218.5</td>
<td>231.8</td>
</tr>
</tbody>
</table>

Source: Euromonitor International, Retailing in Bulgaria, Market Data, 2013

In comparing data of the World federation for direct-sales associations WFDSA, in 2012, Bulgaria ranks 6\textsuperscript{th} in the industry among all CEE countries that have participated in the eastward expansion of EU. We need to point out that in many European countries the industry of direct sales marks a decline. Those employed in it are 135,000, which accounts for 45\% of all employed in retailing\textsuperscript{36} and 6\% of total employment in Bulgaria.\textsuperscript{37} Of all direct representatives 86\% are women and 14\% men.\textsuperscript{38} This data is

\textsuperscript{35} The problem of youth unemployment worldwide is called the phenomenon of the “scarred generation”. See, ILO, Global Employment Trends for Youth 2012. For example, in EU youth unemployment is much higher than unemployment of the remaining population. In 2012 in EU it reached 22.8\%, which exceeds more than twice general unemployment of 10.5\%. See Eurostat Unemployment Statistics.

\textsuperscript{36} Po danni na Evromonitor prez 2012 g. v Balgariya zaetite v targoviyata na drebno sa 300 hil. dushi.

\textsuperscript{37} Po danni na NSI, Pazar na truda, godishna statistika na zaetostta za 2012 g. http://www.nsi.bg/bg/content/3953/%D0%BD%D0%B0%D1%86%D0%B8%D0%BE%D0%BD%D0%B0%D0%BB%D0%BD%D0%BE-%D0%BD%D0%B8%D0%B2%D0%BE

identical with the gender ratio of distributors in CEE. One needs to have in mind that the data on distributors in Bulgaria includes only the registered companies that are members of the Bulgarian association for direct sales (BADS) through local agencies. This means that actually their number is bigger. Until this moment there are seven of these companies - Avon, Aquasource, Forever Living, Oriflame, Royal Sales International, Vision and Zepter. The world largest MLM company Amway is to be a member soon.

Having in mind this fact, one can appreciate the reality that the number of direct representatives in Bulgaria obviously exceed the data in official statistics. According to unofficial data, in the country there function between 20 and 30 companies for direct sales and network marketing. It is hard to make a precise estimation of their number, simply because their offices nationwide are not officially registered. To some extent, the reason for this is the growing role of Internet marketing and marketing of services, which diminishes the need of setting up physical agencies by countries. A number of companies have official agencies that are not part of BADS, such as: Rainbow, Herbalife, Tupperware, LR Health & Beauty Systems, PM International, Stemtech International, FM Group, Coral Club International. On the market there operate also several Bulgarian MLM companies. “Green master” and “Green apple” are some of the first that manage to stay on the market for more than ten years.

According to Euromonitor, the companies with the largest market share Avon (44 %) and Oriflame (24 %) are losing their relative share in the last couple of years. The strongest presence on the Bulgarian market is that of the product category beauty and personal care (53 %), followed by wellness products (37%), household goods for long-term use account for the lowest share (9%). In the coming years the forecast is for a strong growth of wellness products. The categories mentioned above are restricted only in respect to the product range of the BADS member companies, because in Bulgaria there operate firms with different products, including services that do not fall into this statistics.

Network marketing (MLM) keeps being popular in Bulgaria and is the preferred method for sales by direct-sales companies; however, its image among people is not good because of the negative experience of many people with fraudulent financial schemes in the 1990s. Despite this fact, new MLM companies set foot in Bulgaria all the time. This tendency is explainable, having in mind the strategies for market diversification implemented by companies, the phase of growth in the industry lifecycle in the CEE countries and the low incomes of the population in them. In turn, more and more Bulgarians join network marketing, since for part of them it has turned into a main and only source of income, whereas for most of them it brings extra money.

The following conclusions can be drawn:

1. The prerequisites driving the growth of network marketing in developed and developing countries are various. In industrial societies this growth is caused by aging of population, high unemployment rate, a lot of redundancies in the traditional corporate business due to the world crisis and the development of outsourcing. In the economies in transformation the basic prerequisite for the successful emergence of the method is the transition from state to private sector, the development of entrepreneurship and the strive for extra (more) income in these countries. On emerging markets the drive of the direct-sales industry is their large saturation capacity, the significant role of micro-entrepreneurship and smaller participation of women in the labor market. Worldwide, the general prerequisites for growing direct sales are globalization, increasing insecurity of traditional employment and entering the age of information.

2. Having in mind the specifics and tendencies of direct sales and network marketing, as well as the unregulated Bulgarian market, more attention needs to be paid to the industry, its socio-economic impact and the prospects for development of the country. In this direction surveys can be carried out concerning the link between MLM and macroeconomic indicators like employment, unemployment, incomes (salary) and others. Therefore, work should be done for creating national legislation that regulates first retailing; then, on a next stage, direct sales should be also involved, using the example of other countries. Such measures will reduce fraud in the sector and will make prerequisites for optimum use of its potential in society.

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DIRECT SALES AND NETWORK MARKETING: DYNAMICS, STRUCTURE AND TENDENCIES IN A GLOBAL ASPECT

Abstracts

Chief Assist. Prof. Dr Valentina Makni

Direct sales and network marketing in particular are a growing area in non-store retail trade to which until the present moment there has been paid little attention in Bulgarian economic science. That area forms a global industry, which in 2012 realized a turnover of 167 bln dollars, owing to 90 mln independent direct representatives all over the world. The present study aims at presenting an analysis and a global survey of the dynamics, structure and trends in its development during the past 1-2 decades. Taking into account the peculiarities of this area in the tertiary sector of the economy – the service sphere, the ambition of the author is to perform a comparison with the peculiarities of the world economy as a whole, which have emerged in the period under consideration, and on that basis to point out some conclusions on the prospects created by direct sales and mostly their main form of manifestation – network marketing.

Keywords: direct sales, network marketing, MLM, retail trade.
ASSESSMENT OF THE INTERNAL FINANCIAL CONTROL SYSTEM FOR THE NEEDS OF TAX PRACTICE

Assist. Prof. PhD Bistra Nikolova

The review of specialized publications related to the theory of financial control, shows that the academic interest in the internal financial control is not strong in our country. As far as this type of financial control is the subject of scientific research, it is usually studied in a one-sided manner; only in public sector companies, which by law, initiate and maintain a system for internal control. Issues such as the origin of the main type of financial control, its nature, characteristic features, need for implementation, role, methodological tools, technological peculiarities, specifics of controlling impact, etc. have not been explored at all or have been explored inadequately. These issues are not the subject of independent and thorough research in the article, but its main objective is to define internal financial control, to work out guidelines and assessment standards for the internal financial control system and to adapt them for implementation in tax-contol practice, proceeding from audit control regulation.

If we consider the financial control system in its narrow meaning, it consists of two main components – internal and external financial control. Differentiating the financial control into internal and external is traditional for the control theory. Two major criteria are used for discrimination: according to the place of the object and the subject of control (that is, whether they are in close proximity and belong to the same system) and according to the association of the controlling authorities to controlled entity (whether they have employment relationship with the controlled entity). The first criterion can be accepted as more accurate because it is possible that the internal control bodies do not have employment relations with the controlled entity (e.g. the internal auditors in the public sector).

The separate components in the financial control system are interconnected and interact like the ones in any other systems. That is why the efficient internal financial control is a prerequisite for achieving optimal results from the external financial control and vice versa. This relation between internal and external financial control becomes the reason for drawing the attention of the external financial control bodies (including the tax control authorities) to the established system for internal financial control (SIFC).

in the companies and its assessment. Therefore, the internal financial control can be both an independent research target in the theory of financial control and a study objective (in theory and practice) in relation to another component of the financial control system. For example, the independent auditors study the system for internal financial control with reference to the overall risk assessment in the audited company when planning the control operations and the choice of appropriate methodological tools.4

In scientific literature there are lots of definitions for the concept “internal control” which to a certain extent are expressive of its nature.5 Professor D. Sc (Econ) Mihail Dinev gives one of the most meaningful definitions: “The internal control is representative of the management of a system. It is usually the control of the owner or the shareholder who owns over 50% of equity shares. Besides, it is about control which can possess different status and method of organization. There might exist a special body for internal control, there might be only internal accounting or financial-accounting control, or formal and informal control. The internal control may be carried out for different processes, particular entities and their processes.6

The following regulatory definitions are popular in the sector of financial control, in our country and abroad:

**According to the International Standards of Auditing 315**, the internal control is viewed as a process, developed and implemented by the employees, engaged with the general management, governance and other personnel, with the aim of giving a reasonable degree of security regarding the achievement of company’s objectives concerning reliability of financial reports, effectiveness and efficiency of operation and compliance with applicable laws and other regulations.

**In the guidelines of INTOSAI /International Organization of Supreme Audit Institutions/ it is pointed out that**: “The internal control is an integral process in which the management and employees take part. Its function is to provide reasonable confidence that in the course of implementing the company’s mission the following general objectives are fulfilled:

- carrying out appropriate, ethical, economical, effective and efficient activities;
- fulfilling duties regarding accountancy;
- compliance with applicable laws and regulations;
- protecting resources from waste.”

**In accordance with the guidebook for internal control**: “The term “internal audit” refers to an independent, objective, assurance and consulting activity, meant to add value and improve an organization’s operations. It helps the organization accomplish

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4 For this precise purpose the internal financial control will be further reviewed and the main guidelines and criteria for valuation of the companies System for Internal Financial Control systemized, and adapted for implementation: from the audit practice – in tax control, carried out mainly from the authorities in the National Revenue Agency.


6 Dinev, Mihail. Cit. p. 70.
its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the processes of risk management, control and governance.”

It is worth noting that some authors of specialized publications have good reasons to differentiate between the term “internal control” and “internal audit”. However, such distinction is not advisable from the point of view of the present summary.

The review of specialized publications in our country shows that the **internal control is studied one-sidedly** – mainly in public sector organizations in reference to which there is a regulatory requirement for designing and maintaining a system for financial management and control, **in conformity with the Public Sector Internal Audit Act**.

Thus, a priority is given to the assessment of the internal financial control system in the public sector organizations, respectively insufficient attention is paid to the internal control in the remaining part of industrial organizations, prevailing today. Likewise, this *brings about the wrong impression about the role and significance of internal control and the belief that it exists only in the cases regulated by law*.

Therefore, it should be clarified that **the company’s internal financial control system is established because of two main reasons:**

- A conscious need on the part of the owner, governing bodies and company management;
- Regulatory requirements.

*Hence, an internal control system exists in every company (large or small, private or state-owned) because the internal control is inherent to organization management as a whole. Definitely, the control is not equally developed in specific companies, respectively in companies where there is a regulatory requirement for establishment of an internal financial control system, the control is much better developed and easily recognizable.*

When the academic literature in our country reviews the internal financial control it points out its direct, immediate nature and distinct effectiveness. The controlling activities correspond to the course of events and processes or have the end results as their target, which is a precondition for high standard of disclosure and effectiveness. The internal control can influence in a direct and immediate way the audited events and processes. Its likely dependence on the managed entity, as well as the fact that the controlling agents themselves can participate in the production and management processes in the company, which influences in a negative way the detection and the impact of the control effect.\(^8\) In some other publications we made a point regarding the organization – the internal control is the one which is carried out by the company governance, specialized controlling bodies/controllers, etc, by chief accountants, quality assurance bodies, control committees, etc. The lack of object identification – since it is well-known and subject to constant monitoring, etc., is highlighted as a peculiarity of

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the internal control. It is specified, that by legislation, the internal control in our country is arranged by means of separate guidelines in the commercial law, Labour code, rules and regulations, company statutes and articles of association.\(^9\)

In foreign (English language) academic literature, when the necessity for internal control and its characteristics is made clear, it is highlighted that if the company is small, its manager can make all major decisions thus supervising in full details the business operations. However, if the business takes off and the need for additional staff, including employees and executives increases, the manager starts to lose his/her total control and has to trust personnel for some business operations. Since then the manager is aware that precautionary measures should be taken to defend the company’s interests. As a result of that, the manager establishes an internal control structure with the following three main components:

- **control environment**, which defines the integral idea, the consciousness and behavior of the Board of Directors, executives and company owners;
- **accounting system**, which contains the established methods and initial documents for identifying, collecting, analyzing, classifying, rendering accounts and reporting of business operations in order to provide full, accurate and timely financial information;
- **control procedures** – policies and procedures, supplementing the control environment and the accounting system, which have been introduced by executives in order to guarantee to a considerable extent that the company would accomplish its specific objectives. The control procedures may comprise procedures, connected with authorization, differentiation of duties, working out and bringing in use appropriate initial documents and data, adequate protection of access to assets and independent control of execution.

An effective company’s internal control structure comprises its plan for organizing all procedures and activities, undertaken in the enterprise in order to:

1. Protect its assets from theft and losses.
2. Provide coordination between company policy and applicable regulations.
3. Conduct performance appraisal for every member in the company, so as to raise operation effectiveness.
4. Provide true and reliable operational data and accounting reports.

In foreign literature attention is paid to the fact that large companies are not the only ones that can benefit from the implementation of some internal-control measures, but small ones can take advantage, too. Prevention of theft and losses is only a part of internal control, that is, its purpose is to guarantee the effective work of the business operation.\(^10\)

On the basis of the above mentioned, the following **characteristic features of internal financial control** can be summarized:

- **one of the types of financial control**, that is, part of the financial control system;

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- it is distinguished by its operational character, *direct and immediate nature* – the controlling activities often coincide with the progress of events and processes, but it is possible to be focused on their end results;
- it is accomplished *as a process* of continuous and critical (evaluative) supervision of subcontrolled entities and the ongoing processes; it can also be fulfilled *as a single act* (particular control activities), if there are significant indications for deviations from the established rules – with the purpose to identify them and counterreact in due course;
- the need for its implementation originates with the company establishment, with a view to safeguard property, accomplish the objectives and fulfill operations in compliance with the practicable regulations;
- with the increase of the company’s business activity, and the manager/owner *is not in the position to control company activity*, the case may demand it to delegate authority to his associates, that is to develop internal control structure (system);
- it can be accomplished in response to a requirement in a regulation and/or because of a need inherent to management, respectively, in the first case a formal structure (system) for internal financial control is designed whereas in the second - it is not compulsory (it can be fulfilled in a formal and informal way);
- it may have *formal and informal character* (it can be accomplished by individuals, hired particularly for this, such as controllers, internal auditors, etc. according to written rules, instructions, implementation procedures, etc), as well as *unofficial and informal character* - to be fulfilled in the immediate course of ordinary company activity by different employees, in accordance with their expertise and place in the organization and management structure (accountants, consultants, departmental and division managers, directors, managers, etc.);
- it may use the financial control *methodological tools*, though the possibilities for applying variable methods are not huge, because the subcontrolled entities know themselves well (respectively it is not necessary to identify and investigate them in advance), while the controlling activities (generally) go along with the company’s processes and events and it is not necessary to restore “the picture” of the business operations from a past surveyed period;
- the control impact should be focused mainly on prevention of likely fraud and deviations; it is also possible to initiate disciplinary measures and seek material liability according to Labour code.

Having in mind the above stated, for the purposes of evaluation of the internal financial control system, we can lay down the following definition: the internal financial control may have official and unofficial nature or formal and informal character; it is a systematically implemented process of critical (evaluating) supervision of subcontrolled entities and the ongoing processes in them with the owner, management, staff and consultants, taking part in it for implementing a
particular control impact in order to reach company’s objectives, safeguard the property, operational efficiency, as well as compliance with applicable regulations.

There are two basic reasons for the need to evaluate the internal financial control system in companies: when the management tries to improve the managerial processes in the company and when external financial control bodies, by assessing the business operations of a particular company, look for ways to enhance control effectiveness.

Most often the auditors make the assessment, because it is claimed for collection according to the applicable audit standards (for independent audit, audit by the Chamber of Accounts and audit in the public sector) and it is a part of the company’s risk analysis. The assessment of the internal financial control system can be used by tax control as an innovative means for improving effectiveness.\textsuperscript{11}

In academic literature it is pointed out that the assessment of the internal control system is very important for the audit, that is, if the auditor can trust the system to a great extent, he will have to perform less control procedures (as a number and/or complexity), because of the reduced likelihood for making mistakes in the accounts: „If the auditor is confident that the system for internal control functions well, it means that the risk of making mistakes in the accounts is smaller. Therefore, it is very important for the auditor to ascertain the availability of a system for internal control and check its effectiveness”\textsuperscript{12}.

An analogical conclusion can be drawn about the tax control: in order to reduce efforts and resources when implementing tax control it can be recommended to assess the system for accountability and the system for internal control even at the stage of planning and preparation of control operations, because if the system is functioning well, as a rule, the risk for non-compliances and misstatements in reports and reported data will be reduced; thus, the tax authorities can trust company information to a larger extent.

With reference to tax control there is no particular regulation regarding assessment of internal financial control system (standards, internal operative procedure, etc) and for that purpose, we can adapt the applicable in audit practice standards, instructions, reference books, i.e.:

- ISA 315 An understanding of the company and its environment and risk assessment for misstatements, deviations, and non-compliances\textsuperscript{13}, which gives

\textsuperscript{11} In the practice of the Internal Revenue Agency (from 1 January 2006 it is the official legal successor of tax administration) such assessment is not applied, but in this respect, a need is expressed in a public call № 9018982 „Designing guidelines for implementation of audit techniques in tax and insurance control”, ref. № in NRA -12-00-435/20.08.2013. See. http://www.nap.bg/page/?id=304, i.e. Section 1 – Checkup preparation, planning and implementation for establishment of tax and/or insurance liabilities, Theme 2 – Internal controls, established by people; issues considered: design and valuation of operational effectiveness of the developed internal controls.


directions about the examination and evaluation of the accounting system and the internal control system;
- INSOTAI instructions for implementation of standards for internal control in the public sector\(^{14}\);
- A reference book for internal audit, approved by the Internal Control Directorate in the Ministry of Finance \(^{15}\).

By means of legislation these three resources lay down the assessment of the internal control system in companies. In the table below the regulated components of internal control system are presented.

### Table 1

<table>
<thead>
<tr>
<th>Regulation</th>
<th>ISA 315: An understanding of the company and its environment and risk assessment for misstatements, deviations, and non-compliances</th>
<th>INSOTAI instructions for implementation of standards for internal control in the public sector</th>
<th>A reference book for internal audit, approved by the “Internal Control” Directorate in the Ministry of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Control environment</td>
<td>Control environment</td>
<td>x</td>
</tr>
<tr>
<td>2</td>
<td>The company’s risk assessment process</td>
<td>Risk assessment</td>
<td>Identifying and assessing the risks in the audited activity/process</td>
</tr>
<tr>
<td>3</td>
<td>The information system, including the related business processes, relevant to financial reporting, and communication</td>
<td>Information and communication</td>
<td>x</td>
</tr>
<tr>
<td>4</td>
<td>Control activities</td>
<td>Control activities</td>
<td>Controlling mechanisms</td>
</tr>
<tr>
<td>5</td>
<td>Monitoring of controls on an ongoing basis</td>
<td>Monitoring</td>
<td>x</td>
</tr>
</tbody>
</table>

\(^{14}\) [http://old.minfin.bg/docs/3intosay.pdf](http://old.minfin.bg/docs/3intosay.pdf)

On the grounds of the reviewed constituent components of the internal financial control system and its peculiarities, the subsequent extensive characteristics can be worked out and the structure of the system - defined.

**Characteristics of the internal financial control system** - it is a subsystem of the financial control system in companies and organizations, which is established because of the owners’ and company managers’ needs and/or due to a regulatory requirement. This system can possess a particular organization structure or it can be implemented unofficially and informally, with the aim to safeguard property, to reach goals, and fulfill activities in compliance with the applicable regulatory provisions.

**The structure of the internal financial control system** – if the company or the organization has established a specific internal financial control system, it usually comprises the next main components: control environment; risk assessment for the company, information system and communication, control activities and monitoring of controls on an ongoing basis.

Presuming the statutory regulated components of the internal financial control system and the opinions of national and foreign experts in the area of audit, in the subsequent statement we will figure out the directions and criteria for evaluation of the internal financial control system, which will be adapted for implementation into the tax control practice.

**Guidelines for evaluation of the internal control system**

Obtaining an understanding of the internal control system comprises an assessment of the designed model (system or structure) for internal control, that is: finding out if such a model has been implemented and if it functions effectively (is it capable of preventing or finding and correcting significant misstatements, non-compliances and deviations from targets, expected outcomes and applicable regulations).

Traditionally the components of the model (system or structure) for internal control which are subject to assessment in the auditing practices are: control environment, company’s risk assessment, information system and communication, control activities and ongoing monitoring of controls. These structural components set the guidelines for assessing the internal control system, and they can be applicable for the needs of tax control.

1. **Control environment**

It determines the company milieu and influences the staff attitude to the internal control. It constitutes the basis on which the other components of the internal control are implemented and comprises:

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1.1. Integrity values and ethical behaviour

The personal and professional integrity and ethical values of management and personnel define their preferences and judgements which are later turned into company behavioral standards. The tendency and attitude of management, financial and accounting staff to circumvention and non-compliance with internal and external rules and regulations are assessed.

1.2. Commitment to competence

Knowledge and skills, required for task completion, relevant to the position of a person, as well as complete understanding of personal responsibilities in respect of internal control. Assessment criteria are: the level of education and the qualification of managers, financial and accounting staff, availability of vacancies for them and duration of their office position.17

1.3. Management’s philosophy and operating style, that is:

- critical look to activities and interaction with consultants;
- the degree at which “tough” matters are imposed and discussed with management;
- the attitude to processing and safe storage of reported data, to compliance with tax obligations, to financial and accounting personnel.

1.4. Organisational structure – it assesses if autonomous financial-controlling and accounting functions are established, as well as the extent of their interaction with the remaining functional activities.

1.5. Assignment of authority and responsibilities (duties), that is:

- The method of delegating the powers and responsibilities for operational activities as a whole, and in particular, for accountability and control.
- The method of implementing reporting relationships, exposing and adjusting non-compliances, that is, who reports and how it is done, what is the accountability for and how it is accomplished.

1.6. Human resources policies and practices that is: the selection, orientation, training, assessment, consulting, promotion, compensating and the measures to remedy weaknesses and errors. It is estimated whether the remuneration of control authorities, financial and accounting personnel is adequate; whether the required facilities and equipment are fully provided for performing their professional duties (computer and office equipment, consumables and adequately equipped work places); whether the employees have the possibility to take part in vocational training and seminars, as well as access to reference materials (subscription for periodicals, purchase of specialized literature and Internet access).

2. Company’s risk assessment process

The company’s approach to risk assessment of accounting rules and taxation is taken into account, that is:
- The method, by which the management recognizes risks which are significantly influencing the accounting rules, defining tax results, payments and receipts, connected with taxes.
- Significance of risk and the likelihood of its occurrence;
- Undertaking actions for risk management.

3. Information system and communication

3.1. If the information system comprises data which comply with the following requirements:
- Cover all business operations during the reporting period;
- Describe operations in due course and in details, allowing appropriate processing for the needs of financial reporting, management, internal and external control;
- Adequately evaluate business processes according to their nature;
- Accurately define the time period in which the business processes occurred;
- Present in an appropriate way the operations in the annual report, declarations and forms.

3.2. Is communication effective:
- Does it flow vertically and horizontally into the whole company structure;
- Does it communicate with external personalities and organisations;
- Do senior managers give off to all employees the clear message that responsibilities regarding control have to be taken seriously;
- Are the employees aware of their own role in the reporting and internal control system, as well as the way their actions are related to the performance of their colleagues.

4. Control activities

4.1. An overview of implementation and performance results:
- Evaluating effectiveness and efficiency of actual performance;
- Reviewing and analyzing actual performance results versus budgets, forecasts and prior period performance results;
- Relating different sets of data to one another, together with analyses of the relationships, proportions and tendencies, as well as investigative and corrective actions;
- Comparing internal data with external sources of information;
- Carrying out a review of functional results or activity performance.

4.2. Information processing:

- Availability of controls which check the accuracy, comprehensiveness and approval of operations;
- availability of program change controls;
- Availability of controls that restrict access to programs, data or system software functions, which could change financial data or records without leaving a trail in the system.

4.3. Physical controls

These activities encompass the physical security of assets and documents, that is, assessing the availability of adequate conditions for their storage and safeguarding.

4.4. Authorisation and approval procedures

Authorisation is the basic method to guarantee that only approved operations and events, coordinated with management, are launched, that is, an assessment of the availability of authorisation procedures which are documented and spread among managers and staff, and comprise the specific conditions and empowerment order.

4.5. Segregation of duties (according to authorisation, processing, recording and check)

In order to reduce errors, waste and frauds risks as well as their non-disclosure, a single person or division should not control all key stages of a particular operation or event, that is, an assessment of facility to assign different people the responsibilities to guarantee the availability of effective verifications.

4.6. Confirmation of operations and activities before and after their accomplishment.

4.7. Coordination

Is data from different sources regularly coordinated among them or between the respective primary and secondary documents and registers. For instance, accounting records, relevant to bank payments have to be coordinated with the corresponding bank statements.

5. Monitoring of controls on an ongoing basis

In plenty of organizations the internal auditors (or employees with similar functions) fulfill current supervision (monitoring) on company’s controls. On a regular basis, they provide information about the functioning of internal control, about strengths and deficiencies in the operational activities and make recommendations for improvement\(^1\), that is, it is assessed:

\(^1\) The internal control may be carried out by individuals, specifically appointed to this position, though this is not compulsory, for example, the chief accountant and the company management, among other duties, practically implement internal financial control, too.
- Whether the controls established in the company operate in the stipulated way or they were modified if appropriate in relation to altered conditions;
- Whether all deficiencies, found during the ongoing monitoring of controls are brought to the knowledge of people who are capable of taking the necessary corrective measures.

In the audit practice the assessment of the internal control system (in the above mentioned aspects) constitutes only a part of the general risk assessment in an audited company. The purpose of risk assessment is to plan audit implementation in such a way that it is adequate to the potential risks. When assessing risk we assume the following gradation – high impact, medium impact, low impact. The auditor can decide to apply more detailed gradation or quantitative indicator (percentages or shares), that is, in the international auditing practice, basically, two approaches are applied in assessing audit risk\footnote{Bozhkov, Vasil. (2008) Odit na finansovite otчети. Методично пособие. 2 ed. V. Tarnovo: Abagar, p. 89.}: intuitive, which is preferred and quantitative approach.

**Under the former approach** the auditors, drawing on their own experience and understanding of the company and its environment, define audit risk in relation to the financial report or in separate groups of operations as high impact, possible (medium impact) and low impact (slight or low) and apply the assessment in planning the audit.

**The quantitative approach** in audit risk assessment implies quantitative estimate when using certain models. According to a simpler model the audit risk (AR) is determined as a product of three types of risks:

\[
AR = IR \times CR \times DR
\]

Where „AR” is the general audit risk, „IR” is the inherent risk and „CR” is the control risk, and „DR” is the detection risk.

For the purposes of tax control, it can be suggested to apply the first (intuitive) approach for risk assessment, because it is much easier and prevails in the audit practice. According to it, the risk for the internal financial control system is assessed as “high”, “medium” or “low” in the viewed above aspects (assessment guidelines) regarding the proposed criteria, adapted for the needs of tax practice.

In audit practice, on the basis of this assessment the control procedures, activities, approaches and methods are planned in a way that the required control impact should be attained with minimum input resources, which, in turn, leads to raising control effectiveness. In particular, as a result of the implementation of this approach, analogical positive effect can be attained in tax control practice. For example, when the risk of essential deficiencies in the company’s internal financial control is assessed as „low” or „medium”, then the tax authorities can carry out partial and representative (sample) checks, instead of comprehensive examination of documents and accounting entries; they can use the documental instead of factual control methods (an inventory of stock, expertise, control measurement, written explanations, etc). This will significantly reduce the quantity of control activities and the deadline for their implementation, thereby improve effectiveness of tax control impact.
Conclusion

When evaluating the established company’s internal control system it should be taken into account that the way the internal control model is designed and implemented varies according to company size and complexity. In some companies (the big ones mainly) the separate internal control components are clearly identifiable and recognizable, whereas in others (the smaller ones) they are not formalized, and yet, function in a specific manner and have a role of equal importance. The internal control may be implemented by individuals, specifically appointed to the position, though, this is not obligatory; for example, the chief accountant and the company managers, among other duties, practically, implement internal financial control, too. Therefore, the external control bodies have to evaluate the internal financial control system as a matter of substance, not only from a formal point of view.

The present statement does not cover all issues related to the assessment of the internal financial control system for the purposes of tax control practice, but only the most underlying ones, and, by drawing the attention to the rationalization of its assessment role to raise tax control effectiveness. Regarding these issues, it is significant to develop an integrated tax-control methodology for assessing the implemented model (structure, system) of internal financial control in the audited companies, and to set up adequate control impact – as a response to the assessment results. Likewise, this evaluation may be related to the concept of general risk assessment in the audited company (including the internal inherent risk, the control risk and the detection risk) and adapt it for implementation in tax-control practice.

ASSESSMENT OF THE INTERNAL FINANCIAL CONTROL SYSTEM FOR THE NEEDS OF TAX PRACTICE

Assist. Prof. Dr Bistra Nikolova

Abstracts

In the article there are worked out a characterization and a definition of internal financial control. There is clarified the need for carrying out this kind of financial control and are considered the reasons for which there is developed a system of internal financial control in the enterprise. There is presented the possibility for assessment of the established system of internal financial control in the enterprises as an innovative means of raising the efficiency of tax control. With regard to this, from auditing practice there have been borrowed and adapted - for the needs of tax control - the guidelines and the criteria for the assessment of the system of internal financial control in the enterprises.

Keywords: assessment of the system of internal financial control, control risk, audit, tax control.
MARKETING EFFECTIVENESS OF SMALL FIRMS INVESTMENTS

Assistant. Prof. PhD. Svilen Ivanov

Introduction

Over the last years, marketing effectiveness has drawn much interest among scientists and business operators whereas identifying processes associated with marketing effectiveness and marketing effectiveness management has become a major priority in the field of marketing science and practice. Scientific literature describes a number of detailed and much applied approaches and metrics for the management and evaluation of enterprise effectiveness, such as the Balanced Scorecard (BSC), Comparative Effectiveness Research, Data Envelopment Analysis (DEA), Return on investments in financial analysis (ROI), Marketing return on investment (mROI), Return on marketing investment (ROMI), Economic Value Added (EVA) and other metrics such as Customer Lifetime Value and Customer’s Potential Value (CLTV/CLPV), Brand Equity (BE), Customer Equity (CE), etc. Normally, after being adapted to the specific needs and goals of the organization, these metrics become implemented in the corporate practice even though the question of whether and to what extent these can be applicable to enterprises of limited resources is still debatable. This issue has been placed in the focus of recent developments and empirical studies, which identify specific for the smaller firms marketing practices, based on the specific management style and expertise of entrepreneurs, operating their own business.

Theoretically, if similar metrics are to be developed as universal and recognized as a subset of the strategic management and operational tools, there should be no deterrents for their application regardless of the size of enterprise and its resource base. From a practical point of view, however, the extent to which such metrics are applied to the operations of small firms can only be evaluated on the basis of empirical studies conducted on a certain group of companies.

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The purpose of the present article is to outline some of the problems arising from the evaluation of the marketing effectiveness of investments in enterprises of limited financial resource. To this aim, the following limitations should be taken into consideration:

(1) Subject of study are primarily business entities that operate on the Bulgarian market of bio products and are classified as micro and small enterprises. The choice of respondents embraced by surveys of a particular market is being determined by the research assumption that players from different industry sectors tend to exhibit similar patterns in their market behavior, which arise from the specific industry competition, market synergy and experience.

(2) Although marketing effectiveness can be examined at different levels, for the purposes of our study, we shall discuss it from the point of view of marketing investments of companies that produce, distribute, purchase and sell bio products on the territory of Bulgaria. Under marketing investments we shall understand any available resources – financial or any other resources which can be mobilized in the pursuit of the business marketing objectives and relevant marketing activities and programs which aim to create market-based assets - good reputation, loyal clients, brands, ideas and distribution channels.

Defining marketing effectiveness of investments

In scientific literature, “marketing effectiveness” is usually defined as “the extent to which marketing actions can help the company achieve its business objectives”. In various marketing studies, it is often discussed alongside the concept of “marketing efficiency”, seen as one of the aspects of marketing effectiveness, which focuses on the relationship between use of available resources (allotted funds) and achieved marketing objectives. The latter concept will not receive further attention in the present article. Even though scientists and marketing specialists have been much preoccupied lately with the subject of marketing effectiveness and efficiency, the topic is not new, and during the last century it had provoked a spate of discussions and reviews as a result of which, many periodicals and specialized journals dedicated entire issues to the subject.

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6 The classification described in the SMEs Act is taken in consideration. (Art. 3 (1).) – all business legal entities employing around 250 staff on average and having 97 000 000 BGN annual turnover.
7 Marketing effectiveness of investments is seen as one of the aspects of the effectiveness of marketing investments (i.e. the economic effectiveness of marketing investments or the social effectiveness of marketing investments– each focusing on various aspects of the effectiveness of investments).
The specific interest in “marketing effectiveness” arises from its direct relation to the organization’s performance targets such as long-term growth and stability, market orientation, customer satisfaction and the organization’s competitive advantage. On the other hand, the wide scope of this construct makes it possible to discuss it from various points of view i.e. overall company structure, company management and operations, the firm’s overall sales performance, spending, advertising costs involved in a promotional campaign, etc.

When defining marketing effectiveness of investment (MEI) we need to say that scientists and practitioners differ in their opinion about which of the marketing activities of the organizations should be defined as business spends and which as business investments. M. Porter, for example argues that “ideally, marketing costs are investments aiming to acquire a certain market share, create high production volume or build a strong brand”. A similar view is supported by Philip Kotler. He points out that “marketing should be seen as an investment hub whose costs create long-term customer relationships and revenue”. According to Kotler, only the current expenses for marketing should be seen as marketing costs.

The above view which supports differentiation between marketing costs and marketing investment has also found expression in Bulgarian scientific literature. For example, G. Mladenova argues that “when a new product is launched, the expenditure involved in developing and marketing the product, and in promoting and encouraging sales of said product can result in budget overruns, i.e. expenses incurred in excess of budgeted amounts” and because of that, these expenses can be defined as investments as they create conditions for generation of income or revenue in the future. We can assume therefore, that unlike other expenditure, means that ensure market-based assets – such as trademarks, new products, reputation, distribution channels and customers can be defined as marketing investments.

In view of the aforementioned definitions we assume the approach that marketing effectiveness of investment (MEI) is the degree to which marketing investments actually lead to goal attainment or to organization’s expected performance which can be presented by the following relation:

\[
MEI = \frac{\text{outcome}}{\text{expected or planned performance}}, \tag{1}
\]

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2 Porter, M. (2005) Konkurentnoe preimushestvo. Moskva: Altina biznes buks, p. 702. In his study, the author points out that by marketing investments we can also understand expenses incurred towards price reduction and active product promotion.


In the ideal case, MEI value is expected to equal 1. This in turn suggests that the opportunities for marketing investments which aim at a particular goal attainment or outcome are neither overrated nor underrated as the investment itself is seen as optimized.

**Research methodology used in the study**

Earlier we discussed how it is possible to measure and define marketing effectiveness. Scientists distinguish between two main groups of factors: financial and non-financial\(^\text{17}\). As it is the aim of the present study to establish to what extent if at all, small firms make use of metrics normally applied to big corporations, we shall conduct our research by examining how the decision-makers look at different approaches to assess and manage marketing investment effectiveness in terms of their own business activities. Use of such metrics necessitates investigation of the subjective opinions of respondents and in this relation, the following three more significant research tasks can be outlined:

1. Identifying the most common marketing metrics used to measure MEI, according to the degree of significance as perceived by the respondents;
2. Comparison between the perceived significance of marketing investment activity and satisfaction with achieved investment effect;
3. Defining factors which have a bearing on the overall perception of MEI.

Towards execution of the above-mentioned tasks, we have chosen the Bulgarian bio-products market as the object of study whereby micro and small enterprise operators are seen as the main participants in the study. Two basic constructs with respect to the evaluation of MEI have been used in preparation of the survey questionnaire: “perceived significance of the sector/area where marketing investments would be made” and “degree of operators’ satisfaction with said marketing investments”, with responses scored along a 5 – point scale.

At this stage it is worth noting that the research approach is based upon the assumption that both constructs are linked together or are seen as interrelated. Moreover, the more significance is given to a marketing investment activity, the greater the financial resource that will be set aside for it. This makes necessary the inclusion of a third construct “expected outcome or goal to be attained by the firm”, which in turn will have an effect upon the degree of satisfaction and decision for a potential area of investment. Furthermore, according to the herein accepted definition on MEI, its measurement will be directly related to the expected or planned outcome of the marketing activity on the one hand and achieved investment effect, on the other. To examine these relations in terms of force and direction, we have formulated and employed a sample of questions, which aim to survey respondents’ expectations regarding the development of the bio-products market in Bulgaria, company’s growth prospects and forecasts for development, in view of 12 key factors – market share, new products, new POS channels, newly acquired customers, etc.

By the date of primary data collection (September, 2012) the number of registered bio-products operators/vendors in Bulgaria was estimated at 1087\(^1\). As accessible data revealed only the name and address of the registered legal entity or individual, the survey is to embrace all respondents who can submit contact information\(^2\), which in turn will determine the population to be sampled – those who participated in the survey\(^3\). As it was difficult to reach respondents in the survey sample, we decided to conduct an on-line survey of the population as a possible method to gather primary data.

After analysis of the information gathered, the survey questionnaire was sent to 425 respondents, out of which a total of 128 questionnaires were filled in and sent back. As filtering questions were also embedded in the survey, respondents who answered different block sections of the survey also varied in number. Survey data were processed with the help of the statistical software package (SPSS), whereas weighted averages, correlation and factor analyses were subsequently used in the data analysis.

**Results from the survey and discussions**

Before examining the distribution of responses across operationalized variables, by which a degree of significance is assigned to MEI by operators, it is a good idea to check whether the received scores can be subjected to a factor analysis in order to detect hidden factors that constitute groups of inter-correlated variables\(^4\).

Here, the formal requirements for such a survey are at hand – the variables are measured on the Likert scale\(^5\) where the number of variables is not greater than \(\frac{n}{j}\) of the units of sampling (even though it can be positioned at the interval – 9 to 53). Lastly, all included variables can be regarded as empirical indicators of the construct “marketing effectiveness of investments” which is surveyed. The nine operationalized variables (Table 1) however are not inter-correlated, which is evidenced by the results of Bartlett’s test of sphericity. At the same time, the index value of Keiser-Meyer-Olkin

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\(^2\) We have assumed the construct that the presence of a company website is a result of marketing investment, (sector communications), which in turn implies that the respondent can provide evaluation on MEI. In this way, we can be certain that all units from the sample have been surveyed.

\(^3\) Non-purposive, non-random sampling, also known as the volunteer sample – as it usually involves individuals who agree to participate in research. The risks with this type of sampling are that the sample might not represent the population as a whole and that it might be biased by volunteers and thus the data received to be distorted. For further details, see Zhelev, S. Marketing studies. University Publishing House “Stopanstvo”. Sofia 2008, p. 276

\(^4\) The nine variables can be seen as describing the scores of the operators, as they are related to the evaluation of MEI, as the conditions for reliability (the value of Cronbach’s Alpha coefficient is 0.901) and validity (the mean value of the correlation coefficients is 0.631) have been kept, while the adjusted value of the coefficient of determination is 0.979, with a level of significance of the dispersion analysis measured at 0.003).

\(^5\) Usually, the factor analysis is used for variables measured on an interval or proportional scale, since Likert scale is seen by researchers as a scale on the border between ordinal and interval measurement, then we should be confident that factor analysis is appropriate for these data.
measure of sampling adequacy falls below 0.5, which is a sign that the correlation coefficients between the pairs of variables cannot be explained with other variables and the factor analysis in this case will not be seen as an adequate research method\textsuperscript{23} and no hidden factors can be found to influence the scores of the respondents for MEI. This is to say, that the only possible solution in this case is the interpretation of the distribution of scores given by the operators of bio products and their significance. Since not all of the respondents have given responses on all variables, we can compare the relative degrees of significance expressed by weighted average coefficients, as below:

\[
\frac{\sum xf}{\sum f},
\]

(2)

Where, \(x\) is the rating, given by the respondents for each item, with score points from 1 to 5, and \(f\) is the frequency in giving a rating score. Analysis of these results shows, that respondents have perceived ‘good reputation’ (72.7\%) and ‘the number of new products on the market, launched within the accounting period’ (51.7\%), as extremely significant factors in measuring and evaluating of MEI. (Table 1.).

Customer Lifetime Value, Brand Equity and Economic Value Added also fall within the upper limit of operators’ scores. In the middle part of the table (according to the Likert scale, this corresponds to “significant”), are entered traditional marketing indices for the firm’s marketing position – market share, relative market share and sales volume. The lowest scores are received for mROI, which is the only index evaluated as “extremely significant”, and “significant” for less than half of the respondents (47.4\%)\textsuperscript{24}.

### Table 1

<table>
<thead>
<tr>
<th>№</th>
<th>Factor/ Index</th>
<th>(\Sigma f)</th>
<th>(\Sigma xf)</th>
<th>Weighted Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reputation</td>
<td>30</td>
<td>153</td>
<td>5.1</td>
</tr>
<tr>
<td>2</td>
<td>Quantities of new products on the market</td>
<td>25</td>
<td>125</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>CLTV</td>
<td>22</td>
<td>97</td>
<td>4.41</td>
</tr>
<tr>
<td>4</td>
<td>Image</td>
<td>30</td>
<td>131</td>
<td>4.37</td>
</tr>
<tr>
<td>5</td>
<td>EVA</td>
<td>27</td>
<td>116</td>
<td>4.11</td>
</tr>
</tbody>
</table>


\textsuperscript{24} A possible reason for this is the relatively low popularity of this index among non-specialists. As shown in Table 1, this index is evaluated by the least number of respondents in the sample, while \(x\) values (along 1 to 5 range) show that this item scores as comparatively insignificant with the respondents.
For the execution of the second research task, we employed questions which match respondents’ perceived significance of the sectors or areas for marketing investment activities and operationalized variables which determine the degree of satisfaction of investments made. When examining the relations between the two constructs, we need to make sure whether the variables (items) for which respondents give their scores correlate, and thus assess the relation between operator’s satisfaction score with marketing investment activities in the specific sector and the vendor’s score for the investments effect upon the firm’s performance. (Таблица 2).

### Table 2

**Comparison of the significance levels and the value/force of correlation coefficients**

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Distribution</th>
<th>Trademarks</th>
<th>New products</th>
<th>Ideas</th>
<th>Customers</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>0.032*</td>
<td>0.346**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td></td>
<td>0.039*</td>
<td>0.383**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New products</td>
<td></td>
<td></td>
<td>0.532*</td>
<td>0.110**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ideas</td>
<td></td>
<td></td>
<td></td>
<td>0.146*</td>
<td>0.225**</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
<td></td>
<td>0.005*</td>
<td>0.385**</td>
<td>0.026*</td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.377**</td>
<td></td>
</tr>
</tbody>
</table>

**Basis: 33 respondents**

* level of significance

** correlation coefficient

With respect to the six pairs of variables, we observe poor correlation between the variables, whereby for the paired variable “New products on the market” and “Promulgation of ideas” the level of significance is greater than the permissible error and can be neglected. In view of the analysis and its correctness, we need to point out that the results from the chi-squared test, due to the comparatively small number of respondents in the sample (33), show that in more than 20% of the cells for each pair,
the theoretical frequency is less than 5, whereas cell theoretical values are below 1 for all paired variables – giving us reasons to interpret correlations between each of them with certain reservations. As this limitation cannot be neglected, the observed relations between the paired variables seek to identify a useful correlation procedure for future studies, providing the sample size is enough to make the procedure feasible.

On the basis of these results, and with necessary arbitrariness, we can affirm that there is a moderate in its influence relation between the score for degree of operators’ satisfaction with realized marketing investment activities and their scores on the effect of these investments on the firm’s performance. The above conclusion relates to the fact that surveyed variables reflect different constructs – “satisfaction with realized marketing investments” and “evaluation of the effect of marketing investments upon firm’s performance” from investor point of view, even though both evaluations are part of the total score on the marketing effectiveness of investing in bio-products. This claim can be verified by the factor analysis method which is utilized for the execution of the third research task.

When the surveyed variables, which describe the two constructs, were subjected to a common factor analysis\textsuperscript{25}, we obtained the following results. More importantly, the reason to conduct factor analysis lies in the research assumption, that both constructs describe different aspects of the perception of MEI. Indeed, the results received from factor extraction\textsuperscript{26} come in support of that. On the basis of Eigenvalues\textsuperscript{27} associated with possible linear components (12), a total of three factors have been extracted, which explain 80.6% of total dispersion. This is to say, that the selected three factors describe 80% of the operators’ perception of the marketing effectiveness of investing in the bio-products sector, included in the sample, and can be interpreted as acceptable level.

On the basis of coefficients of the rotation factor matrix, on each of the three factors can be loaded the operationalized variables evaluated by the respondents. (Table 3.)

\textsuperscript{25} Formally speaking, the analysis is made possible as the value of Keiser-Meyer-Olkin measure of sample adequacy is 0.649, which justifies the analysis. The Bartlett’s test of sphericity also supports the analysis as the level of significance is 0.000 and we can conclude that the correlation matrix is statistically significant.

\textsuperscript{26} Using the method of main components and based on Keiser recommendation of Eigenvalues over 1 (for further details, see anov. Multidimensional statistically… с. 142-173).

\textsuperscript{27} Number of variations, explained by a factor.
Table 3

Composition of factors, which determine the common perception of MEI

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation coefficient</th>
<th>Variable</th>
<th>Correlation coefficient</th>
<th>Variable</th>
<th>Correlation coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good reputation</td>
<td>0.894</td>
<td>New products</td>
<td>0.914</td>
<td>Customers</td>
<td>0.821</td>
</tr>
<tr>
<td>New products</td>
<td>0.854</td>
<td>Distribution channels</td>
<td>0.793</td>
<td>Good reputation</td>
<td>0.809</td>
</tr>
<tr>
<td>Customers</td>
<td>0.844</td>
<td>Trademarks</td>
<td>0.775</td>
<td>Promulgation of ideas</td>
<td>0.698</td>
</tr>
<tr>
<td>Promulgation of ideas</td>
<td>0.842</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>0.836</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution channels</td>
<td>0.701</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of explained factor variation</td>
<td>44.34</td>
<td>% of explained factor variation</td>
<td>26.44</td>
<td>% of explained factor variation</td>
<td>9.84</td>
</tr>
</tbody>
</table>

**Basis:** 33 respondents

As seen from the above table the variables describing operators’ satisfaction with marketing investment activities have been grouped within one factor. As their correlation coefficients in the factor matrix are comparatively equalized, it would be difficult to determine which variable is the surrogate one. It is evident though, that the six variables explain 44.34% of the variation, which accounts for almost half of the total variations of the evaluations of marketing investment effectiveness.

Variables which explain the effect of investments made on the firm’s performance can be grouped under two separate factors. The first factor, conventionally called “Potential of investments in the bio-products sector”, accounts for 26.44% of the total explained variation, while the second factor—“Potential of investments in customer relationships” has 9.84%. On the basis of the correlation coefficients of the factor matrix, with variables of the second factor it becomes possible to determine a surrogate variable – “investments in the development and launching of new products”. With the third factor, such variable cannot be defined as the coefficients are quite near in value.

Based on the scores given by the respondents, it is possible to decide the degree of significance which they assign to the variables – for each individual variable and as

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28 Output variable, of higher correlation coefficient than the rest.
a whole. Comparison of the weighted average coefficients of each variable indicates that, respondents’ scores are within the range 3.22 to 4, with maximum value of 5, reflecting the effect of marketing investments activities upon the firm’s performance results. Scores within the range of 3.59 to 4.17 show the degree of satisfaction with realized investments – i.e. we can conclude that the surveyed operators of bio-products are rather satisfied with the marketing effectiveness of their investment in terms of production and marketing of bio-products.

With scores reflecting “satisfaction with marketing investment activities”, the highest coefficient is calculated for investments made in establishing a good reputation (4.17), followed by “investments in maintaining good customer relationships” (4.04), whereas “investments in new products and distribution channels” exhibit equal coefficients (3.82).

At the same time, according to the sampled respondents, investment in good customer relationships have the most impact upon the firm’s economic performance (4), followed by investments to establish good reputation of the organization (3.91) and distribution channels bring up the rear (3.91).

In view of the aforementioned results we can conclude that the respondents embraced by the sample see non-financial factors associated with the evaluation and management of MEI as far more important than the rest. There are several possible reasons for that. For example, estimating the exact effect of a marketing investment activity can pose certain difficulties. To estimate this effect, the investment result should be distinguished from normally attained results, which is not an easy task to do. Another problem arises from the situation in which the same operator takes several investment initiatives at the same time. Owing to transfer effects and the synergy effect, the immediate investment effect is hard to distinguish from overall performance results of the enterprise.

The above-mentioned problems lead us to the conclusion, that with business entities of limited resource and poorly performing marketing information systems (MIS), it is of practical necessity to apply some of the established metrics (if the material resource and intellectual potential are available) with regards to the overall firm performance rather than in terms of a specific investment activity. The interdependence of applied metrics to the perceived importance of potential areas to invest and subsequent satisfaction with the positive effect of investments made, is largely seen as the result of company market behavior and company operations in a specific market or niche. It is a prerequisite to develop an evaluation basis and procedures for management of MEI, particularly with companies that lack the capital resource and adequate MISs to implement existing corporate practices.

Calculated as weighted average values via \( \frac{\Sigma xf}{f} \), where \( x \) is the rating given by respondents to each variable within the range of 1 to 5, whereas \( f \) is the frequency of giving this rating value by the respondents in the sample.

Conclusion

The conducted survey and its results point to the low popularity of applied financial metrics, aiming to determine the MEI of small firms and firms of limited capital resource. Future research can possibly elucidate on whether the applied methods and factors for evaluation and management of marketing effectiveness have simply proved inadequate for this type of enterprises, owing to their limited capital resource or other financial, time-related and intellectual constraints. More importantly, the findings of the present survey, create grounds for the adoption of an alternative approach to the herein used metrics for evaluation of MEI of small firms, on the basis of studies of investors’ behavior and their subjective opinions on the importance of finding potential sectors for marketing investment. Certainly, the above approach needs to be tested further through surveys on customers’ attitudes to the effect of operators’ marketing activities, so that deviations from the process are identified and it would be possible to overcome any subjective evaluations of the marketing investment effectiveness.

MARKETING EFFECTIVENESS OF SMALL FIRMS INVESTMENTS

Assist. Prof. Dr Svilen Ivanov

Abstracts

Marketing efficiency acquires ever-increasing importance, both for the scientific community, and in the practice. At the corporate level there have - in theoretical plan - been developed and are applied a multitude of metrics for its assessment. The question whether these metrics are applicable and whether they are used in the activity of companies possessing scarce resources, has not yet been studied thoroughly.

The main aim of this article is to ascertain within a particular market whether or not small businesses apply in their practice the developed metrics for assessment of the marketing efficiency of their investments.

Keywords: marketing efficiency, marketing efficiency of investments, marketing intangible assets, small businesses.
FORMS OF EMPLOYMENT IN BULGARIAN AGRICULTURE

Assist. Prof. Pavlina Ivanova

Introduction

Today in the conditions of economic crisis the issues on the labor market are one of the basic priorities facing the policy of employment. In the fast changing economic realities employment is a key factor for increasing the quality of life and developing human capital.

Being a traditional sector, agriculture has strategic significance for the country not only because it provides foodstuff security, it also provides employment and income to a big part of the rural population. Employment in agriculture is influenced by a number of complicated and unclear factors like the total number of the economically active population, the existing agrarian enterprises, the land, natural resources, logistic resources, entrepreneurial activity and the degree of development of production, social infrastructure and others. In the current economic circumstances they exert their natural influence also on the forms of employment that are characteristic for the sector.

The aim of this article is to review the various forms of employment, to mark their characteristic features in agriculture and on this ground to recommend certain managerial decisions for employers in the sector.

Forms of employment

The modern model of employment faces the challenge to be especially flexible in respect to forms of employment in order to be more adjustable to the new conditions.

In scientific literature it is accepted to think that as an economic category employment manifests itself in various forms. They help forming a flexible labor market, support people’s incomes, and allow preventing mass unemployment.

The forms of employment are the subject of research of various authors. They view them as typology on the ground of different criteria, summarized and presented in Table 1.
### Table 1

**Forms of employment**

<table>
<thead>
<tr>
<th>Authors</th>
<th>Criteria</th>
<th>Forms of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.Beleva, F.Eyraud¹, W.Christian², Z.Narvaiza³, G.Slië¹ and others</td>
<td>According to the form of ownership on the means of production</td>
<td>Hired labor; Entrepreneurship and self-employment;</td>
</tr>
<tr>
<td>I.Beleva, V.Tsanov, D.Velkova⁴ and others</td>
<td>According to the place of performing the task</td>
<td>In an enterprise; At home; Changeable;</td>
</tr>
<tr>
<td>I.Beleva, Z.Naydenova, L.Tomov, N.Daskalova⁵, E.Vachkova⁶, Ch.Handy⁷, O.Giarini, P.Liedtke⁸ and others</td>
<td>According to the regularity of employment</td>
<td>Permanent employment – the worker is obliged to work a certain number of hours daily, weekly, monthly; Temporary – employment for a certain term; Seasonal – employment in a certain season; Episodic – doing various services or certain work without signing an employment contract;</td>
</tr>
<tr>
<td>I.Beleva, V.Tsanov, D.Velkova¹⁰ and others</td>
<td>According to lawfulness of employment</td>
<td>Formal (registered); Informal;</td>
</tr>
</tbody>
</table>

---

According to the status of work relation

<table>
<thead>
<tr>
<th>Basic; Extra;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed by use of an employment contract, permanent work, full-time;</td>
</tr>
<tr>
<td>Employed by use of a permanent employment contract, part-time;</td>
</tr>
<tr>
<td>Employed by use of a fixed-term employment contract, full-time or part-time;</td>
</tr>
<tr>
<td>Employment by use of a civil or another type of contract;</td>
</tr>
<tr>
<td>Employment without a written contract;</td>
</tr>
</tbody>
</table>

According to the type of employment contract

<table>
<thead>
<tr>
<th>Employed by use of an employment contract, permanent work, full-time;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed by use of a permanent employment contract, part-time;</td>
</tr>
<tr>
<td>Employed by use of a fixed-term employment contract, full-time or part-time;</td>
</tr>
<tr>
<td>Employment by use of a civil or another type of contract;</td>
</tr>
<tr>
<td>Employment without a written contract;</td>
</tr>
</tbody>
</table>

Untypical forms of employment

<table>
<thead>
<tr>
<th>Outsourcing (outside contractor-source to whom the enterprise has assigned the performance of a certain activity);</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff leasing (an agency for temporary employment which has signed employment contracts with workers and guides them to work in a particular enterprise for a short or longer period of time);</td>
</tr>
<tr>
<td>Distance work;</td>
</tr>
<tr>
<td>Work at home;</td>
</tr>
</tbody>
</table>

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12 Ibid.
Characteristic of the first form „hired labor“ is the existence of employment relations between the owner of the means of production and the worker. A hired worker is the one who works under the guidance and control of another person called employer – a situation characterized by several features: the worker is obliged to do the work personally, only for the benefit of a single person for a certain period of time, he is not responsible for the enterprise financial risks, he gives his labor for the benefit of another person and so on.

Self-employment in turn is a specific form of employment, characteristic of more educated people. Some authors like I. Beleva and F. Eyraud define this form of employment as “a strategy for survival in conditions of economic decline”\(^2\). Self-employment has major economic and social significance for maintaining particular levels of employment and a way-out of unemployment. Self-employment is mostly associated with the work of sole traders, free lancers, farm producers and family workers in family farms\(^3\). According to Directive 86/613 of the European economic council self-employed are considered to be “all individuals who carry out paid and productive activity for their own account, including farm owners and free lancers whose activity is in compliance with the stipulations of national legislation”\(^4\).

Formal or registered employment is characterized by signing an employment or another type of contract. Bulgarian employment legislation allows employment relations to be arranged with: employment contract, contract for official legal relation, civil contract and other contracts. In Bulgaria, like in the other democratic countries, employers and hired workers are legally equal in signing an employment contract. The contract binds the worker to do the assigned work and the employer to provide the necessary conditions and pay for it.

According to the duration employment contracts can concern an indefinite time (permanent) and a particular period of time (fixed-term). According to the length of the work day they are divided into full-time\(^5\) and part-time contracts.

As a consequence of the changing organization of production and the economic situation, one observes dynamics in employment relations. Different combinations between the forms of employment contracts are possible.

Nowadays modern economy, functioning in conditions of crisis, faces the challenge to search for diversifying the employment status, work time, patterns of work, forms of organizing work and payment. The answer to this challenge is flexible forms of employment.

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\(^3\) EUROSTAT distinguishes several types of self-employed individuals:
- 1. employers defined as people who do their own activity (enterprise, free lancing, farming activity) in order to make a profit. To do this they hire at least one person;
- 2. “own account workers defined as people who do their own activity (enterprise, free lancing, farming activity) in order to make a profit. They, however, do not hire workers;
- 3. family workers defined as people who help a member of their family in carrying out economic activity (trade or farming), even though they cannot be defined as employed individuals.

\(^4\) Directive 86/613 of the European economic council  
\(^5\) Full-time is the 8-hour work day.
Flexible forms of employment were mentioned as early as the 60s and 70s of XXC when “a flexible pattern of work” was introduced in USA and West-European countries.

At the moment most researchers consider flexibility as a dominant tendency in the development of employment and the creation of a flexible labor market as one of the conditions of economic competitiveness.

Flexibility of employment concerns:
- the freedom of workers to choose the type of employment contracts – with a fixed term or with no term, respectively temporary work, part-time work or permanent;
- the length of work time – flexi-time, compressed work week;
- functional flexibility is associated with inside workers’ mobility within the enterprise – job-sharing, flexi-place;
- flexibility of payment – annualized-hours payment;

Many people are forced to agree to work part-time, have a temporary job or be hired at intervals only, because they are pressed by the economic crisis or lack of income. Flexible forms of employment, however, differ also with a number of advantages from macro- and microeconomic point of view. On micro level – employers react fast to changes on the market of goods and services, the production of enterprises and companies increases without the necessity for extra work. On macro level these forms of employment enable employers to manage staff effectively, especially at the time of economic crises and recessions – temporary employment of individuals or people employed on a compressed work week allows the company to survive without major downsizing.

As for informal employment the following types of undeclared work stand out, i.e. breaching or avoiding legal regulations in the field of employment: not registering own-account workers with the tax authorities and license-granting organs; illegally hired workers since the enterprise itself is illegal thus avoiding any economic and insurance control; registered enterprises hire workers illegally.

This situation is a result either of the character of the activity or the type of workforce. It occurs in productions which resort to work at home or when the worker is not permitted to carry out work activity, for ex. under-age individuals who receive indemnity or illegal emigrants. Even though they are not subject to prohibition, pensioners often find themselves in a similar situation.

Untypical forms of employment, namely: outsourcing, staff leasing and others are universal tools of business today since their major specifics is the ability to transfer some functions to subcontracting organizations from outside completely or partially, for a short or long period of time. Outsourcing and staff leasing are modern methods of work, characteristic of which is the use of labor resources from outside. Using workers on these principles has certain negative consequences for employers, like vague responsibility, management and supervision on part of the business or delayed production if it is necessary to search for another contractor. At the same time it is positive that expenses are cut and the performance of certain specific tasks is improved.
An important characteristic of this type of employment is the difficulty in providing safe working conditions. These workers are not part of the company staff and they are outside the scope of the system for safe working conditions and the work-medicine office.

**Forms of employment in Bulgarian agriculture**

The issue of the forms of employment in agriculture has political, organizational, financial, staff and social aspects. Before the reform in agriculture the basic forms of employment in agriculture were two – by use of employment contract in farming cooperatives and extra work in small farms. A process of changing the type of employment took place under the influence of various factors like demographic processes, structural changes in agriculture in respect to the ownership of the factors of production and the organization-and-economic forms. The changes in Bulgarian agriculture and the economic crisis in the last couple of years had their natural effect also on the forms of employment in this sector.

Employment in agriculture has specific functions in respect to the economic conditions of work: labor productivity depends on climate and the quality of the land, seasonal impact; work in agriculture concerns the use of living organisms (animals, plants); there is labor specialization; there is a relatively low level of mechanization of work processes; work is done both in public production and private farms; non-agrarian labor is limited by the availability of raw materials; a high percentage of women, youths and adults take part in production.

In agriculture the great variety of forms of land ownership and production methods creates many forms of employment relations and determines the various forms of employment. The major part of the workforce is employed in small farms – 75% of the workforce is employed in farms below 1 ha, and 90% of the workforce is employed in farms below 5 ha. This determines the high share of self-employed and family workers. 751 000 people were employed in 371 000 farms in 2010, the relative share of self-employed and family workers being 92.8% or 697 4000 people. 54 300 people were employed as hired workers in agriculture.

The forms of employment in agriculture refer to the whole structure of agriculture and the size of farms. Countries with a small number of employed agricultural workers are characterized by small farms which are owned and managed by the farm owner and his own family. Other countries like Denmark and Germany, where the average size of farms is bigger, are characterized by a larger number of hired workers. Those hired in the Danish agricultural sector are 52.2% of the employed in the sector, in Germany they are 45.0%.

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26 Federation of independent trade unions in agriculture, Facts and figures from the agricultural sector
27 MAF, division of “Agro-statistics”. Number of farms 2010 r.,
According to the form of owning the means of production in agriculture the forms of employment are as follows – hired, self-employed and family workers. The self-employed account for the highest share – 49.36%, family workers are 43.42% and those hired – 7.22% of all people working in agriculture³⁰ (see Fig. 1).

**Source:** Agro-statistics, Bulletin 171

**Fig. 1 Relative share of the forms of employment in Bulgarian agriculture according to the form of owning the means of production**

In the annual agrarian report³¹ of the Ministry of food and agriculture (MFA) it is pointed out that 92% of the people working in agriculture are the owners themselves and the members of their families (so called family manpower). More than 86% of the family manpower (including the owner) work part-time. Those who are not family manpower are 57 432, 71% of them are employed full-time.

Characteristic of the sector are temporary and seasonal forms of employment. Permanent form of employing workers is provided by farms where more than one culture is grown or they practice greenhouse production of cultures adjusted to it. There is an opportunity for permanent employment in export-oriented agriculture or in multi-functional agriculture³² and agrarian entrepreneurs’ activity in agriculture, processing industry and services simultaneously.

This situation is not characteristic of Bulgaria only, it concerns the other European countries too – while the total agrarian workforce decrease, the number of seasonally employed (mainly from Easter Europe) has grown. According to data of EC³³ in Western Europe there are about 4 m people working temporary abroad.

The data above give the ground to define the various types of hired workers in agriculture presented in Table 2 and identify the different categories of independently employed individuals as shown in Table 3.

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³⁰ MFA, Department of Agro-statistics Number of farms 2010 г.
³² http://stats.oecd.org/glossary/detail.asp?ID=1699, the working definition used by OECD concerns the particular characteristics of the agricultural production process and its results – there are many goods and products produced mutually by agriculture; the idea is that agriculture has many functions besides main production, for ex. keeping nature and landscape, employment in rural areas and others.
### Table 2

<table>
<thead>
<tr>
<th>Types of hired workers in agriculture</th>
<th>Specifics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrarian workers with permanent job</td>
<td>Usually they are employed in big farms</td>
</tr>
<tr>
<td>Specialized workers</td>
<td>Agronomists or other workers performing specific tasks which concern, for ex., processing with pesticides, engineers, economists and others.</td>
</tr>
<tr>
<td>Seasonal, casual, temporary workers</td>
<td>They do not do agrarian work only; they carry also other activities in the region depending on the work available.</td>
</tr>
<tr>
<td>employed for a single day</td>
<td></td>
</tr>
<tr>
<td>Immigrants</td>
<td>Employed by use of fixed-term contracts in time of gathering the crops.</td>
</tr>
</tbody>
</table>

### Table 3

<table>
<thead>
<tr>
<th>Categories of self-employed individuals</th>
<th>Specifics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurs</td>
<td>Big land owners who carry out agrarian activity with the help of workers and employees. They use new technologies, have access to credits and insure their production.</td>
</tr>
<tr>
<td>Agrarian producers who represent the traditional forms of activities carried out by independently employed individuals</td>
<td>They are medium and small farm owners – they manage farms with the help of various financial and technical means and produce production for the domestic market or export. This category of independently employed people often works with a small number of workers and employees and the members of their families.</td>
</tr>
<tr>
<td>Farmers who run natural farms</td>
<td>They own small farms, do not use technical knowhow, lack resources and access to credits and markets, work without the help of workers and employees, but sometimes are supported by the members of their families. Characteristic is that they often have an extra job for more income.</td>
</tr>
</tbody>
</table>

---

In its research the General Labor Inspectorate (GLI) points out that those who worked on employment and office legal relation (registered form of employment) in 2011 were 58,044 people, employed in 5,814 farms with various legal status (legal, physical entities which carry out activities in the sector of Agriculture). Often relations with seasonal workers are settled in compliance with the Law for obligations and contracts – i.e. civil contracts in which payment is negotiated mostly according to a kilo of picked raw material.

There is almost no statistical data on the forms of employment according to the employment contract in agriculture in European countries besides France – in 2009 employment contracts without a fixed term accounted for 28% of jobs and term contracts – for 72%. 4% of the contracts concerned part-time work.

The seasonal type of employment characteristic of agriculture, the presence of hidden unemployment and its sustainability are the main prerequisite for developing flexible forms of employment (fixed-term contracts, part-time contracts, seasonal contracts, flexi time, shift work, work on days-off and others). Besides being an attempt to survive in the changing economic conditions, we can point also some benefits from flexible employment (see Table 4).

Unpaid family workers

Their profile includes mainly people aged 25-54, undereducated and living mainly in rural areas. They work for the benefit of family production, their labor is not reported statistically, and often these are women and children. The family manpower who works on the farm outside their main job (after work time, on days-off and holidays, during their annual vacation) forms the extra employment that is typical for Bulgarian family farms. Data show that for 38% of the family workforce the activity on the farm is a form of extra employment.

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35 MFA, Agrarian report 2012.
36 Data collected by GLIEA by 04.2011 according to a filed Basic declaration on art. 15 of the Law for safe and healthy working conditions, checked with the number of insured individuals in NSSI and are considered realistic.
37 http://www.eurofound.europa.eu/publications/htmlfiles/ef1179.htm
Table 4

Benefits for employers and workers in agriculture from applying flexible forms of employment

<table>
<thead>
<tr>
<th>Benefits for the employer</th>
<th>Benefits for the workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bigger cost-effectiveness and efficiency of labor due to economies of expenses and flexible work schedule. No payment for extra work is necessary.</td>
<td>1. The main benefit from flexible work for workers is that it gives them the opportunity to combine other appointments and activities around the farm and use their free time better.</td>
</tr>
<tr>
<td>2. Signing fixed-date employment contracts in the time of gathering the crops or contracts for doing a particular work give the opportunity for handling seasonal impact.</td>
<td>2. Flexible work is especially useful for young workers or those who take care of elderly relatives.</td>
</tr>
<tr>
<td>3. An opportunity for attracting employees with higher level of skills and qualification. The farm owner can appoint a particular specialist for a particular period of time or permanently, but for a particular number of hours.</td>
<td>3. Flexible forms of employment can enable them to have an extra job in agriculture and extra income.</td>
</tr>
<tr>
<td>4. Staff have greater satisfaction from work and morale.</td>
<td>4. Flexible work time can make workers’ mobility easier and help them to avoid stress from commuting in rush hours.</td>
</tr>
<tr>
<td>5. There are less periods of time when farms are understaffed because of workers’ absence (due to illness, annual vacation and others)</td>
<td>5. Flexibility concerns flexible organization of labor which is favorable for quick and effective mastering of new skills and combining work with personal responsibilities.</td>
</tr>
<tr>
<td>6. More staff continuity is achieved, as well as better life-work balance, which, in turn, has a positive impact for retaining staff and improving work relations, motivation and commitment.</td>
<td>6. Flexible employment is an opportunity for partial coping with unemployment in rural areas where there is a considerable number of unemployed.</td>
</tr>
</tbody>
</table>

Every process has its disadvantages too. With flexible forms of employment these are mainly for the workers and concern lower payment and hidden longer work hours.

A major social issue for the agricultural sector is informal (unregistered) form of employment. More than 50% of the seasonally employed workers have not signed fixed-date contracts; instead they are paid in cash or “under the table”; they have no social and health insurance and are unequally positioned compared to seasonal workers,

38 Adapted in a project FLEMCEE of the Bulgarian chamber of economy
who are employed in compliance with employment legislation for doing the same activity. Workers without signed employment contracts have no social support, compensations, annual vacations and other social payments arranged by employment legislation. They are often affected by breaking regulations for work time, breaks and annual vacations, as well as incompliance with the regulations for organization and structure of salary and safe and healthy working conditions.

Untypical forms of employment like outsourcing and staff leasing are one of the most convenient decisions for managing staff today. For many years it has been popular in West-European agriculture. Every farmer has his own requirements in respect to the type of employment which take into consideration the less busy and more active periods of time on his farm. Because of the specifics of agrarian activity it is not possible to keep maximum employment throughout the year, usually in summer and autumn when crops are harvested it is necessary to employ extra workforce. Often flexible forms of employment are used, as well as untypical ones like staff leasing and outsourcing. Worldwide more employers in agriculture make the decision to use this way of hiring efficient workers (even foreigners who use specialized agencies to have access to new labor markets). The Agency of temporary employment takes the responsibility for the process of employing staff, human-resource management remuneration and workers’ insurance. This allows the farm owner considerable freedom in implementing the staff policy in respect to the changing economic conditions, the weather and the volatile labor market.

Bulgaria lags behind considerably in harmonizing the basic EU directives and the requirements and conventions of the International labor organization concerning the untypical forms of employment and the agencies for temporary employment. It was only in 2012 due to amendments in the Code for labor that the requirements of Directive 2008/104/EO were implemented in respect to work through agencies for temporary employment. According to data of the Agency for employment the requirements for temporary work in agriculture abroad - France, Belgium, Spain, Italy and others. No matter they are well-known in world agriculture and even in ex-socialist countries, there is no data on Bulgarian companies (user enterprises) in the field of agriculture which provide for themselves workers through agencies for temporary employment. Bulgarian employers are not familiar yet with the advantages of the untypical forms of employment.

The review above of the forms of employment and their characteristic features in Bulgarian agriculture give the ground to summarize that:

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39 Data of GLIEA

40 Code for labor, chapter V, sector VIII “in “Additional conditions for doing work through an enterprise that provides temporary employment (New SG, issue 7 2012, in effect from 05.12.2011)

41 http://www.az.government.bg/internal.asp?CatID=38/02&WA=Temporary_work/TWFirms_List.htm, List of enterprises, which provide temporary work in compliance with the Law for encouraging employment

42 Andrew Corcus, President of EastWestLink, leader in hiring workers from Asia and Eastern Europe for Poland – “Our agency hires staff on site where our clients need them mostly and by use of flexible forms of cooperation it is possible to keep low staff turnover and a stable employment level irrespective of the season.”. http://www.ewl.com.pl
The prospects to employment in agriculture are influenced by a set of structural changes, historical factors and social issues which plays an important role in setting its form as incomplete, extra and often informal. The seasonal nature of production is one of the basic factors that predetermine the existing forms of employment in the sector. Flexible forms of employment are used most often, whereas the untypical forms, characteristic for agriculture worldwide, are not used in Bulgaria. The form of employment by use of a full-time permanent contract has the highest degree of safe income, social insurance and career development. Unregulated employment or employment without a written contract is the form of employment which is the most unreliable in respect to quality of employment.

Conclusion

In conclusion we can say that in the future employers have to react to the new economic and social challenges in respect to modernizing employment relations and the tendencies in employment. The managerial decisions of entrepreneurs and managers in agriculture should be directed to:

• responsible attitude to forms of employment because sustainable business cannot exist with irresponsible behavior to people and their labor;
• introduction of new models of labor organization, improving the practices for managing human resources and lowering the social price for workers;
• achieving relative closeness of the technological cycle (activity simultaneously in agriculture, processing industry and services) aimed at providing permanent employment;
• implementation of best world practices.

In order to help the performances of the activities mentioned above it is necessary for branch and employers’ organizations to strengthen their presence in the sector.

FORMS OF EMPLOYMENT IN BULGARIAN AGRICULTURE

Assist. Prof. Pavlina Ivanova

Abstracts

Under the rapidly changing economic realities employment is a key factor for raising the quality of life and the development of human capital. As a traditional sector agriculture is of strategic importance to the country, not merely because it ensures the security of food supplies, but also because it provides employment and income to a large part of the rural population.

In the article there are discussed the forms of employment, generalized on the basis of various criteria. In connection with the characteristic features of agricultural employment there are worked out the kinds of hired workers and the classes of self-employed persons in agriculture. There are mentioned the advantages and disadvantages of using flexible forms of employment in agriculture. There are recommended certain management decisions to the employers in the sector.

Keywords: employment, agriculture, flexible forms.
DEVELOPMENT AND PROBLEMS OF TANGIBLE FIXED ASSETS (TFA) OF CO-OPERATIVE RETAIL TRADE

Phd Student Diyana Shopova

Introduction

Cooperative trade began developing with the emergence of consumer cooperatives. The commercial activities of consumer cooperatives contribute to meeting the needs of a significant portion of the population with the necessary goods and services.\(^1\) \(^2\)

As a relatively independent economic system in cooperative trade a cooperative retail network is an integral part of the trade network of a country, its retail trade, domestic trade and the overall process of commodity circulation.\(^3\) To adapt the cooperative retail network to the challenges of the global economy, to allow it to gain flexibility, financial stability and adequacy in the new economic conditions, to enable it to withstand the pressure of the integration processes and to find its place in global competition, it is necessary to develop and pursue an appropriate strategy oriented towards measures for reconstruction of outlets, territorial regionalization of the distribution of goods, creation of a national center for delivery of goods in ordered to capitalize on the “scale effect” of pooling of commercial transactions, building own national retail chain and organizational restructuring of the cooperatives engaged in commercial activities.

The aim of this article is to trace and analyze the development and the problems of the tangible fixed assets of cooperative retail trade in Bulgaria for the period 2003-2012 (including the changes in the number of the owned and the managed outlets, the amount of the investments and the development of outlets of retail chain “COOP”) and thus to reveal the prospects for its development.

Situation and development of the owned and managed cooperative retail outlets for the period 2003-2012

In 2003 the cooperative organizations embraced a total of 8,882 retail outlets, 99% of which were owned by consumer cooperatives. The cooperative unions owned only 1% of the stores, and the companies of the cooperative unions and the consumer cooperatives owned only 10 stores. The analysis of how the facilities were used shows

that 4,107 or 46% of the owned stores in 2003 were run by cooperative organizations. 3,399 (38%) of the outlets were leased, of which only 120 were managed by cooperatives and cooperative unions, i.e. the trend of leasing out commercial property, that was observed during the first years of transition, continued. In the same year (2003) 1,376 stores, or 16% of the owned facilities, were not used at all (see Table 1).

There was a decrease also in the number of the owned retail outlets and in the number of the leased outlets during the period 2006-2012. 137 (4%) of the 3,490 stores operated in 2006 were fully modernized and included in the new shopping chain COOP.

There has been a downward trend in the number of the owned outlets since 2006. The number of the COOP outlets, however, has considerably increased and the number of smaller stores has decreased.

The national retail trade has seen a reverse trend of development: the number of outlets increased from 103 298 in 2003 to 125 892 in 2012 or there was a growth of 22%. Numerous new formats and foreign commercial operators entered Bulgaria over the last few years. According to research done by AC Nielsen, the profile of modern retail trade in Bulgaria features modern formats (20%) of established Bulgarian and foreign chains and other formats (such as neighbourhood and specialized stores) – medium and small-sized – the share of which is constantly declining. An important trend is the following of good global practices of multi-formats and multi-channels. The number of outlets is not growing due to the fact that large chain stores open new modern stores

<table>
<thead>
<tr>
<th>Year</th>
<th>Owned outlets RT (no.)</th>
<th>Leased outlets RT (no.)</th>
<th>Change in the owned outlets % based on 2003</th>
<th>Change in the leased outlets % based on 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>8882</td>
<td>4107</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>7240</td>
<td>3490</td>
<td>-18%</td>
<td>-15%</td>
</tr>
<tr>
<td>2007</td>
<td>7216</td>
<td>3447</td>
<td>-19%</td>
<td>-16%</td>
</tr>
<tr>
<td>2008</td>
<td>7127</td>
<td>3338</td>
<td>-20%</td>
<td>-19%</td>
</tr>
<tr>
<td>2009</td>
<td>6831</td>
<td>3207</td>
<td>-23%</td>
<td>-22%</td>
</tr>
<tr>
<td>2010</td>
<td>6732</td>
<td>3020</td>
<td>-24%</td>
<td>-26%</td>
</tr>
<tr>
<td>2011</td>
<td>6430</td>
<td>2856</td>
<td>-28%</td>
<td>-30%</td>
</tr>
<tr>
<td>2012</td>
<td>6196</td>
<td>2700</td>
<td>-30%</td>
<td>-34%</td>
</tr>
</tbody>
</table>

4 Statistical information system of Central Cooperative Union.
5 Source, National Statistical Institute, Domestic Trade, Retail Outlets – total for the country and by statistical areas. Available at: <http://www.nsi.bg/otrasal.php?otr=5&a1=632&a2=1118#cont> (14.12.2013)
while, at the same time, small inefficient grocery shops and other old shops and small village stores. Studies of retail structure show that the existing 40% of modern formats will grow at the expense of the decrease of small stores to 50% (see Table 2). The current trend indicates that big outlets – hypermarkets and supermarkets of commercial chains – will continue to develop and become established while the number of discount stores, specialized and convenience stores will go down. Cooperative trade follows the trend and expands the number of COOP outlets at the expense of small retail shops.

Table 2

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modern RT</td>
<td>25</td>
<td>31.3</td>
<td>36</td>
<td>40.1</td>
</tr>
<tr>
<td>Small shops</td>
<td>60.4</td>
<td>57</td>
<td>55.9</td>
<td>51</td>
</tr>
<tr>
<td>Other</td>
<td>14.6</td>
<td>11.7</td>
<td>10.1</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Reconstruction and modernization of cooperative retail trade outlets and retail outlets of the national retail chain COOP in particular

In 2002 the Managing Board of the Central Cooperative Union (CCU) decided on targeted financing for the reconstruction and modernization of some retail outlets of the cooperatives. Some of them were to be equipped with a computerized system for sale of consumer goods. At the same time, the above retail outlets provided various discounts to their members and customers. Such stores laid the foundation for own cooperative retail chains. In 2004 the Trade and Tourism Commission under the Managing Board of the Central Cooperative Union approved a detailed program for improvement of the trade relations in the system. A council of traders was formed which sets some basic rules for centralized supplies of individual groups of goods, for pricing policies and for the national retail chain “COOP”. The purpose of these rules is to attract more cooperative organizations to the single cooperative market through changes in pricing methods which would extend the range of the traded goods and establish the COOP trademark and the products offered under own brand names. New price limits for distribution of the commercial discount between the different actors are determined in this respect – COOP Trade and Tourism AD, regional cooperative unions and their commercial companies and consumer cooperatives. The council of traders approves a system for setting up distribution channels based mainly on the members of the National Trade Chain COOP and the nomenclature of goods with centralized supply. Furthermore, some basic rules for selection of suppliers are...

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9 Sector analysis of the competences of the work force in sector Retail Trade, Bulgarian Industrial Association, 2011.
approved which need to be established producers and/or importers with lasting presence on the Bulgarian market. Rules for setting up trade chain COOP and the requirements to retailers for joining the chain were prepared in 2006 as an expected continuation of the cooperative trade development. On joining the retail chain, the outlets receive a certificate verifying that they meet the requirements of the elaborated ‘Operating manual of outlets in the COOP chain’. It regulates the organization of the commercial process, the optimal use of retail space, the proper grouping and arrangement of goods in the commercial premises, the methods of service and the duties and powers of staff, the information signs on the commercial premises, the computer information systems, etc. Although the stores are owned by individual cooperative organizations located and operating throughout Bulgaria, the manual imposes a single standard for organization and management of trade thus serving as a major source for raising the culture of trading and the quality of commercial service. A good example is the results of the restructured outlets of the COOP chain and the comparison of their sales turnover before and after the restructuring, i.e. for the period 2005-2006. The data for the first 34 sales outlets restructured in compliance with the ‘Operating manual of outlets in the COOP chain’ indicate that the average monthly turnover of goods increased 2 to 8 times. This is evidence of the efficiency of the structural and organizational changes and the investments made.

It is worth noting that at the end of 2006 the outlets within the COOP commercial chain were only 137 which is less that 0.5% of the outlets managed within the system of the Central Cooperative Union and after the structuring they realize more than 10% of the total retail trade turnover. The restructuring of most of the trade outlets has had a significant impact on the total income from retail trade which has also led to growing revenues in wholesale trade. Figure 1 shows the average monthly sales turnover of trade outlets before and after the restructuring for inclusion in the COOP trade chain, i.e. the period 2005-2006.

![Average monthly sales turnover of trade outlets before and after the restructuring for inclusion in the COOP trade chain.](image)

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In parallel with the development and establishment of the COOP trade chain the efforts were also aimed at improving the profitability of the other trade outlets, most of which are small stores. Minimum parameters for their efficient operation are prepared and those who meet them after reconstruction and modernization may work well under the brand of COOP-Market. For that purpose a separate ‘Operating manual of outlets in the COOP-Market’ was approved in 2010. It specifies the goals, the methods of reconstruction and the operating rules of small cooperative stores (more than 2300 stores located mainly in small settlements). These stores account for 50% of retail revenues and have a potential for development. 47 new stores were restructured and started operating under the logo of COOP-Market by the end of 2011. In practice, the concept for improvement of cooperative trade is built around the establishment of a chain of standardized trade outlets operating under one brand COOP.

In the period 2007-2008 the policy was targeted mainly at establishing the COOP trade chain, symbolizing a ‘convenience’ store with average commercial floor area of 60 square metres, mainly for foodstuffs and in smaller towns - also non-food goods of first necessity. During the above period of chain operation) the main goal was to include a significant number of new trade outlets thus popularizing the good trading practices which were offered. As a result of the investments for reconstruction and modernization of existing trade outlets, 185 outlets were reconstructed and joined the COOP trade chain in 2007 and thus the number of the stores in the chain reached 259 by the end of the year. In 2008 another 194 outlets joined the cooperative retail chain. In the following 2009, the chain expanded by another 149 stores to comprise a total of 602 stores which account for 18% of the 3 207 outlets managed within the chain. Time has definitely proven the forward thinking and the appropriateness of the expansion policy pursued by the chain during the period establishing its outlets as ‘convenience’ stores for goods of first necessity. As a result, the chain is joined by trade outlets with floor area of 300-800 square meters including newly built specialized stores for sale of industrial goods, building materials, etc., and the average sales space of the stores increased to 85 sq. m. The type of the sales outlet is determined depending on the specifics of the settlement. In the period 2008-2009 outlets of the chain were also opened in Sofia, Kyustendil, Targovishte, Haskovo, and in Varna and Burgas the rehabilitated outlets of COOP have sales space of more than 500 sq. m.

By September 30th, 2011 the outlets of the COOP chain are 728 and at the end of 2011 they reached 773, while in 2012 their number jumped to 826 outlets including 55 outlets of COOP-Market. In 2011 eleven out of a total of 69 new outlets exhibited a sales space of more than 100 sq. m. Two of them are stores managed by COOP Trade and Tourism AD respectively with a sales space of 190 sq. m and 950 sq. m. Figure 2 shows that the COOP trade chain has been expanding steadily and has been increasing its market share. The number of trade outlets for 2013 is indicative and based on the outlets planned for reconstruction of the Central Cooperative Union for.

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The objective assessment of the results in retail trade shows that the policy of rehabilitation of sales outlets and their association in a single cooperative retail chain is a successful model for development of retail trade in the system of the Central Cooperative Union. This, in turn, has a favourable effect on the development of domestic trade and makes it possible not only to increase the main economic results but also the social outcomes, to improve significantly the conditions of commercial service and to satisfy the needs of the population in the areas serviced by the consumer cooperatives.

Development of the outlets of the COOP trade chain by regions in Bulgaria for the period 2008-2012

The unfavorable business environment was a deterrent but did not prevent the investment activity for modernization of the cooperative stores and their inclusion in the COOP chain. The data in table 3 shows that the COOP outlets generated the highest volume of sales in 2008-2012 in the South Central Region - from 50 148 thousand BGN in 2008 they grew to 53 201 thousand BGN in 2012 where the average annual growth rate was 150%.

Table 3

<table>
<thead>
<tr>
<th>Indicators / Years</th>
<th>Unit</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in cooperative retail trade</td>
<td>thsd. BGN</td>
<td>9 016</td>
<td>15 267</td>
<td>17 710</td>
<td>27 581</td>
<td>27 744</td>
<td>132,4</td>
</tr>
<tr>
<td>Employees in cooperative retail trade</td>
<td>No.</td>
<td>115</td>
<td>179</td>
<td>209</td>
<td>287</td>
<td>291</td>
<td>126,1</td>
</tr>
<tr>
<td>Labour productivity per employee</td>
<td>BGN</td>
<td>78</td>
<td>85</td>
<td>85</td>
<td>96</td>
<td>95</td>
<td>105,1</td>
</tr>
<tr>
<td>Sales outlets in cooperative retail trade</td>
<td>No.</td>
<td>36</td>
<td>56</td>
<td>65</td>
<td>87</td>
<td>95</td>
<td>127,5</td>
</tr>
</tbody>
</table>
In the other regions, the cooperative retail chain has also generated high levels of sales despite the slight decrease during some years of the studied period.

The number of employees in the COOP retail chain has also grown during the studied period and the average annual growth rate of employment in the COOP retail chain for each region is as follows: Southwest Region - 126.1%; South Central Region - 101.6%; Southeast Region - 115.6%; Northeast Region - 111.2%; North Central Region - 100.2%; Northwest Region - 107.8%. A major highlight in the estimated change is the constantly growing number of the outlets in the retail chain in all regions of the country. This is due to the aggressive investment policy aimed both at modernizing the cooperative outlets and at opening new ones. The number of the retail outlets is the largest in the South Central Region, followed by the Southeast Region and the Southwest Region (see Figure 3).
COOP has most numerous stores in the area of Cooperative Union Plovdiv, District Cooperative Union of Sofia, Cooperative Union Stara Zagora, Cooperative Union Burgas, Cooperative Union Varna, Cooperative Union Pleven, Cooperative Union Haskovo, Cooperative Union Pazardzhik, Cooperative Union Targovishte, Cooperative Union Ruse, Cooperative Union Montana, Cooperative Union Lovech, Cooperative Union Kardzhali, Cooperative Union Smolyan and Cooperative Union Dobrich.

**Dynamics of the investments in cooperative retail outlets for the period 2003-2012**

The main reason for the achieved positive results in retail trade is the solid financial support by the Investments Mutual Support Fund under the Central Cooperative Union which will be further driving the modernization of the stores of COOP retail chain. As seen in 2002 a priority in the investment policy of the cooperative system is the improvement of the type and operational characteristics of the cooperative stores.
Dynamics of the investments in cooperative retail outlets for the period 2003-2012

<table>
<thead>
<tr>
<th>Years</th>
<th>Investments retail trade tsnd. BGN</th>
<th>Absolute growth on benchmark base (BGN)</th>
<th>Absolute growth on chain base (BGN)</th>
<th>Relative growth on benchmark base (%)</th>
<th>Relative growth on chain base (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2896</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>3909</td>
<td>1 013</td>
<td>1 013</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>2005</td>
<td>3735</td>
<td>839</td>
<td>-174</td>
<td>29%</td>
<td>-4%</td>
</tr>
<tr>
<td>2006</td>
<td>6196</td>
<td>3 300</td>
<td>2 461</td>
<td>114%</td>
<td>66%</td>
</tr>
<tr>
<td>2007</td>
<td>11 689</td>
<td>8 793</td>
<td>5 493</td>
<td>304%</td>
<td>89%</td>
</tr>
<tr>
<td>2008</td>
<td>13 940</td>
<td>11 044</td>
<td>2 251</td>
<td>381%</td>
<td>19%</td>
</tr>
<tr>
<td>2009</td>
<td>9689</td>
<td>6 793</td>
<td>-4 251</td>
<td>235%</td>
<td>-30%</td>
</tr>
<tr>
<td>2010</td>
<td>7091</td>
<td>4 195</td>
<td>-2 598</td>
<td>145%</td>
<td>-27%</td>
</tr>
<tr>
<td>2011</td>
<td>11 020</td>
<td>8 124</td>
<td>2 929</td>
<td>281%</td>
<td>55%</td>
</tr>
<tr>
<td>2012</td>
<td>10 958</td>
<td>8 062</td>
<td>-62</td>
<td>278%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

The total investment for the period 2003-2012 is 81,123 thousand BGN, from 2,896 thousand BGN in 2003 to 10,958 thousand BGN in 2012, which is more than a fourfold increase. The average annual growth rate is 129.62, or an increase of 29.62%. The total funding provided by the Investments Fund for reconstruction of outlets, purchase of commercial equipment and introduction of modern forms of commercial services for the period 2007-2008, has grown significantly and the sum amounted to 25,629 thousand BGN. Thanks to the policy to increase the returns on the financing from the Fund, the annual amount of financial support provided by this source has been growing every year. A more in-depth analysis could estimate the risk of reducing the size of the total investments in national retail trade and the risk of decreasing the amount of the investments in cooperative retail trade (see Table 5).

Table 5

Determination of the risk for the investments made in the Retail Sector and particularly in Cooperative Retail Trade for the period 2005-2011

<table>
<thead>
<tr>
<th>Years</th>
<th>Investments in retail trade, tsnd. BGN</th>
<th>Investment change rate$^{13}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>457 758</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>691 526</td>
<td>0.510</td>
</tr>
<tr>
<td>2007</td>
<td>1 017 358</td>
<td>0.471</td>
</tr>
<tr>
<td>2008</td>
<td>1 151 583</td>
<td>0.132</td>
</tr>
</tbody>
</table>

$^{13} r_t = \frac{w_t - w_{t-1}}{w_{t-1}}$
It will be used to evaluate the instability of the investment activity in three main strands of the capital investments. The calculated values of the risk for the investments in national retail trade $\sigma = 0,268^{14}$ and respectively the investments in cooperative retail trade $\sigma = 0,338^{15}$ reflect a higher probability of decreasing the value of the investments in cooperative retail trade than decreasing the value of the investments in the national retail trade in comparison to the risk. Refraining from investments in tangible fixed assets in a period of crisis is one of the ways to increase the working capital of commercial companies in order to obtain revenues within shorter periods. The insecure market environment contributes to the shrinking amount of loans taken for expansion of company facilities. Only financially stable entities with trained specialists who are able to assess the risk of “freezing” the funds in tangible fixed assets for longer periods can afford to take risks.

**Opportunities for development of sales outlets in cooperative retail trading**

On the basis of the analysis of the development and problems of TFA of cooperative retail trade in Bulgaria we can conclude that the cooperative trade had a long path of development during the studied period 2003-2012. Although the total number of the owned retail outlets has been growing every year, the COOP retail chain continues to develop very fast. As mentioned earlier, this development started in 2002 when the experts of the Central Cooperative Union elaborated and the managing bodies of the Union approved new rules for organization of cooperative trade. The actions undertaken at that time were a logical and correct step towards an overall development.

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\sigma = \sqrt{\frac{\sum (r_i - \bar{r})^2}{n}} = \sqrt{\frac{0,431}{6}} = 0,268
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\sigma = \sqrt{\frac{\sum (r_i - \bar{r})^2}{n}} = \sqrt{\frac{0,684}{6}} = 0,338
\]
restructuring and development of the activity which has seriously boosted and completely changed and form of trading within the cooperative system as early as the following years. Several perspectives for its future development can be suggested taking into account the results of the analysis of the development of the main indicators characterizing the activity of TFA of cooperative retail trade for the period 2003-2012:

- Using franchising in cooperative trade will ensure better flexibility in the management of cooperative property. It will allow the cooperatives involved in retail trading especially those which experience shortage of financing to provide their unprofitable sales outlets to private companies which invest their own capital in the business activities.

- The better future development of the sales outlets of the COOP chain requires development of new forms of retail trade through pilot Internet stores thus covering a broader range of consumers besides those who are familiar with the outlets. This form will also allow them to become acquainted with the whole range of goods offered in the sales outlets – both with the goods with own brand names and the rest of the product range – without losing time.

- Although the COOP stores are well known and preferred in a number of settlements, the policy for their optimization and increased competitiveness will continue. In view of the strategic goal, the chain of cooperative stores should serve both consumers in cities and the larger municipal centers in the country in the future. The chain form of trading can also be realized by creating chains of modern, medium-sized supermarkets (convenient and attractive family-type stores, i.e. close to consumer homes – neighbourhood shops). A cooperative retail chain can take up a share in the specific market niche of the stores which are smaller in size, located closer to consumer homes and offer diverse assortments of the most needed goods at competitive prices. These stores are more convenient and easily accessible and are visited more frequently than the enormous hypermarkets and supermarkets. Thus cooperatives will be able to gain higher profits and constant revenues from their business activities. This is a precondition for the financial stabilization and efficiency of the business activity of cooperatives.

- The implementation of a flexible pricing policy should continue including through the use of electronic labels which have been introduced to 9 outlets in the country so far. More importantly, the number of sales outlets using electronic labels will continue to expand;

- There should be an increase in the number of the COOP chain outlets that will participate in the project for supply of goods from producers applying the principles of fair trade (Fair Trade) and development of healthy food programs suitable for all age groups. At this stage ‘Fair Trade’ goods are imported in the Bulgarian cooperative retail trade mainly from COOP United Kingdom.
Conclusion

On the basis of the analysis of the development and problems of TFA of cooperative retail trade, we can conclude that despite the difficult economic and financial conditions, the cooperatives continue to follow the policy launched a few years ago for stimulating the commercial activities and restructuring the sales outlets so as to make them a major competitive and profitable business of consumer cooperatives.

(*We can conclude that despite the troubled economic and financial situation, for the last couple of years the cooperatives have been persistent in their efforts to encourage the sales activities and upgrade their retail outlets so that they can gain a competitive advantage.)*

DEVELOPMENT AND PROBLEMS OF TANGIBLE FIXED ASSETS (TFA) OF COOPERATIVE RETAIL TRADE

PhD student Diana Shopova

Abstracts

The commercial activities carried out by consumers’ cooperatives are conducive to satisfying the needs of a considerable part of the population with the necessary goods and services. As a relatively autonomous economic system in cooperative trade, the cooperative commercial network is an integral part of the commercial network of the country, of retail trade, of domestic trade and of the entire process of stock turnover. The present article is aimed at tracing and analyzing the development and the issues of tangible fixed assets (TFA) of cooperative retail trade in Bulgaria for the period 2003-2012 (including the development in the number of owned and operated outlets, the amount of the invested funds and the development of the outlets of the retail chain Coop) and, based on the conducted analysis, drawing some prospects for its development.

Keywords: cooperative trade, retail trade, outlets, investments.
FINANCIAL, ECONOMIC AND POLITICAL FUNDAMENTALS OF THE EUROZONE

PhD student Ivan Ilkov

Introduction

The Economic and Monetary Union (EMU) of Europe is a project unparalleled in the world’s economic history. Its creation though reflects certain serious functional setbacks (mostly arising from the need to find difficult political compromise) which over the last years have shaken the very foundations of the European Union (EU) and the Eurozone in particular. Hopefully, these realities have been accounted for and their negative effect upon the member states of the monetary union will be contained. In other words, if a price must be paid for past mistakes, it will surely be reckoned in the future. In the light of the turbulent economic situation, events from the past years show that the price for the euro deficiencies will probably be paid in a little over ten years’ time since the common currency was first introduced.

The purpose of the present article is to offer a critical review of the processes which have led to the creation of the Eurozone and examine the reasons for the difficulties experienced in the monetary union over the last years.

1. Stages in the implementation of the EMU

First ideas for an economic and monetary union of the European countries were raised well before the end of the 1960s and the beginning of 1970s. They reflect the need to contain the adverse effects of a crisis upon European economies, arising from the fluctuations in the European currency system, and guarantee an economic and monetary stability in the European Community. From the onset of this debate, two proponents of the currency integration in Europe have entered the stage – on the one hand there were the “monetarists” and on the other - the “economists”, who manifested a principal difference in their approach, two contrasting ways of thinking. The principal difference in these two approaches can be attributed to two opposing points of views on the implementation stages and measures to be taken for the formation of EMU. The ‘monetarists’ upheld the opinion that monetary cooperation should be the starting point in the formation of the monetary union and monetary solidarity in particular, through the establishment of short-term support and quick decisions on the margins for fluctuation between European currencies. The rapid progress towards a monetary union is seen as the best way to influence governments which are to undertake concerted action towards harmonization of their economic policies.

The economists had a different view regarding the convergence of economic policies and transition to an economic and monetary union (EMU). To give the concept of EMU any credibility, the countries should work for better coordination and integration
of their macroeconomic policies which at a later stage could ensure a stable economic convergence and currency integration within the union. They also argue, that economic convergence should be seen through the prism of reducing rates of inflation, synchronization of economic cycles, elimination of countries excessive indebtedness and deficits, low unemployment rates, etc. In other words, the transition to fixed-currency rates will have a positive and stabilizing effect only after countries within the Economic Community (EC) have achieved a high degree of economic convergence, i.e. an effective combination between nominal and real convergence. The economists also argue that untimely introduction of fixed currency rates within the Community, might have a negative effect both on member states and the monetary union in general, as each country will be setting up different economic policies – a conservative monetary and fiscal policy or an active policy aiming to encourage employment and economic growth.

To some extent, the views of the ‘economists’ have driven forward the drafting of the EU treaty, based on 5 main criteria (two fiscal and three monetary) to be met by the Eurozone candidate countries. This aims to ensure not only similarity in realizing the basic macroeconomic indices but also the setting of an efficient system of fixed currency rates, harmonization of policies towards establishment of a stable monetary union and single currency. A serious weakness can be found in the applied criteria, as these lead to a nominal convergence where the actual economic convergence of the countries (level of economic growth, GDP per capita, price level, etc.) are being ignored in the evaluation of the country’s preparedness to join the Eurozone.

Going beyond the economists and monetarists opposing views and differences, it becomes clear that they have reached a compromise at last. On the one side, the ‘monetarists’ were given a rigorous timetable to set up the monetary union. On the other, the ‘economists’ succeeded in imposing entry criteria for joining the Eurozone and acceptance of the Stability and Growth Pact (SGP), which in their opinion was a guarantee for the actual economic convergence between the countries. Obviously, the arguments of the monetarists regarding the starting point of integration had won over as they argued that the creation of EMU should go through a stage of monetary integration before the formation of a political alliance, but in hindsight it is clear that the monetary integration has done little towards a political and economic convergence of the countries. What is more, the chosen starting point for the creation of EMU can be seen as a constructive weakness in the introduction of the euro as a single currency which largely accounted for the emerging financial crisis in the European Union.

The issue of setting currency rates was resolved in favour of the ‘economists’. This happened during the third final stage in the creation of EMU. During the two preceding stages, the countries were able to achieve a certain degree of convergence of their basic macroeconomic indices. In addition, steps were taken to set up a supra-national institution which would be accountable for the common monetary policy (MP).

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2. The first blueprint for the creation of EMU (Werner plan)

By the end of the 1960s the international currency system began to show some clear signs of malfunction. Evidence for the coming world economic crisis was presented by the dramatic currency fluctuations and rapid changes of the fixed currency rates which accounted for the increasing currency and market turmoil. The decision of the US government to float the dollar in 1971 produced a wave of instability on foreign exchanges which called into serious question the parities between the European currencies. All this deeply shattered the Bretton Woods currency system and subsequently led to its collapse and literal dissolution during the first half of 1973. Member states realized that it was necessary to impart a fresh momentum to the monetary integration within the European Community as the process of disintegration of currency relations was threatening the future of the whole European project.

The first blueprint to create a monetary union of the European Community in stages was presented in October 1970 called the ‘Werner Plan’. The plan is in a way a precarious compromise between the two opposing views on currency integration in Europe and is the very basis of the ‘monetary policy’ (MP) observed until the introduction of the European currency system (ECS). Thus, an evolving plan in three stages has been drawn up, spanning over a 10 year period (until 1980), which led to the establishment of an economic and monetary union (EMU) within the Community. This ambitious plan aimed at providing full currency convergence of member states, setting of parity rates, elimination of currency fluctuations, integration of financial markets and full liberalization of capital movement.

The first stage of the ‘Werner plan’, involving narrowing of the currency variation margins, was launched on an experimental basis across member states of EC. Since April 24, 1972 a new monetary mechanism has come into force in Europe, known as the “snake in the tunnel”. The “snake in the tunnel” is a mechanism designed to ensure monetary stability between EC countries, thus allowing for certain predictability of commodities price levels. It has come about in the aftermath of the world financial crisis and the refusal of the economically developed countries to go ahead with the Bretton Woods agreements. During the period of ‘the snake’, EC member states became aware for the first time of the necessity to implement a single monetary policy. Such policy however was difficult to pursue for several reasons – divergence of economic policies by individual member states, lack of concerted political action and willingness to resolve currency problems, inconsistency in the number of countries participating in “the snake”, to name but a few. Due to instability on foreign exchanges, countries in ‘the snake’ found themselves unable to maintain their currencies within narrow margins of fluctuation against the dollar (“the tunnel”) and in March 1973 ‘the snake’ lost most of its members.

We can conclude that “the snake in the tunnel” mechanism was an abortive attempt to achieve monetary stability in the EC countries. The currency mechanism

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exhibits some serious weaknesses – asymmetric nature (only countries with floating or weak currency can intervene on the foreign exchanges to recover their currency rates within an agreed margin. Thus a strong currency can easily help other ‘weaker’ currencies pick up in value, making them highly overrated. The problem with weaker currencies is that they can barely follow the hike in the German mark (a central currency in this mechanism) which was the reason for countries such as Great Britain, France and others to leave the ‘snake in the tunnel’ mechanism.

The objectives set in the Werner Plan proved to be extremely ambitious and ahead of time which made them difficult to achieve in the specific historical context in which this plan appeared. By mid 1970s, the process of integration has lost its momentum and ideas for concerted policies started to give way to a growing disintegration between the countries which in turn doomed the plan to failure. Thus the first plan aiming to achieve a stable currency and monetary integration among the European countries ended in total disaster. Its failure can be attributed to several factors: the adverse effects of the processes of instability at a global level (the collapse of Bretton Woods currency system), the first oil crisis in 1973, etc.). Secondly, differences were observed in the degree of convergence of EC countries at macroeconomic level. The failure of the plan can also be explained with the fact, that countries within the EC had different priorities – an overriding priority for Germany was to contain inflation (a policy for stability), whereas France seemed to be more focused on economic growth (i.e. more active policies). All this resulted in a growing distance from the idea of EMU during the specific historic period.

3. Renewed efforts to create EMU

Efforts to establish an area of monetary stability in Europe were renewed in the late of 1970s. The second attempt to create a monetary union proved to be more successful. The relatively quick ‘death’ of ‘the snake’ did not diminish the determination of the European leaders in trying to create an area of monetary stability, closer economic cooperation between the EC countries and a monetary union at a later stage. However in March 1979 the European Monetary System was created, with the purpose to counter inflation and stabilize exchange rates and except for a few modifications, it continued to be operational until the formation of the Eurozone. EMS is a new system designed to coordinate the monetary policies of the countries, being an important step towards the creation of a monetary union. It is built on the concept of stable but adjustable exchange rates defined in relation to the newly created European Currency Unit (the ECU). The system was created to stimulate the European fiscal integration, contain negative effects on trade influenced by exchange rate fluctuations and above all, enhance the stability of European currencies.EMS incorporates three basic components – creation of a single European currency (the ECU) – an intervention mechanism and a mechanism for mutual crediting - an extension of European credit facilities.

With the implementation of EMS, many of the deficiencies of ‘the snake’ were eliminated and the system proved to be a better and more effective monetary mechanism. It succeeded in creating the very basis for coordination of countries currency relations. In spite of its weaknesses, EMS was able to accomplish its main goals. Member states participating in the monetary mechanism benefited from an increasing stability of their currency and free capital movement. Despite voiced skepticism on EMS effectiveness and stability, over the years the system proved its viability and helped paved the way to the Economic and Monetary Union of Europe.

4. Third attempt at creating EMU (Delors Plan)

The European Community went through various currency crises. After a few failures, it managed to take a huge step forward, towards a monetary integration. The third attempt at creating an economic monetary union proved successful. Its success was based on the experience gained from ‘the snake’ and the introduction of the EMS. Over a 10 year period, EMS did much to reduce exchange rate variability: the flexibility of the system combined with the political resolve to bring about economic convergence. In April 1989, a committee presided by Jacque Delors, chairman of the European Commission, drew up a three stage plan for the formation of the Economic and Monetary Union. This ambitious interstate project was planned for a 10 year period, to be finalized in the year 2000. The Delors Plan contained all the groundwork for the creation of EMU – it helped the integration of financial markets, free capital movements, irreversible convertibility of currencies, irrevocable fixing of exchange rates, and the possible replacement of national currencies with a single currency. If we draw a parallel between the failed ‘Werner Plan’ and the ‘Delors Plan’ we cannot but say that there is a striking similarity – both documents have paved the road to a monetary union in three successive stages leading to the creation of single currency. The principles laid down in the Delors Plan are similar to the proposals of the Werner Plan but 20 years ahead of time. In hindsight, market turmoil and lack of community awareness among member states were among the factors that thwarted the creation of EMU two decades ago.

In order to proceed to the second and third stage and implement EMU it was necessary to determine the Treaty revisions towards setting up the European institutions. On 7 February 1992, the monetary integration in Europe was sealed by signing of the Maastricht Treaty. The Maastricht Treaty or the Treaty on European Union (TEU) also created what was commonly referred to as the pillar structure of the European Union. However, during the debt crisis in Europe during 2010 and 2011, some of its myths were demythologized, sending serious repercussions over Europe:

• Each country is solely responsible for its debts when it resorts to financing its budget deficits, i.e. a country from the Eurozone cannot be rescued by another country. In the grips of the crisis, however, things looked quite different and the rules governing the size of national budget deficits were somehow obviated to save the euro. EC member states, the European Commission and the

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European Monetary Fund ‘poured’ a huge amount of money to save the countries threatened by the crisis. A form of a ‘transfer union’ was suggested – something typical of a fiscal union, which failed because some countries saw it as a politically unacceptable commitment;

• A member state cannot declare bankruptcy and leave the Monetary Union. As Martin Feldstein put it, “it is a marriage made in heaven with no room for divorce”. Nevertheless, the situation in Greece shows that a similar scenario is possible, therefore provisions must be made for a country to leave the Eurozone, if it presents a threat for the union;

• Responsibility to enforce limits on deficit and public debt of all countries of the Eurozone. This appears to be one of the most criticized myths as many countries are unable to set stable fiscal policies to cover for budget deficits in times of crisis;

• Budget deficits of member states cannot be financed by monetary means. This turned out to be another myth when as a desperate measure to fight the debt crisis, the European Central Bank (ECB) started purchasing government bonds in order to stabilize the collapsing bank system in Europe.

Under the Maastricht Treaty, three stages have been outlined in the creation of EMU, the first of these starting on July 1\textsuperscript{st}, 1990. The second stage has been identified as the most significant as it ensures the convergence of monetary and economic policies. Furthermore, it encompasses events that are most criticized for the present state of EMU.

EC member states tended to run large budget deficits and higher levels of their public debts over the period preceding the signing of TEU. This trend continued into the beginning of 1990s when European countries manifested huge economic imbalances. The introduction of fiscal rules simply encouraged member states to consolidate their public finances. By mid 1990s the prospects of joining the Eurozone still remained distant for many of the candidate countries. In 1996 the deficit criteria was met by only 1/3 of the candidates, while Germany and France, two of the best performing economies, remained outside this group. Despite the fact, that the average budget deficit over the period 1991-1995 was rather high (4,9%), by the end of 1999 the situation looked much better as most countries, excluding Greece, managed to draw their budget deficit below the 3% barrier, in an attempt to meet the convergence criteria for the euro (the deficit level for the period 1992-1998 has dropped by 3%). In spite of all the progress, there were also concerns as some of the countries were entering the union with a public debt almost nearing the reference value of 60% of GDP, thus bearing a potential risk to the stability of the union. Among the most undisciplined countries were Belgium, Greece and Italy. Their indebtedness soared particularly high, reaching 122, 7% of GDP in 1997, 96,6% and 118,1% accordingly. This was the result of unstable fiscal policies, covering for chronic budget deficits (for the last decade, the average deficit level has reached 10%). Further on, EU member

countries differ in their traditional attitude to inflation. Germany alone has been consistent in its efforts to fight inflation, making the issue popular during political elections. 8

During the second half of the 1990s, EU countries somehow managed to prepare for the Economic and Monetary Union, with 11 countries meeting the convergence criteria. Members of this club are also some southern European countries which seemed unlikely to make the first wave in the run up for the euro. The very meeting of criteria in fact, gives the politicians an illusory sense of stability and a false belief that the monetary union is a stable organization capable of resisting external or internal pressure. The price paid for this delusion turned out to be very high since the Eurozone proved to be easily shattered from an economic point of view, being a political project above all, without a sound economic logic behind it. Ensuing problems show that the core members are better prepared for EMU membership than the remaining ones which aspire to becoming members of the Eurozone for political reasons and for the purpose of euro area enlargement. At this stage, entry criteria were compromised as these were applied “creatively” and in many cases largely circumvented. Even though some of the candidate countries fell short of meeting the acceptance criteria they accepted the euro.

The Stability and Growth Pact (SGP) was agreed as a set of fiscal rules to complement the creation of EMU and to guarantee the stability of public finances in the Eurozone. More specifically, SGP was designed to meet two requirements in terms of EMU. Firstly, to safeguard policies for stabilizing the euro, being the rule-based framework to coordinate national fiscal policies in the EMU and to set out monetary policies of the European Central Bank (ECB). Secondly, to act as a corrective arm and impose sanctions for “free riders” that may destabilize financial markets and the EU economy by pursuing policies of narrow national interest. 9 SGP however, has shown certain weaknesses which became evident shortly after it was ratified – being of asymmetric nature, the pact does not take into account the specific peculiarities of individual member states; it allows for loose coordination and poor monitoring of policies, etc. Notwithstanding its initial stabilizing effect, SGP failed to ensure sustainable budget positions of member countries, thus compromising the idea for economic stability. In addition, it failed the ECB as a tool in setting out monetary policies. As the rules set in the pact were often broken, many countries tried to escape the constraints on their public finances, including some of the most powerful member states such as France and Germany. And in June 2005, the revised SGP failed a second time as the public finances of many EU countries deteriorated due to external shocks.

June 1, 1998 is an auspicious date for the future of the Eurozone and the single currency. On this date the European Central Bank (ECB) was established. There are however certain deficiencies in the ECB framework which cannot be overlooked. Under

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the provisions of TEU, the ECB is not allowed to directly finance budget deficits of EMU member countries. ECB can do this indirectly, through purchasing loan notes on secondary debt markets or accepting bank guarantees against the issuance of loans. Even though member states have no right to mint money, they still can take out loans, i.e. countries with floating public finances can use the ECB to bail them out and cover for their growing budget deficits. Hence the conclusion, that the central bank finances indirectly the budget deficits of more than one country. Although this fact was known even before the creation of EMU\textsuperscript{10}, its negligence led to the present state of affairs in the Eurozone.

The Economic and Monetary Union (EMU) is faced with several serious problems – money sovereignty of member states is transferred to the ECB whose task is to define and implement the monetary policy for the Eurozone. Generally speaking, the above policy is deemed effective at EMU level, providing that member states have already achieved closer integration of their economies. However, this is not exactly true as the monetary policy is hardly adequate for all countries, as their economies have not reached the desired level of convergence and the external shocks have an asymmetric effect on countries in the Eurozone. The euro area’s problem of \textquoteleft one-size-fits-all\textquoteright monetary policy is not unique. Nevertheless it imposes a wrong model which can even have a negative effect on some of the countries. Let’s not forget that the monetary policy of ECB is largely dependent on some of the more economically advanced countries in the union.

Another setback of the Eurozone is the fact that ECB is not given explicit functions to oversee all the national banks in the EMU. For this, ECB has been much criticized. It was suggested that the bank should act as the guardian of financial stability in EMU not only through price stability, but by taking upon itself the task to supervise financial institutions and thus apply regulations at common European level. In this way, ECB will further be able to oversee banks with cross-border currency transactions in countries from the Eurozone which have a significant bearing on the banking system in Europe. Conversely, other economists express the view that the European monetary policy should focus on price stability rather than on other side issues. Defining financial stability as another target on the monetary policy agenda, may give rise to unrealistic expectations as to the efficiency of the monetary policy.\textsuperscript{11}

During the third stage of EMU, the 11 participating countries fixed their exchange rates irrevocably and introduced the euro. The series of events that marked the last few years indicate that the monetary union is still fragile and easily disruptable. What is more, the organization and structure of the Eurozone reflects some serious shortcomings which increases discrimination between the countries. As pointed out by many observers, the creation of a monetary union can be the life belt for many countries to survive economic and currency crises. There is economic evidence that currency crises are being supplemented by much worse and more dangerous loan and debt crises.\textsuperscript{12}

\textsuperscript{11} Weber, А. Challenges for monetary policy in EMU. Homer Jones Memorial Lecture, Deutsche Bundesbank, April, 2011, p. 7.
\textsuperscript{12} Stateva, Y. Origin and development of the government debt crisis in EMU. Ikonomiocheska misal, № 6, 2011, p. 7.
The existence of a common European currency has stirred a great debate and rhetoric. From a present day perspective, there are a few conclusions to be drawn:

To a great extent, the inception of the euro is a good thing as it reflects the idea of a unified Europe and the creation of a common market. Unfortunately, the realization of this idea was corrupted and the common currency has fallen victim to the problems of its “inception” and the way it was treated subsequently. The basic principles of the theory for an optimum currency area have been overlooked which somewhat precluded the successful outcomes of creating the EMU and the positive effects of using a single currency within the EU. As one of the euro skeptics has pointed out, “the Eurozone is not a suitable territory for a monetary union.” Member countries differ considerably in the structure of their economies and in their economic policies which results in fluctuations in their economic cycles.\(^{13}\) We should also note that the set of rules laid down for the monetary union were not exactly consistent. Furthermore, the system for economic regulation of EMU is rather asymmetric in several aspects. First, there is no common fiscal institution to stand out as a counterpoint to the European Central Bank. Secondly, the common monetary policy is set against the backdrop of a spate of decentralized policies at national level (economic, fiscal and structural policies).

The question is whether the Eurozone will continue to exist if measures to address the European debt crisis and reform the functional framework of EMU prove to be ineffective. To put it differently, is a common currency still viable in the wake of Eurozone crisis? Well, the euro is a fact and the efforts of several generations of Europeans towards its creation cannot be wasted for nothing. Therefore, the euro is bound to survive and win its well-deserved place in the world monetary system. And because it is the symbol of unified Europe, the failure of it is unacceptable as it may precipitate an economic crisis both across Europe and on a global scale. It is being argued what reform the euro needs to make up for the political compromise and underrated initial risks in creating the Eurozone. It is clear that the Eurozone should be subject to some deep institutional reforms (possibly, the establishment of a political, economic, fiscal and bank union). Undoubtedly, not only supervision of banks within EU is imperative but implementation of an effective mechanism for crisis management is crucial to help the budget policies of member states. Instead of introducing more restrictive policies to tighten the fiscal discipline, the rules should apply to all member countries. Critical recommendations for better governance of the Eurozone should therefore combine credible measures to maintain fiscal discipline. EU needs to make rapid moves towards a federal structure of organization despite fears that if this happens, it will become a kind of United States of Europe with member states gradually losing their identity.

### 5. Possible scenarios for the future of the Eurozone

One of the most frequently asked questions after the euro debt crisis is about the future of the euro zone. It became clear that the European Union was unable to resolve the problems it was faced with during the sovereign debt crisis and panic-

driven was forced to adopt measures which proved to be inadequate. Hereinafter we suggest some of the possible scenarios for the future of EMU:

**First scenario** – the Eurozone continues to exist. Member countries which adopted a single currency (the euro) have moved on to an advanced stage of integration which makes the break-up of the Eurozone impossible. This calls for crucial reforms in EMU to stabilize the euro and restore confidence in the foreign exchange markets. Urgent measures should be adopted to grapple with the euro debt crisis, even though this would be a long and painful process that would bring with it unprecedented economic, political and social costs.

**Second scenario** – the Eurozone continues to exist but remains unreformed which sooner or later will lead to its disintegration. The package of measures to contain the debt crisis has proved inadequate and the euro is showing signs of weakening with its value falling.

**Third scenario** – break-up of the Eurozone. The Eurozone splits into two separate currency areas – north alliance and southern periphery. The countries which will remain in the Eurozone (i.e. the strong economies) will enjoy a stronger euro and will be part of a fiscal union. Weaker countries get pushed outside the Eurozone and will have to return to their own currencies.

**Fourth scenario** – Countries leave the Eurozone one by one. Member states agree that the monetary union doesn’t work well for all, compromise is too big and it is impossible to pursue a common policy for so many countries with divergent economies. Germany, France, the Netherlands, etc. leave the Eurozone with subsequent dissolution of the EMU which will trigger a series of bankruptcies, cause chaos in the financial system, stem capital flows and investment and lead to high rates of unemployment. As a result, the currencies of weaker or so-called ‘struggling’ countries will devaluate significantly, and as member states sink in a recession, it will be even harder to pay their debts.

**Conclusion**

The idea of the Eurozone collapsed with the first serious economic crisis. The situation is further compounded by the shortcomings of the EMU. Due to the slow and ineffective measures to save the Eurozone, the euro seemed to fail in its efforts to unite countries within the EU or rather it is more likely to divide the countries. In the political hiatus after the Greece debt deal in 2012, it seems likely that the demise of the euro is being postponed and prospects for its future look more optimistic. Hopefully, the Eurozone will continue to exist and in the opinion of many financial analysts and economists ‘there is no other alternative before EMU’. There is no question that to leave the Eurozone and EMU would be a messy and complicated procedure, incurring political, economic and social costs which make membership in EMU irreversible.
FINANCIAL, ECONOMIC AND POLITICAL FOUNDAMENTALS OF THE EUROZONE

PhD student Ivan Ilkov

Abstracts

In the article there are outlined the ideas of the transition to economic and monetary union in Europe. There are analyzed the processes of currency integration in the European Community, which have led to the formation of the Eurozone. The main emphasis is placed on the proposition that there exist considerable structural defects of the Euro, which are the real causes of the debt crisis in the Eurozone. There are analyzed various scenarios for the future of the monetary union. There is advocated the thesis that the organizational structure of the Eurozone needs profound reforms in order to improve the functioning of the union and the creation of a reliable system for preventing such disturbances in the future.

Keywords: monetarists, economists, Euro, Eurozone.
RESORT COMPLEXES AS A SEPARATE CATEGORY
IN THE THEORY OF TOURISM

PhD student Dimitar Stoynov

The socio-economic and political conditions in Europe and the developed world, affirmed in the postwar years, favor the mass character of the general demand for tourist services for recreation and are an important prerequisite for the industrialization of the tourist sector. In response to the growing interest in organized recreation, the tourist business undertakes and implements investment projects which provide the consumption of both basic and various extra services – for familiarization, cultural, entertaining, sport and others, as well as the satisfaction of users’ needs that arise on site. During the 50s of the last century this policy turned from corporate into state one. The development of tourism in a number of countries was laid on a scientific ground in the institutes for planning national and regional programs for convenient tourist resources and establishing a tourist industry¹, named respectively: DATAR – France, URBION – Slovakia, JOROK – Austria, TERPLAN – Czechoslovakia, VAROSEPITES – Hungary, ETUP in the Bulgarian KNIPITUGA² Center, FONATUR – Mexico and so on; which lead exactly to the emerging modern-type resort complexes. “The construction of “Golden sands” and “Drouzhba” resort complexes marked the beginning of large international tourism in Bulgaria”³. Later this was added by “Albena”, “Rousalka”, “Sunny beach”, “Elenite”, “Dunes”, “Kiten”, “Borovets” and “Pamporovo”. Worldwide the structural and organizational specifics of these complexes were predetermined by the different ways of conceptualizing, planning and implementing the investment projects and the different sources of investment capital – state or private, group or individual⁴. The main goal remains the same – a complex tourist product. The metamorphosis in tourist relations follows the tendency for a complex nature of tourist services which turned into a basic competitive advantage of destinations.

The evolution of the resort complexes involves an even larger concentration of investment capital, jobs and production capacity, with which they acquire even bigger economic, social and ecological significance for the region. Parallel to this, they are influenced by a number of factors from all spheres of the surrounding environment, which cause structural-and-functional transformations, specific phenomena and processes in them. All these have a direct or indirect impact on the tourist product, the market position of the resort complexes, the way people accept them and the whole

tourist destination. Indicative is the example with the consequences in economic, social and ecological aspect from overbuilding in our Black-sea complexes after they were privatized (see Figure 1)

Source: “Ecological aspects of the development of resort complexes on the Black-sea coast”.

Figure 1. Overloading natural resources in the resort complexes on the Bulgarian Black-sea coast

The on-going negative processes and phenomena in the development of resort complexes result not only into worse company performance in them, but also into economic, social and ecological harms for the society as a whole. These are caused by the multifaceted and multi-factor interaction of industrial tourism with all spheres of public relations. In order to cope with these processes through a relevant micro- and macro-managerial policy it is necessary to know thoroughly the structural and functional specifics of resort complexes, which, in turn, underlines the relevance of the topic of this paper.

A number of Bulgarian and foreign authors describe resort complexes in a general economic and territorial aspect. They do not go into researching their system characteristics. B. Kalinkov\(^6\) makes a thorough historical review of the emergence and the circumstances for building the resort complexes on the Bulgarian Northern Black-sea coast. He outlines their place and role in Bulgarian industrial tourism, as well as their significance for the development of the city of Varna as a tourist destination. Sv. Rakadzhijska views resort complexes as an important and determining element or as the “flagships” of general tourist supply of Bulgaria as a destination and positioning


it on the tourist market. P. Evrev includes resort complexes as a subject of his research in territorial-and-development planning of tourism. He goes in depth in studying the issue by introducing a typology of resort sites depending on the type of the tourist resource, location and the presence or absence of permanent population; thus he elaborates the topic of zoning the territories of the resort sites. The methods for modelling the processes in tourist complexes, introduced by D. Tadarakov, have internal trend and positive contribution to designing them.

Other authors like Pearce D. and Wong P. P. analyze resort complexes in economic and social aspect: their indicators of growth, the size and significance for the national industry and local communities. Rýmy Knafou and Stock Mathis view resort sites in territorial geographic aspect, whereas Patrick Lavery traces their emergence depending on the socio-psychological and economic factors of tourist demand. Lozato-Giotart J.-P. studied the periods in forming the tourist sites on the ground of tourists’ interest and tourist flow. Yvette Barbaza studied seaside tourism on the Mediterranean and the Black sea and views the emergence and development of resort complexes mainly in geographical aspect. In characterizing them she introduced three criteria: size and distribution of the existing local population, spontaneous or planned development of tourist facilities, intensive or extensive distribution of tourist sites.

The deductive analysis shows that “resort complexes” is a name accepted for use without laying down the definition framework of the concept and studying the system characteristics of the phenomena. In the science of tourism no necessary attention is paid to the emerging specifics of tourist services in resort complexes and the ongoing processes there that are essential for tourism. The information about them, essential for the tourist activity, is not studied separately. Thus management practice lacks the specialized methodology, while inadequacies appear in the theory of tourism which concern the characteristic features and the processes of creating tourist products in the resort complexes. The findings so far logically lead to the necessity for laying a theoretical basis for a further more thorough study of the phenomenon of the resort complexes by use of an inductive way, a theoretical synthesis, which is accepted as the main goal of this theoretical paper. Thus the following research tasks are solved:

1. Defining, differentiating and characterizing the concept “resort complex”.

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11 Wong, P.P. Tourism development and resort on the east coast of the Peninsular Malaysia, Tropical Geography, Singapore, 1986.
2. Design analysis and typological features of resort complexes.
3. Defining the prerequisites for separating resort complexes as an independent scientific category.

1. Defining, differentiating and characterizing the concept “resort complex”

In descriptive literature using the concepts “resort”, “resort complex” and “tourist complex” as synonyms often makes them equal, with unclear distinctions of meaning. These three concepts overlap their meaning in a common section which expresses opportunities for tourist services on a tourist site with available curative and recreational resources. Yet, for the goals of specialized studies it is necessary to make their meaning precise semantically and etymologically.

Historically, the Bulgarian word “kurort” (from “curo” in Latin – cure, take care of)\textsuperscript{16} for “resort” appeared first, implying the meaning above, as early as ancient times. Its usage was broadly affirmed in the German speaking countries in association with naming the places for rest, cure and recreation by using the favorable impact of climate, mineral water, sea water and others\textsuperscript{17}. The name “kurort” was accepted and remained for usage in Slavonic languages as an equivalent of the English name “resort” – a place visited for recreation\textsuperscript{18}. The types of natural resources and the therapies associated with them considerably enlarge the meaning of this concept nowadays and it often has an additional implication such as: mountain, sea, ski, spa resort and others; yet, the principle of applying it for cure through natural resources remains.

The name “tourist complex”, widely spread already, appeared in modern tourist relations in association with structuring the multi-functional material base on the ground of the growing requirements and opportunities of tourist demand in this direction. Such development was observed in the sphere of business, sport, entertainment, religious and recreational tourism, including in the tourist market congress and sport centers, theme parks, as well as tourist complexes. The name tourist complex serves as a byword for all these. With its broader scope of meaning this concept is applied most often in descriptive and documentary Bulgarian and foreign literature. It is it that has been used in the last draft for amending and adding the Law for tourism in 2011. A definition is proposed which says: “A tourist complex” is an independent territorially distinguished group of places for accommodation, with built general engineering and tourist infrastructure, where basic and various additional tourist services are provided. It is made up of at least 5 places for accommodation and has at least one outlet for eating and entertainment\textsuperscript{19}. Besides that the use of the expression “…places for accommodation…” allows for mixing the concept “tourist complex” with “hotel complex”, which is inadmissible for the professional jargon of tourism, the definition above does not distinguish the types of complexes according to the used tourist resource.

\textsuperscript{17} Apostolov, N. p. 359.
\textsuperscript{18} Oxford Advanced Learner’s Encyclopedic Dictionary, Oxford Un. Press, 1992
\textsuperscript{19} Draft of the Law for Tourism, 2011.
The name “resort complexes” individualizes the group of tourist complexes that make use of natural resources. This term reaches higher accuracy of expression. Together with this its usage requires narrower purposefulness of application, because of which it is less widely spread. Seldom are the cases, as in “Decision of PA № 45 from 25.01.2005 for determining geographical formations of national significance… - the resort complexes: “Albena”, “Golden sands”…20, where the term is used mainly in its geographical implication, without defining its meaning. In foreign literature this word partnership is almost not used. The correct use of the term “resort complex” for the aims of theoretical studies in tourism requires its precise definition which, as the author’s opinion here, needs to be as follows: “a territorially distinguished and infrastructurally united set of tourist outlets, means and facilities that form a complex tourist product made up of basic and additional services for accommodation, eating, cure, transport, sport and entertainment and provide the use of the adjacent tourist resources with recreational character”.

After clarifying the content of the term, it is important to determine also its sphere of definition or the parameters of general and private significance in respect to the names close to it. In its syntactic interdependence with “tourist complex”, “resort complex” keeps part of the content in its meaning of a complexity of organizing services by limiting it within the types of tourism that use natural tourist resources with curative and recreational impact. Therefore, one can also define the resort complex as a recreational tourist complex. We can say that the outlets named “resort complex” are a subdivision of the group “tourist complex”, they result from the same group but they have a common limiting feature and this is the adjacent natural recreational resource. In other words, all resort complexes are also tourist complexes, but not all tourist complexes are resorts (see Figure 2). A typical example for this are the Disneyland theme parks which offer complex tourist services (including accommodation) based exclusively on anthropogenic tourist resources. Examples of purposefully constructed substantial resort complexes are the already listed above sea, mountain and balneological resorts.

Figure 2. Scheme of the semantic and syntactic interdependence of the terms “resort”, “resort complex” and “tourist complex”

20 State gazette, issue 11, 01.02.2005, p. 3.
One should also clarify the limits of meaning in respect to the terms “resort” and “resort complex”. Whereas the term “resort” covers the scope of a tourist site for recreational tourism, including non-tourist elements, the term “resort complex” unites mainly tourist outlets and the infrastructure associated with them. The morphology of “resort” lacks the element of complexity of services.

It is also necessary to make another distinction between “resort complex” and “hotel complex”. While a hotel complex can be meant not only for recreation and can be only part of the accommodation base of a tourist site, a resort complex has a specific purpose and comprises the whole group of tourist outlets. In comparing multiple categories a hotel complex can be a constituent part of a resort complex the way described above.

According to its form, the concept “resort complexes” is a defining category in the following aspects: geographic, territorial, functional, organizational and product, with a focus on the typological wholeness of the tourist product. In its content it reveals the functional completeness of the organizational unit that is input as specifics and goal of its existence. By nature the term “resort complex” reaches greater precision of meaning and homogeneousness of its structure in respect to exploitation of natural tourist resources, completeness and scope of tourist services, as well as the predominant type of tourist activity. In general, resort complexes are a form of organization of complex tourist services in resort sites.

2. Design analysis and typological features of resort complexes

Irrespective of the way they are made – by thorough planning or gradual building, resort complexes genetically aggregate enough multitude and variety of production capacities of tourist services, which add integrity and completeness to the whole tourist product. In realizing its functional purpose (to provide complete use of the natural tourist resource and turn tourists’ stay into a pleasant and useful experience), they concentrate within their limits the respective material base and organizational potential. The resort complexes, made on high level of integrity, are systems of functionally united elements which are linked with plenty of subsystems and activities providing their harmonious and purposeful work in a whole mechanism (see Figure 3). The system structure of resorts is a projection of the concept for a complex tourist product. The separate elements of the system – the functional units (tourist, administrative, technical and other outlets and centers) are grouped according to their purpose into:

- **tourist (resort) material base** (it would be a debatable issue to distinguish firmly some types of outlets): means for accommodation and eating, sport and curative facilities, retail outlets; tourist outlets for entertainment, culture and sightseeing; centers and points for therapeutic, information, organizational and agent services; attractive transport, ports, parks, beaches, ski runs and others.

- **administrative and provisional material base**: means and facilities of general complex management, inside economy, departments of the fire-protection service, police and medical service.

- **engineering-and-technical material base**: facilities of inside and outside transport, park and resource economy, electro- and water-pipe network,
sewage and water purification, services at the beach, yacht piers, bridges, ski runs and facilities, swimming pools and baths and so on.

– the functional completeness and unity of the system “resort complex” is made through subsystems which combine the various exploitation units through activities ensuring the work in the complex. According to their structural contents these subsystems are defined as: administrative (on top level of the hierarchy), servicing and maintaining. Each of these subsystems includes means and capacity for carrying out the profile activities.

– **administrative subsystem**: operational management (methodical guidance, quality control, exploitation control, exchange of operational and statistical information); strategic management (conceptualizing, planning, programing), marketing (market research, planning, positioning, promotion, negotiating, analyses and evaluation); communications (general-complex tourist information, inside and outside business communication and contacts); ecological control (monitoring and control of the environment and production processes within and around the complex); inside economy (property management, finance, accounting and statistics, material and information supply);

– **service subsystem** – activities: organizational, production servicing, information, cultural, sport, artistic and others;

– **maintenance subsystem** – medical services; fire-protection security; keeping public order and security; transport inside and outside the complex (for tourists and for staff); technical, technological and power control; maintenance, supply and emergency services for the whole material base and tourist resources.

To a considerable degree the system structure is common for the various types of tourist complexes. The specifics of resort complexes brings variety to the scope and specialization of some activities and subsystems, but not to the structural principles as a whole.

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**Figure 3. Structural scheme of resort complexes**

In complexes with high organizational integrity among tourist outlets each subsystem comprises all elements of the complex in a centralized way. When making
a deeper structural analysis on the micro level of the functional unit, one observes that each separate tourist outlet is actually a separate functional system that has already been described in the theory of tourism. What is new here is the integration of this unit on a macro level – in the general complex functional system.

The resort complexes, developed on the ground of a whole conceptual plan, have the opportunity to implement also an important structural principle – territorial and functional zoning. According to this principle from the territory of the natural resource to the periphery of the complex there are formed the zones of the facilities for servicing the resource, the common parts for entertainment, the outlets for accommodation, eating and entertainment, the transport and engineering-and-technical means according to their purpose and functional compatibility, with a priority on comfort for tourists. It is exactly the purposeful zone allocation that reaches high integrity and brings fullness to the content of the term “resort complex”.

The typological analysis of resort complexes applies criteria for characterizing them that refer to natural resources, their structure and functional organization depending on the aspect and goals of the review. The resort sites from the past and modern resort complexes keep the same motive for choosing a geographical location where to appear and develop – the presence of a natural factor favorable for human health. According to the type of the natural tourist resource they exploit, resort complexes are defined as:

- **climatic** – can be sea, mountain, forest, prairie and others;
- **balneo-curative** – they apply treatment with mineral water, sea water, curative mud, lye, seaweeds and others;
- **combined** – they combine several factors like: balneo-climatic, sea-and-mud-curative and so on\textsuperscript{21}.

Another important aspect in the typological characteristics of resort complexes is the residential one, i.e. whether or not there is permanent local population\textsuperscript{22}. This condition divides resort complexes into:

- **independent**;
- **dependent (mixed)**.

Independent resort complexes include means of accommodation only for tourists. D. Pears names this type “isolated complexes” or giving priority to the impact of natural resources\textsuperscript{23}. Staff in the complex stay there only during the time of their work duties. It is admissible for a small number of them to stay longer, without this causing a change in the general surrounding.

The resorts which appeared in earlier historical periods like mineral baths and seaside towns were first inhabited by local people and later tourist facilities were constructed in them. This resulted into a symbiosis of two different types of life organizations – vacation-and-visiting and settled-and-local which brought negative impact to each of them\textsuperscript{24}.


\textsuperscript{23} Pears, D. Ibid, p 68.

\textsuperscript{24} Barbaza, Yv. Ibid, 1970, p. 439.
In the structural analysis of complexes one can find various structural schemes which refer to the configuration of implementing them. Reviewed in this way, the system elements and the links between them form two types of systems:

- **integrated (limited) type**;
- **disintegrated (module) type**.

In the cases when the complex is a result of a general investment initiative, which gives the opportunity for a complete conceptualizing, planning, “ex nihilo”\(^25\) construction and general strategic and operational management, its structure is made up of functional zones which comply with architectural and practical purposefulness. Outlets outside the hotels are the most spectacular attractions and develop intensively the complex space in general. The territories adjacent to the hotels are not restrictively separated and tourists have equal access to all facilities and outlets in the complex. Such functional configuration enables the system to work as a whole organism and defines it as an **organic type**. This type reaches the highest degree of functional integration among outlets and the opportunity for the largest variety of services for each guest in each hotel. Typical examples in world practice are *Club Méditerranée, Sandals Resorts, Cancun in Mexico, Mamaia in Romania and our resort complexes until they were privatized* “…in building these resorts facilities came before the tourists”\(^26\).

In the rest of the cases of forming resorts separate owners construct independent hotel complexes. The guest in a similar complex has the scope of services in the hotel. Outside it, he can find mainly other similar hotels with similar services where he is “not a guest”. The boundaries of the hotel complexes prevent the exchange of guests among them. The space between the hotels is not developed enough and has only the most necessary items. In other words, the resort complex constitutes of independent hotel complexes – **modules** that provide a complete tourist product but functioning separately and in competition for all types of services. That is the type for developing the national design for the seaside of Languedoc-Roussillon in France, the Alpine ski resorts, the sea resorts in Tunisia, Morocco, Spain, Italy, Greece and Turkey.

The differences in the configuration of the two types are transformed into functional when exploiting them. In the end result of tourist experiences they bring two types of basic perceptions: in the **modular type the tourist is a guest of the hotel complex**, whereas in the **integrated type the tourist is a guest of the whole resort complex**. The integrated type fills in the functional aspect of the term resort complex at most.

Last but not least in significance, is the functional criterion **management of the tourist activity**. The forms of the general management of the complex can be as follows:

- **centralized management**;
- **decentralized management**.

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\(^{25}\) “ex-nihilo” – a term signifying the construction of structures on an empty plot of land.

Centralized management, implemented through an administrative body that is general for the complex, is characteristic of sole ownership of the tourist superstructure. It is an irrevocable condition for reaching functional harmony in the organic type of resort complexes. D. Pears says that “it guarantees effective and balanced planning and development, quick realization and return of investment and reaching a high-status clientele. The coordination, general planning and physical integration of the complex facilities result into high functionality”. Examples for this are Club Mediterranée, “La Grand Plagne”, “Port Grimaud”, as well as the listed above Bulgarian resort complexes until their privatization. The latter reach even above-complex integration, united into a national tourist enterprise.

Decentralized management, characteristic of the module-type complexes, is actually independent management of the separate and legally independent tourist outlets. It does not go above its micro level and does not reach implementation of the general functioning and development of the complex.

3. Defining the prerequisites for separating resort complexes as an

Independent scientific category. When reviewing the phenomenon of resort complex as a system element of tourist relations, the deductive analysis does not find any new principles in the dynamics of the system. Therefore, there is no ground to come up with new scientific laws of tourist interaction that refer to the outlet. However, there are present qualitatively new states of the tourist activity, which take place only in the conditions of its functioning in the trends: investment and operation management, socio-psychological impact, economic significance and legal dependences. These are also the spheres that lead to the prerequisites for differentiated scientific research of the phenomenon of resort complexes.

In comparing the independent type of resort complexes and the dependent one, or with other non-complex forms of tourist services, one finds out the qualitatively new socio-psychological environment of the “sheer tourist atmosphere”. It reveals the advantages of the complex tourist services as tourists’ emotional experiences as a result of consumed non-material goods. In the base of forming customer satisfaction is also the lack of disadvantages of the urban and other non-tourist surroundings. In this context it is necessary to focus scientific research in the sphere of social psychology, marketing, territorial-and-administrative management on clarifying the advantages and opportunities of independent resort complexes in helping investment planning and realization.

The comparative analysis of the performance of resort complexes shows the advantages of the integrated ones to modular types, of their centralized management to decentralized one. This shows that applying the first type leads to achieving the following economic effects:

- operational, ecological and market purposefulness in structuring the elements of the system, its functionality and end product;

achieving an ultimately broad scope of additional services and completeness of the tourist product;
• ensuring the accessibility and attractiveness of every nook on the territory for every tourist and creating the sense of “being a guest to the whole complex”;
• concentration of high production capacity and stimulating consumption, together with optimal loading of the natural resource;
• as a consequence of the latter – increasing income from taxes, local employment and social balance;
• consolidating the market position of the whole complex in contract relations with tour operators and turning it from “being lead” in general into “leading” in the particular case;
• programs for modernizing the material base, revalorization of the natural resource and keeping the general conceptual type of the complex.

That is why the theory of tourism should be added with studies into the detailed typological characteristics, the functional and structural features of integrated and modular resort complexes, the efficiency of their centralized and decentralized management. These theoretical assumptions give the necessary ground for choosing decisions in configuring and exploiting resort complexes with the goal to prevent the negative effects described in the beginning of the paper (Fig. 1).

The legal aspect of the specific features that resort complexes bring in tourist relations is expressed mainly in the system of ownership of tourist outlets and the ensuing responsibility for the condition of the external environment. The policy, which is relevant internationally, for keeping natural tourist resources requires defining accurately and clearly and taking the responsibilities for exploiting them. With sole ownership of the outlets in the resort complex the responsibility is easy to define and requires the respective obligation in respect to the accepted directive in the policy. In the conditions of a centralized resort complex it is easy to apply programs that comply with the ultimate loading and renewal of natural resources, as well as with introducing “the carrying capacity” as a leading regulative instrument in managing the size and direction of tourist flows. The legal aspect needs to be included as a source of considerations in making concepts and strategies for the development of resort complexes, as well as in coming up with management schemes and political programs on micro- and macro-regulative level.

The start, set in the system analysis of resort complexes, needs to be developed further into a detailed and complete theory which should be updated in time, having in mind the dynamics of development of the phenomenon. Besides elaborating the studies that refer to the internal system of resort complexes, it is necessary to broaden the knowledge about their external interaction with social processes, their horizontal integration with the remaining economic activities, as well as their vertical subordination in the system of tourist and general national policy.

In theoretical aspect one can conclude that the defined features of resort complexes in their typological variety and in comparison with the remaining structural and organizational forms of producing tourist services carry significant cognitive potential. That is why an obligation for the science of tourism is to add and deepen
knowledge about them through differentiated studies, while the category of “resort complexes” can take an independent place as a subject for studies in the theory of tourism. Elaborating the knowledge about this phenomenon is a precious scientific ground for the managerial activity in the political, economic, ecological and other spheres of social relations.

The outlined above typological and structural characteristic of resort complexes forms a qualification set of tools applicable in investment projects – in choosing a certain structural-and-functional configuration, in operational activities – applying a certain scheme of management in the system, situational and factor analyses of their efficiency in the optimization processes. Elaborating the differentiated knowledge about resort complexes and applying it in practice increases the potential of tourist industry aimed at increasing the quality of the product and customer satisfaction which result into progressive economic development. Equally important is its significance also for making and implementing a tourist policy on behalf of the central and local authorities and performing their regulative functions which affect the revalorization of the natural tourist resources and the environment, social balance and in general the protection of public interests and sustainable social development.

RESORT COMPLEXES AS A SEPARATE CATEGORY
IN THE THEORY OF TOURISM

PhD student Dimitar Stoynov

Abstracts

The emergence of resort complexes in response to the growing demand for organized recreation on a global scale, introduces into tourist relations altogether new systemic states of high importance to tourist development in a number of aspects. On the other hand, according to the author, the science of tourism does not study in a differential manner the processes and phenomena occurring in them. That is why the present article is an attempt at outlining the main characteristics of the phenomenon “resort complex” by defining the concept and conducting a brief systematic and typological analysis of its manifestations, with a view to a further in-depth study and inclusion into the theory of tourism.

Keywords: resort complex, definition, typology, systems analysis, structure, functionality, differentiated category.
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