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Econ Lit – L 730, O 130, Q 530

FACTORS DETERMINING THE QUALITY OF PRODUCTS MADE FROM RECYCLED PAPER

Associate Prof. PhD Temenugа Stoykovа
Assist. Prof. Velichkа Marinova

Introduction

Paper and its derivative products play an important part in almost every aspect of human life. It is used as a printing and writing material, for storage and dissemination of information, but it can be further used as a wrapping paper, packaging material and for design purposes. Indeed, paper has an unlimited potential, particularly fiber paper materials which find valuable application in the cellulose and paper industry.

According to the preliminary statistics of the Confederation of European Paper Industry (CEPI), world production of paper and cardboard in 2013 increased by 1 %, with only a slight increase of 0,2 % in 2012. The total paper production of member states of the confederation amounted to 91 million tons in 2013, with paper and cardboard packaging having the largest share (45,9 %), whereas usage of recycled paper has risen by 0,5 %

The role of paper as a raw material for the paper industry seems to be steadily on the rise. Recycled fibers from waste paper (WP) constitute about 50 % of the fiber raw materials used in the production of paper and paperboard.

In Bulgaria only, the production of paper and cardboard for 2012 amounted to 218 000 tons, while collected waste paper for the same year amounted to 181 645 tons. As compared to other European countries, Bulgaria is reported to have a high level of waste paper usage – 70 % for 2012, in contrast to paper collection and recycling where the country is lagging behind. Over the period 2005 – 2012, collection of paper accounted for 35-46 %, while recycling of paper ranges somewhere between 30-57 %.

An ever growing demand for paper and paper-based products combined with a shortage of wood fiber resources, determines the need for an alternative supply of fiber raw materials. Among other alternatives, recycling seems to be a feasible solution.

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in providing an adequate substitute for the primary wood fibers. In the modern cellulose and paper industry, secondary fibers derived from waste paper exhibit a number of advantages as compared to the fresh fiber materials, such as low cost and energy requirements and contained negative impact upon the environment. This in turn explains their high degree of consumption and competitiveness with an increased emphasis on the quality of products made from secondary fiber raw materials and the need to improve said quality.

**The purpose** of the present study is to identify the main factors and their effect upon the quality of products made from recycled paper materials.

**Quality of products made from recycled paper materials**

The quality of manufactured products is an extremely important factor which impacts the business operations. Advances in the technical and technological level and quality of products is a necessary condition so that the company can meet its business objectives, become competitive and yield higher profitability. The quality of goods is a combination of their intrinsic properties and characteristics, underlying their suitability to meet existing or anticipated needs in accordance with their intended use, under certain conditions of use or exploitation. It is built alongside the product and is subjected to the influence of various factors.

Factors influencing quality are those impacts, conditions and circumstances seen in their totality and interrelatedness, which can induce a change in products composition, structure and characteristics. Owing to the impact of said factors and depending on the specifics of consumption, different consumer profiles can be outlined.

Paper recycling involves processing of paper and paperboard, aiming to recover its original properties and/or production of new paper-based products. Paper reveals a wide range of consumer properties which account for its quality even though these can be subject to certain reversible and irreversible changes during the recycling process. In the authors’ opinion, the main factors determining the quality of products made from recycled paper are as follows:

- **Grading of fiber raw material**: identification and classification; characteristics and composition of recycled paper;
- **Technological processes involved in paper processing**: standards on quality of fiber pulp made from recovered paper and type of end product; recycling technology; the processing cycle and its impact upon the quality of the final product, etc.;
- **Use of additives/additional substances**: composition, type and role played in improving the quality indices.

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Factors influencing the quality of products made from recycled paper

1. Fiber raw materials and their impact

Paper recycling usually involves sorting out recovered paper by grade or type in accordance with the European list of standard grades of waste paper and cardboard, recovered paper and board. During secondary processing, waste/recovered paper is separated into different groups and grades which are subject to specific recycling processes.

For the purposes of recycling, an overall classification of recovered paper is deemed necessary, i.e. to classify and determine its composition in order to improve its recyclable content and obtain a quality paper product. Classification is done following EU standard adopted by the European Paper Industry, which is also applied in our country (BSS EN 643:2003), aiming to systematize the great variety of waste/recovered paper types and outline categories further classified into groups of recyclable waste materials.

We hereby assume that adequate and quality sorting of paper stock and its proper identification and characterization would largely help researchers in their study of recyclable paper materials towards a higher quality end product, and save them a lot of energy and chemicals for production.

Degrading the quality of waste materials comes as a result of their multiple treatment and the increased content of contaminants in the secondary fiber. These contaminants contain various fibrous or non-fibrous components which have been introduced as inclusions in the paper composition during the process of fiber paper production.

Certainly, the characteristics and content of the secondary fiber pulp tend to influence the quality indices of the recycled product. Fibers contained in the waste paper (WP) manifest qualities different from those of the virgin fiber as they have undergone a mechanical and chemical treatment and ageing. In the opinion of some researchers these changes arise from the lowered values of the tear resistance indices, double bending, etc., due to the decreased bonding strength between the fibers of paper made of 100% secondary material as compared to paper made from primary/virgin fibers under otherwise equal conditions. In contrast, the indices for tear resistance, opacity and absorbency are several times higher.

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Moral and other authors argue that in order to maintain the quality of the end product it is necessary to elucidate on the relationship between fiber pulp and paper which implies characterization of fiber morphology, and pulp content. The above authors affirm that fiber length affects considerably the paper strength. On the other hand, the width of the fibers and the thickness of their walls can affect their flexibility and tendency to shrink (thickening) during the manufacturing process which in turn affects the final paper product and its properties. Fibers with thin walls shrink easily, and if used for making coated paper they tend to bond readily in the structure of the paper sheet making it denser, stronger and more uniform/smooth.

Some authors have proved that the anatomy and composition of fibers can be used as additional factors in assessing paper suitability for packing materials. According to Rozalinov study and analysis of the properties of output materials and their influence on the quality factors of produced packing material is crucial to the design, construction and choice of material from which paper packaging is made.

With the growing use of secondary fibers, it becomes even more important to study their effect on the properties of the resulting product. Decrease in the strength properties of the secondary product can be attributed to a change in the physical or chemical state on the fiber surface, which reduces the formation of hydrogen bonds. Other authors also report that recycled fibers can be more solid with reduced tendency to swell in water and are more likely to retain their shape. During examination of 11 types of fiber materials in Canada, Howard found that the recycling process and its impact is largely dependent upon the type of fiber material.

The low quality of waste paper is due to its large content of unusable materials such as non-paper ingredients and unwanted paper and board. Iosip, A. et al. have examined their influence on the recycled pulp made from different grades of waste paper, collected by the households. It was found that even a small quantity (3 – 5 %) of the brown packing paper and corrugated board can have a strong effect on the optical properties of de-inking paper, reducing its brightness (whiteness) and increasing the number and size of spots from brown fiber scales during a deinking operation (or paper


Articles

laundering) of waste/recovered paper from 1.11 group (newspapers: magazines 50:50%). With packing paper classified as group 1.04 (recovered corrugated board: other types of packing paper and board 70:30%), the higher content of writing and printing paper accounts for the so-called ash content and reduced mechanical strength of the recycled pulp.

The fiber paper content is an indicator of any paper type. To determine said content, one must identify the fiber components in the paper and paperboard, taking into consideration the origin of fibers. Research conducted by Radu and other authors found that by applying a qualitative and quantitative microscopic analysis it is possible to define the size of anatomical (or constituent) elements in a mass ratio and in this way prevent counterfeiting of products made from paper.

In view of the above analysis we can conclude that proper identification and characterization of recycling paper on the basis of its anatomy, morphology and composition will facilitate effective quality control of the secondary fiber pulp. Among basic properties which can be influenced are strength and density of the paper sheet. Furthermore, study of anatomical content could help prevent counterfeiting of paper products and enhance product design from recycled materials. The purer the raw material, the higher the quality of resultant products. The fibrous raw material has a strong influence upon the optical and mechanical consumer properties of manufactured paper and paperboard.

2. The Impact of Technological Processes

Characteristics of the fibrous raw material namely, its composition, morphology, performance and intended use determine the specific processing technology and the processes involved in it.

Paper recycling is a specific flow process in paper mills which involves treatment of recovered paper and recycling it into new paper and board or other paper-based products. The quality of newly produced paper products is greatly influenced by their cycle of recycling.

There is a limit to the number of times a piece of paper, a corrugated box or other paper materials can be recycled, but in practice, each time paper is reprocessed, the fibers become shorter which affects the overall performance characteristics of materials input into production. As a consequence, the quality of final products is also affected and virtually, after each processing cycle, waste materials tend to decline in strength. According to some authors, the recycled fiber is useless after being recycled


3 or 4 times since the quality of the fiber pulp severely deteriorates – practically speaking, the number of cycles to which a fiber from the reprocessed paper can be subjected is under 2. Venditti found that during a 5 cycle process of recycling in laboratory conditions, the mechanical properties of the cellulose fibrous pulp generally decrease, with about 8% after 0–1 cycle, and 10% after 1–5 cycles of treatment and more. In their study Puziryov and Kovaleva indicate that after the 5th recycling, the tear resistance index is most affected due to shortening of the average fiber length. In her work Stoycheva points out that the strength of recycled paper tends to go down by 20% with each successive cycle of processing together with paper hardness. According to Kovaleva, the flow sheet for treatment of waste pulp can be provisionally separated into three types: flow sheet for production of different grades of packing paper and board products; flow sheet for production of sanitary and household paper and production of paperboard and print and writing paper. Venditti treats newspaper production as a separate type.

Puziryov also argues that the technology of waste paper recycling is more complicated than treatment of the primary or virgin pulp as it contains a number of contaminants and other unwanted ingredients such as additives, fillers, coatings, etc. This suggests that the stage of preparation of the fibrous material for the recycling process should be very well planned. In this regard, some authors make it clear in their studies that the basic requirements when designing the technological process are as follows: removal of the maximum possible amount of foreign inclusions at the very start of the technological process: defibration (breaking the paper down into tiny strands of cellulose), rough sorting and cleaning; reducing the number of technological operations for the purpose of using a more effective equipment.

Depending on the type of recycled fiber products, the recycling process passes through different stages: defibration, grinding, refining, cleaning, screening, de-inking, dispersion, bleaching, pressing, drying, rolling, treatment of waste water and waste from production, etc.

Nazhad concludes that the impact of recycling upon fiber properties depends on defibration and the history of paper making. According to him, one of the negative impacts of recycling is impairment of the paper-forming/mechanical properties of paper.

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27 Puziryov, S., Kovaleva, О. Cit. works. p. 46.
and paperboard. The authors who have been involved in the study of the processes of paper recycling claim that major changes in the fibers have been observed during grinding and drying operations.

Following the effect of mechanical grinding, Lumiainen\(^34\) examines and identifies specific changes occurring in the cellulose fiber materials such as increase in the tensile strength and hardness of materials, better tear resistance and bursting strength. Depending on the materials’ origin, the tear strength of coniferous fibers initially improves to subsequently deteriorate while deciduous fibers at first exhibit a considerable tear strength which later declines due to prolonged grinding. The author also reports a change in other indices such as lower air permeability, volume, opacity, dispersion of light and slightly decreased whiteness.

Some researchers\(^35\) have arrived at the conclusion that pulp drying is responsible for the decline in paper strength. The hardening of the surface limits the binding of fibers, while internal curing reduces their agreement. Both effects may limit the compaction of the paper sheet and reduce its strength. Strength of recycled fibers recovered from corrugated board is influenced by the process of grinding, pressing, drying and other physical operations which affect and modify the porous structure of the cell walls of the fibers\(^36\).

The effect of recycling upon the properties of paper products varies in terms of the type and intended use of fibrous materials. Serious changes in the properties of fibers can be observed after their grinding and drying. If carefully prepared and conducted, the process of grinding will have a positive effect and increase the tensile strength, tear resistance and breaking strength of said materials. Also, proper monitoring of the process can reduce the negative impact upon performance characteristics such as air permeability, hygroscopic quality and whiteness. On the other hand, proper optimization of the pressing and drying processes can enhance material structure and limit the negative influence on the properties of final products, including paper strength and hardening of the paper surface.

The recycling process has a strong effect on paper tensile strength and the resulting paper products. On the basis of the above literary review we can conclude that regeneration of fibers is good until the third cycle.

3. Effect of chemical substances put in use

Many researchers have come to the conclusion that multiple treatment of secondary fiber pulp can affect negatively the paper forming properties and quality of paper, which is then subjected to various stages of refining. Particles from printing ink and


stickies (sticky materials like glue and adhesives) in the pulp can impair the quality of finished products and reduce the efficiency of the paper machine and because of that additional chemical bonding substances (CBS)\(^{37}\) need to be introduced. These substances have natural or synthetic origins which are meant to improve paper quality and facilitate the process of paper making. Various chemical bonding substances (CBS) find application in improving the properties of newly formed paper. Their use in the paper recycling process is mainly to increase the paper strength and enhance the process of de-inking.

It has been found that the addition of an amine functional polyvinyl alcohol at the wet end of the production of recycled paper products leads to the desired improvement of their strength under wet or dry conditions\(^{38}\). Zhang M. et al.\(^{39}\) managed to increase the strength of recycled unbleached kraft pulp by adding a few water soluble substances or a number of additives, whereas other researchers\(^{40}\) claim that pre-treatment using different chemical substances is able to compensate for the loss of strength. It is well-known that addition of low doses of poly-electrolytes containing amine functional groups to recycled kraft liner show a favourable effect on the tensile strength\(^{41}\). Chemical treatment through de-inking of mixed office waste paper results in better tensile strength and resistance using 10% succinic acid, 5% sodium dihydrogen phosphate\(^ {42}\). Adding cationic starch will significantly enhance the strength of sheet material from recovered corrugated cardboard and neutral sulphate polycellulose pulp\(^ {43}\). A team of researchers\(^ {44}\) found that the type of surfactants and cellulose enzymes used in the process can affect the whiteness, the index of contamination and de-inking. Oxidative enzymes\(^ {45}\)


can be used to enhance the quality of recycled fibers in terms of their strength and optical properties. These are seen as the eco-friendly alternative to the standard process of chemical de-inking of recycled paper as through their use demand for chemicals is lowered, production costs are reduced and negative impact on the environment is contained, while similar optical properties as with conventional deinking process are maintained. Lee C., at al. argue that proper regulation of enzyme hydrolysis is crucial for improving the quality of recycled paper. According to other authors, use of enzymes improves the quality of fibers and helps restore the lost strength in the recycling process. Bajpai et al. state that enzymes have the potential to resolve fiber recycling problems, such as de-inking, presence of sticky substances, the dehydrating quality of recycled fiber, defibration, etc. Literature review made by Puneet et al., summarizes the role of enzymes in enhancing optical properties of de-inked fiber materials.

Type and content of chemical bonding substances (CBS) is governed by the state and quality of raw material fed in production – its category, composition and degree of recycling. Use of small quantities of CBS seems to be one of the main factors influencing the quality of new paper products. Said substances improve process running and help change raw materials properties in the manufacturing of products with specific function and design. Various chemical substances also have a positive influence upon the optical and strength properties of fiber materials and their quality characteristics.

**Conclusion**

Optimization of the activities involved in the collection and sorting of waste paper, which aim to ensure the highest quality of secondary fiber pulp and overcome the deficiencies of the technological process of recycling, upgrade of technologies and use of CBS are among the key factors which help obtain final products with desired properties.

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Factors which influence the quality of products made from recycled paper have been identified according to the type of fiber material, technological process and CBS put in use. The latter’s impact upon the properties of recycled material and quality of paper-based products has also been summarized. It was established that these impacts are interrelated and dependent upon the specifics of the paper recycling processes represented as waste paper – chemically bonded substances (CBS) – technological treatment – quality of the finished product. The purer the recycled paper, the more efficient its processing will be and the less the amount of additional substances to be used in the process. Changes in fiber strength are observed during the processes of mechanical grinding and drying, whereas the optical and strength properties of fiber material are enhanced by inclusion of small quantities of CBS. Interplay of the above-mentioned factors contribute to the formation of a set of consumer properties of the final products.

FACTORS DETERMINING THE QUALITY OF PRODUCTS MADE FROM RECYCLED PAPER MATERIALS

Assist. Prof. Velichka Marinova
Assoc. Prof. Dr Temenuga Stoykova

Abstract

The quality of products from recycled paper materials is determined by factors, which upon their interaction contribute to the formation of a complex of consumer properties of the end-products. The underlying factors are in a state of interconnectedness and interdependence formed by the peculiarities of the processes of recycling paper. The relation can be presented as follows: waste paper – supplementary chemical substances – technological processing – quality of the end-product. The degree of purity of paper, its composition and rate of recycling, the technological stages of milling and drying as well as the adding of small amounts of HBs contribute in the highest degree to improving the strength and optical properties of the products from recycled paper materials.

The objective of the present article is to identify the main factors and the effect they have on the quality of products from recycled paper materials.

Keywords: quality, recycling, factors.
ISSUES OF THE ECONOMIC EFFICIENCY OF SECTOR TRADE IN BULGARIA

Chief Assist. Prof. Dr Miglena Dushkova

Introduction

In recent years in Bulgaria intensive changes take place as a result of the running economic, political, social and other processes. They create a number of favourable conditions for the restructuring and modernization of trade. On the other hand, the statistical accountability of the main economic indicators, reflecting the state of sector trade show fluctuations. This constitutes a problem for the future development of trade and objectively determines the necessity for a systematic study of the economic activity of the sector in view of its capabilities for achieving higher economic results and rising efficiency.

The objective of the present article is to study certain trends and issues of the development of efficiency of sector trade in Bulgaria, by tracing changes in the main indicators of assessing economic efficiency.

In order to achieve that objective it is necessary to perform the following tasks:
1. First. To point out and clarify the application of the main indicators of economic effects and efficiency of trade.
2. Second. To trace changes in the main economic effects and on this basis to calculate some of the more important indicators of economic efficiency of sector trade in Bulgaria.
3. Third. To sum up some of the more significant issues and guidelines for raising economic efficiency of sector trade in Bulgaria.

The object of study is economic sector G “Trade; repair of cars and motorcycles”, which is presented in accordance with NCEA 2008 of Republic of Bulgaria.

The object of study are the issues, connected with increasing economic efficiency.

1. Main indicators of economic effect and efficiency

The issues connected with the efficiency of trade are the object of study and attract serious scientific interest on the part of our authors. A comprehensive system of indicators for assessing economic efficiency in Bulgarian economic literature was developed and tested for the first time by Prof. Salova (Salova, N., 1978). The issues of efficiency find their place in the scientific work of other authors as well (Kovacheva and Stamenova, 1985).

1 Until 2008 the title of sector G was in accordance with NCEA 2003 of Republic of Bulgaria, namely “Trade, repair and maintenance servicing of cars and motorcycles, personal items and household goods”.
In the specialized literature efficiency is viewed as the expression of the effectiveness of commercial activities from the use of resources and expenditures, and manifests itself in two main areas - economic and social (Salova, N. and V. Dimitrova, 2002). Economic efficiency is based on the main economic outputs, whereas social efficiency is orientated mainly towards buyers and visitors in the outlets (Salova, N., 2010) and is connected with the conditions of serving consumers, the time spent shopping and other social effects, which can hardly be measured quantitatively (Dimitrova et al., 2013). The indicators of efficiency can be summarized also in the context of the issues of the economics of the enterprise (Blagoev et al., 2010).

The study of efficiency requires that there be made a distinction between effect and efficiency, since in their essence these concepts represent different economic categories. The effect in trade is the result of commercial activity, which is usually expressed in absolute indicators, whereas efficiency is expressed through the calculation of relative indicators (Salova et al., 2011). There have been adopted the following more significant indicators for the assessment of the economic effect of commercial activity: profit; turnover; added value; gross revenue (Salova et al., 2002).

The amount of profit is taken as the principal indicator for determining the economic result of commercial activity. It is generalized and is subject to the development of other indicators, since profit reflects the volume and structure of sales, the amount of gross revenues and added value, the cost of the turnover of goods, the productivity of labour, etc. Therefore, profit as an indicator of economic effect is applicable both at the micro and macro level and is monitored by the National Statistical Institute.

The determination of profit is done on an annual basis as the difference between “total operating income and total operating expenses” and along with them it is entered in the profit and loss statement, which is one of the constituent parts of the annual financial statement of the enterprise\(^2\). For business enterprises profit is the basis for determining their economic efficiency, since it is largely on its size that the potential for the future development of enterprises depends.

The study of the profit at macro level is also of great significance and it is conditioned mainly from the point of view of taxation, since the tax base for determining corporation tax is tax profit. So the increase of profit in the trade sector leads to raising the fiscal effect in the state. The rate of corporation tax in Bulgaria is 10 per cent\(^3\) and is a favourable prerequisite for the entry of foreign companies, since the former is the lowest in the European Union.

Turnover is another indicator for measuring economic effect, it being the volume of sales, non-inclusive of value added tax, but with excise tax included. The indicator is applicable to the assessment of economic efficiency at the micro and macro level, and just like profit, it is monitored by the National Statistical Institute.

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The importance of turnover as the first and direct indicator of the performance of commercial activity by the enterprises is monitored daily, since turnover forms revenues and secures the realization of profit. Unlike profit, the turnover of business enterprises is reported not only annually, but also monthly, which allows us to make generalizations for shorter periods of time (month and quarter based). Such a study at the macro level is extremely important, as it is the basis for making projections, it provides information on the development of other indicators as well as interdependencies in the economy of the country. For example, profit-tax-state budget, etc.

The significance of turnover is determined also by the possibility to calculate the indicator market share of enterprises through it. This, in turn, provides information on the development of the individual commercial enterprises and can also be used as the basis for the development of forecasts, strategies, possibilities for raising competitiveness, etc. Nevertheless, it should be borne in mind that rising turnover is a factor for rising revenues and profit only when income covers costs. Therefore, efficiency does not depend only on the amount of the realized turnover and the indicator cannot be fundamental in determining economic efficiency.

Added value is another indicator of economic effect, which expresses the newly created value. It is obtained by subtracting the cost of materials, services, depreciation, etc. from the amount of gross revenues, i.e. the added value at the micro level reflects the labour that has been input in material production, since in it have been included the cost of labour (salaries, other compensation, social insurance, bonuses) and profit, provided the enterprise has made any. From that viewpoint added value in a given enterprise is a source of funds for the company and a basis for distributing the remuneration of the people employed. This, on the other hand, imposes some restrictions on the use of the indicator for assessing the economic efficiency of the enterprises, owing to the fact that the distribution of income constitutes revenue for the persons employed, but it constitutes cost for the enterprises. That is why added value has greater importance as an indicator for measuring the efficiency at the micro level in the cases when the commercial activity is carried out by sole traders, for whom income and profit are the same thing. The restrictions on the application of added value as an indicator of economic effect at the micro level are conditioned also by the impossibility for enterprises to determine the actual amount created in them.

For the national economy added value is a major indicator for assessing economic efficiency, since it is used in the calculation of GDP according to the production method and measures the contribution of the individual economic sectors to the creation of GDP through the added value realized by them. Because of this, added value as an economic indicator is significant and applicable mostly at the macro level and is used as a major indicator for determining the productivity of the entire sector. The added value is monitored by the National Statistical Institute through specialized methodological surveys, which require the assessment of the gross production realized in the sector, since the latter is used as the basis for the computation of the gross value added. As an indicator the realized gross production provides information on the total result of the commercial activity in the sector and depends on the volume of turnover, which is why rising turnover is a major factor for the increase in gross production. This, in turn,
is the basis for the formation of higher gross added value, and hence for ensuring a bigger share for the sector in the formation of the GDP of the country.

The gross income of commercial enterprises is determined as the difference between the net amount of the revenues from sales and the book value of the goods sold. In it there is also incorporated the size of the rendered commercial services, which gives some advantages to this indicator in comparison with turnover, although the latter presupposes it. For that reason gross income reflects the volume of the conducted commercial activity better than turnover and is a suitable indicator for assessing the effectiveness of the individual commercial enterprises, as well as comparisons between them, irrespective of the structure of their turnover. In this way gross income, along with the significance of being an indicator for determining economic effect, can also be used as an indicator for measuring social effects.

The significance of gross income as an economic indicator is conditioned by the fact, that it is the basis for determining the profit of the enterprises, its amount being expected to cover also all costs incurred. The gross revenue is monitored by the National Statistical Institute and reflects the value of all revenues, which is why its value is higher than that of turnover.

In summing up it can be said that the indicators profit, turnover, added value and gross revenue are the basis for determining economic efficiency both at the micro, and at the macro level. Of primary importance to enterprises are turnover and profit, whereas for assessing the economic contribution of the sector the most important indicator is gross added value.

The achievement of high economic effects and rising efficiency is ever more difficult to attain. Because of that it is necessary to seek opportunities for increasing economic efficiency not only of the individual enterprises, but also of the entire sector, since its development exerts favourable influence on the economy of the country and the standard of living of the population (Данчев и Гроздева, 2010). This objectively justifies the study of the main economic indicators of sector trade, which provide information on its efficiency.

2. Development of the main economic indicators of sector trade

The present work considers some of the more important indicators for assessing the economic efficiency of sector trade in Bulgaria for the period 2005-2012.

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises (number)</td>
<td>123,740</td>
<td>122,586</td>
<td>127,443</td>
<td>125,115</td>
<td>143,258</td>
<td>141,075</td>
<td>138,010</td>
<td>138,642</td>
</tr>
<tr>
<td>Chain index (prev. yr=100, %)</td>
<td>100</td>
<td>99.1</td>
<td>104.0</td>
<td>98.2</td>
<td>114.5</td>
<td>98.5</td>
<td>97.8</td>
<td>100.5</td>
</tr>
</tbody>
</table>
Upon analyzing the commercial enterprises in terms of the number of persons employed, it becomes clear that the predominant part of them develop as micro enterprises (around 94 %), whereas large enterprises are under 1 %. This is an expression of the low level of concentration in domestic trade.

On the other hand, through calculating the chain index it is seen that during the period 2006 - 2008 the medium-sized and the large commercial enterprises develop more steadily in comparison with micro enterprises. The main reason for that is the accession of Bulgaria to the European Union in 2007 and the intensive entry of large foreign trading companies in this country. This is a favourable trend, since prerequisites are formed for the development of economic effects such as turnover and profit, but

| Number of enterprises with up to 9 persons employed | 116,415 | 115,016 | 119,493 | 116,773 | 134,634 | 132,709 | 129,753 | 133,294 |
| Chain index (prev. yr=100, %) | 100 | 98.8 | 103.9 | 97.7 | 115.3 | 98.6 | 97.8 | 102.7 |
| Number of enterprises with 10 to 49 persons employed | 6,684 | 6,843 | 7,133 | 7,439 | 7,706 | 7,466 | 7,386 | 6,606 |
| Chain index (prev. yr=100, %) | 100 | 102.4 | 104.2 | 104.3 | 103.6 | 96.9 | 98.9 | 89.4 |
| Number of enterprises with 50 to 249 persons employed | 598 | 677 | 759 | 833 | 850 | 827 | 804 | 764 |
| Chain index (prev. yr=100, %) | 100 | 113.2 | 112.1 | 109.7 | 102.0 | 97.3 | 97.2 | 95.0 |
| Number of enterprises with 250 or more persons employed | 43 | 50 | 58 | 70 | 68 | 73 | 67 | 65 |
| Chain index (prev. yr=100, %) | 100 | 116.3 | 116.0 | 120.7 | 97.1 | 107.4 | 91.8 | 97.0 |

the latter can not cause a rise in efficiency, which is a problem. Since 2009 the number of enterprises has been decreasing due to the crisis (with the exception of micro enterprises), which shows the ineffective use of the commercial infrastructure and decreasing efficiency, despite the running processes of modernization in the sector.

Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Persons employed by economic activity</th>
<th>Persons employed in “Trade; Car and motorcycle repair”</th>
<th>Average list number of legally employed persons in sector “Trade; Car and motorcycle repair”</th>
<th>Persons employed in trade working under labour and official legal relation</th>
<th>Self-employed persons or owners of commercial business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>thousand</td>
<td>thousand</td>
<td>chain index (in %)</td>
<td>in % of the total number</td>
<td>%</td>
</tr>
<tr>
<td>2005</td>
<td>3495.3</td>
<td>479.8</td>
<td>100</td>
<td>13.7</td>
<td>312.3</td>
</tr>
<tr>
<td>2006</td>
<td>3612.0</td>
<td>500.0</td>
<td>104.2</td>
<td>13.8</td>
<td>336.8</td>
</tr>
<tr>
<td>2007</td>
<td>3726.7</td>
<td>522.3</td>
<td>104.5</td>
<td>14.0</td>
<td>367.9</td>
</tr>
<tr>
<td>2008</td>
<td>3814.6</td>
<td>536.6</td>
<td>102.7</td>
<td>14.1</td>
<td>396.9</td>
</tr>
<tr>
<td>2009</td>
<td>3749.3</td>
<td>555.5</td>
<td>103.5</td>
<td>14.8</td>
<td>411.5</td>
</tr>
<tr>
<td>2010</td>
<td>3603.9</td>
<td>557.1</td>
<td>100.3</td>
<td>15.5</td>
<td>396.5</td>
</tr>
<tr>
<td>2011</td>
<td>3524.6</td>
<td>542.2</td>
<td>97.3</td>
<td>15.4</td>
<td>386.9</td>
</tr>
<tr>
<td>2012</td>
<td>3436.4</td>
<td>524.3</td>
<td>96.7</td>
<td>15.3</td>
<td>374.9</td>
</tr>
</tbody>
</table>


The data in Table 2 indicates that the persons employed in sector “Trade; Car and motorcycle repair” grew from 479.8 thousand in 2005 to 557.1 thousand in 2010, and after that decreased. That trend is the result of the reduced total number of enterprises in 2009 and 2010, as shown in Table 1. At the same time a rise is observed in the share of the persons employed in the sector, in relation to the total number of the persons employed in the economy of the country, and from 13.7 % in 2005 they reached 15.3 % in 2012. This indicates the growing importance of sector trade. Still there remains the inauspicious fact, that the sector registers a steady fall in the number of persons employed from 2009 to 2012, there being a considerable increase in the number of people who have been made redundant (nearly 37,000 people).
Another trend which is observed is the lower entrepreneurial interest in the sphere of trade, since the number of owners of commercial businesses is falling. From almost 35% in 2005 the percentage of the self-employed persons fell to 25.9% in 2009, and then rose by 2-3%, i.e. the prevalent share of persons employed (over 72%) are employed under labour relationships. This is largely due to the creation of new jobs by the big trading companies, which have entered Bulgaria and the formation of preferences among the working population for receiving a salary instead of taking the risk of being owners of businesses. Such retail chains are Metro, Billa, Penny Market, Lidl, Kaufland, Carrefour, OMV, SHELL, Mr. Brikolage, Praktiker, etc. Some of the foreign trading companies in this country are developing under the franchise system, which not only creates new jobs, but also provides greater prospects for the development of private enterprise among the working population. In spite of that and especially under the influence of the crisis after 2008, there is observed an ever growing limitation of the actual opportunities for local development and entrepreneurship in the area of trade.

Table 3

Output of sector “Trade; Car and motorcycle repair” in Republic of Bulgaria for the period 2005-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added value (mln BGN)</td>
<td>4,693</td>
<td>5,851</td>
<td>5,786</td>
<td>6,817</td>
<td>6,738</td>
<td>7,219</td>
<td>7,976</td>
<td>8,234</td>
</tr>
<tr>
<td>Structure (in %)</td>
<td>44.9</td>
<td>47.9</td>
<td>40.0</td>
<td>44.6</td>
<td>49.7</td>
<td>48.4</td>
<td>48.0</td>
<td>49.2</td>
</tr>
<tr>
<td>Intermediate consumption (mln BGN)</td>
<td>5,763</td>
<td>6,362</td>
<td>8,694</td>
<td>8,467</td>
<td>6,806</td>
<td>7,687</td>
<td>8,634</td>
<td>8,493</td>
</tr>
<tr>
<td>Structure (in %)</td>
<td>55.1</td>
<td>52.1</td>
<td>60.0</td>
<td>55.4</td>
<td>50.3</td>
<td>51.6</td>
<td>52.0</td>
<td>50.8</td>
</tr>
<tr>
<td>Gross output (mln BGN)</td>
<td>10,456</td>
<td>12,213</td>
<td>14,480</td>
<td>15,284</td>
<td>13,544</td>
<td>14,906</td>
<td>16,610</td>
<td>16,727</td>
</tr>
<tr>
<td>Chain index (in %)</td>
<td>100</td>
<td>116.8</td>
<td>118.6</td>
<td>105.6</td>
<td>88.6</td>
<td>110.1</td>
<td>111.4</td>
<td>100.7</td>
</tr>
</tbody>
</table>


The data in Table 3 indicates that during the period 2005-2012 gross output possesses growth potential, but with certain fluctuations in particular years. In terms of structure the formation of gross production is mainly secured by the value of intermediate consumption, and during the entire period under study it constitutes over 50%. This shows a high share of value created by other economic sectors and carried over into sector trade.

Most substantial is the rise in added value, which during the period 2005-2012 has registered an almost double increase, but also with fluctuations in particular years. It is advantageous still, that after 2009 the development of the indicator characterizes
trade as a sector, which manages to realize growing added value in the economy of the country. This is mainly due to the increased volume of turnover, which is surveyed in Table 4.

Table 4

Turnover in sector “Trade; Car and motorcycle repair” in Republic of Bulgaria for the period 2005-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Total in mln BGN Including</th>
<th>Wholesale trade</th>
<th>Retail trade</th>
<th>Trade in cars, spare parts, fuels and lubricants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mln BGN</td>
<td>chain rate in %</td>
<td>structure in %</td>
<td>mln BGN</td>
</tr>
<tr>
<td>2005</td>
<td>53,734</td>
<td>38,674</td>
<td>119.3</td>
<td>72.0</td>
</tr>
<tr>
<td>2006</td>
<td>64,123</td>
<td>45,528</td>
<td>117.7</td>
<td>71.0</td>
</tr>
<tr>
<td>2007</td>
<td>74,618</td>
<td>50,298</td>
<td>110.5</td>
<td>67.4</td>
</tr>
<tr>
<td>2008</td>
<td>89,373</td>
<td>60,153</td>
<td>119.6</td>
<td>67.3</td>
</tr>
<tr>
<td>2009</td>
<td>76,772</td>
<td>52,295</td>
<td>86.9</td>
<td>68.1</td>
</tr>
<tr>
<td>2010</td>
<td>80,625</td>
<td>57,211</td>
<td>109.4</td>
<td>71.0</td>
</tr>
<tr>
<td>2011</td>
<td>88,941</td>
<td>64,024</td>
<td>111.9</td>
<td>72.0</td>
</tr>
<tr>
<td>2012</td>
<td>90,586</td>
<td>65,124</td>
<td>101.7</td>
<td>72.0</td>
</tr>
</tbody>
</table>


The turnover in sector “Trade; Car and motorcycle repair” is generally growing throughout the period under study and is 1.7 times as high in 2012 in comparison with 2005. It should be noted that in 2009 a significant decline was reported. The greatest is the decline in the trade in cars, spare parts, fuels and lubricants. It is clear that, on the whole, the importance of this sub-sector of trade decreases in the formation of the total turnover.

The structure of turnover shows that wholesale trade takes the highest share in the total turnover (over 70%), and this share decreases over the years, on account of the share of retail trade, which grows from 15-16% in 2005 to 22-23% in 2012, i.e. there is observed restructuring of turnover. Such a process shows the growing role of retail trade and a high degree of satisfaction of the end consumers, and this is a prerequisite for the realization of higher turnover and profit.

From the data in Table 5 it is seen that the income, expenditure and profit develop unsteadily. The calculation of chain indexes during the period 2005-2012 shows that income and expenditure are highest in 2006 and 2008, which is the result of the economic growth of the country during this period, as well as of the broadening influence of European trade in Bulgaria. In 2009 a decrease in income, expenditure and profit is observed, the greatest being the shrinking revenues in the sector. The main reason for that is the effect of the world crisis.
Table 5

Economic results in sector “Trade; Car and motorcycle repair” in Republic of Bulgaria in current prices for the period 2005-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Income*</th>
<th>Expenditure**</th>
<th>Efficiency based on income per 100 BGN expenditure</th>
<th>Profit</th>
<th>Efficiency based on profit per 100 BGN expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mln BGN</td>
<td>Ch. index (in %)</td>
<td>mln BGN</td>
<td>Ch. index (in %)</td>
<td>income x 100 expenditure</td>
</tr>
<tr>
<td>2005</td>
<td>54,888</td>
<td>100</td>
<td>53,288</td>
<td>100</td>
<td>103.0</td>
</tr>
<tr>
<td>2006</td>
<td>65,532</td>
<td>119.4</td>
<td>63,173</td>
<td>118.6</td>
<td>103.7</td>
</tr>
<tr>
<td>2007</td>
<td>76,600</td>
<td>116.9</td>
<td>72,864</td>
<td>115.3</td>
<td>105.1</td>
</tr>
<tr>
<td>2008</td>
<td>91,118</td>
<td>119.0</td>
<td>86,863</td>
<td>119.2</td>
<td>104.9</td>
</tr>
<tr>
<td>2009</td>
<td>77,602</td>
<td>85.2</td>
<td>75,892</td>
<td>87.4</td>
<td>102.3</td>
</tr>
<tr>
<td>2010</td>
<td>82,674</td>
<td>106.5</td>
<td>81,025</td>
<td>106.8</td>
<td>102.0</td>
</tr>
<tr>
<td>2011</td>
<td>90,957</td>
<td>110.0</td>
<td>89,319</td>
<td>110.2</td>
<td>101.8</td>
</tr>
<tr>
<td>2012</td>
<td>96,625</td>
<td>106.2</td>
<td>94,391</td>
<td>105.7</td>
<td>102.4</td>
</tr>
</tbody>
</table>


The data from Table 5 allows us to use the cost principle in determining the efficiency of sector trade. The calculations show that expenditures have been used most effectively in 2007 and 2008, after which their efficiency decreases. This is due to the higher rate of development of expenditure with respect to income in the sector.

As regards profit it is observed that in absolute value the latter is highest in 2008, but most profitable are the costs in 2007. This shows that after 2007 costs in the sector are used with decreasing efficiency, which is unfavourable. At the same time the amount of costs continues to grow and despite the registered rise in revenues in 2012, the sector is still in stagnation. Actually the efficiency of the costs in 2012 is at the level of the crisis years 2009 and 2010, which objectively determines the necessity for the search for reserves in reducing the amount of costs in the entire sector. The difficulties in achieving growing efficiency and profitability are determined also by the limited possibilities for increasing turnover and revenues in view of the on-going effect of the crisis.

The data in Table 6 allow us to use the resource principle in determining of the efficiency of sector trade. Due to the fact that profit is a major indicator for assessing the economic efficiency of the individual commercial enterprises, and added value is

* Includes net sales revenues and other revenues from operating activity.
** Includes the cost of raw materials, materials and hired services, personnel costs, book value of financial assets and other operating activity costs.
most important as an indicator of the economic growth of the entire sector, those are used as the basis for determining efficiency and labour productivity. The study of these two indicators of efficiency is of paramount importance, since they are among the underlying factors forming possibilities for real economic growth.

The data from Table 6 indicates that during the period 2005-2012 the efficiency of labour develops in a less stable manner in relation to productivity. This is a result of the increase in costs, as indicated in Table 5 and confirms the need to search for reserves in order to reduce those in the sector.

Productivity is growing, which is mainly due to the increase in the volume of work in trade. Nevertheless, productivity is not high enough, since comparisons between the realized gross added value, on average per person employed in sector trade, compared to that in the entire service sector, show lower values. At the same time we should acknowledge the fact that the data in Table 6 (the last column) indicates that trade provides a considerable percentage of the added value realized in the entire service sector, which is between 18% and 20%. This, on the one hand, shows the growing economic role of sector trade, but on the other hand there are problems in its capacity to achieve a higher level of productivity and efficiency, despite all the advantages of the realized process of restructuring and modernization of trade in Bulgaria.
3. Major issues and guidelines for raising the economic efficiency of sector trade

The change in the main economic indicators, connected with the economic efficiency of sector trade, gives us reason to generalize on the following more important issues:

One of the most important issues is the absence of a greater number of large commercial enterprises, which, being major organizational units in trade, should ensure rising volumes of turnover and profit, and on the other hand, employment and income to the population. Despite the increasing number of commercial enterprises, commercial business is still micro business, which in itself shows a low level of concentration and renders it difficult to achieve higher economic efficiency. Also the main part of the large commercial enterprises in Bulgaria are foreign, which means that the profit realized by them is distributed outside the borders of the country and this also limits the possibilities for attaining higher economic efficiency of the sector.

In this perspective it is advisable that there be concluded a greater number of international franchising agreements for carrying out trade in this country. One of the most important advantages of international franchising in connection with efficiency is that in this form of trade, part of the realized profit remains in the country as profit for the franchisee. In this way there can be achieved more economic effects, since there will be incentivised private enterprise. Here the role of the state is particularly important. For instance, through tax legislation, which sets the lowest corporation tax in the European Union. This is a prerequisite for the expansion of retail chains in this country, but on the other hand, in terms of business environment, Bulgaria continues to lose ground, according to the index “Conditions for doing business” in the Doing Business rankings of the World Bank. This determines the need for strengthening the role of the state for the creation of more stable conditions for doing business and the provision of incentives for private enterprise.

Another suitable guideline for raising the economic activity of the sector is offering more Bulgarian production in the large foreign chains through the introduction of a quota for Bulgarian goods, and in this way stimulating local production. The offering of foodstuffs of seasonal production can also be provided by local producers in the chains. In this way besides stimulating the economy, the transportation cost of the import of goods from abroad are decreased, which is a factor for the overall cost cutting in the sector.

With respect to productivity in sector trade there, too, are some problems. Studies of the Institute for Market Economy show that labour productivity in Bulgaria is the lowest in the entire European Union and in contrast with it – the fast growth in the cost of labour conditions the low level of competitiveness, hence the low level of efficiency. This requires that possibilities be sought for improving the qualification of the people employed and a greater orientation of investments in contemporary technology,
which would allow raising the productivity of labour as well as that of all the other economic and social effects, which can be obtained from the use of labour in commercial activity. In this respect there ought to be strengthened the role of education as a key factor for a growing economic effect through profiling training in secondary schools. This is particularly important in view of the falling interest in private enterprise in trade, i.e. the sector will increasingly develop as one of the main employers in the country, in response to which the role will grow of the acquired specialization during secondary education and the training of personnel in accordance with the need for hiring commercial workers. In connection with raising the productivity and the labour efficiency of the people employed, it is suitable to develop the possibilities for contemporary forms of stimulating labour and their application in view of raising turnover and profit.

As regards revenues in sector trade, one might say that, on the whole, they are on the rise as a result of the increased volume of turnover, both in retail trade, and in wholesale trade. The observed rise is mainly due to the broadening of the market presence of foreign retail chains in this country and the building of new and modern commercial outlets such as malls, shopping centres, supermarkets, hypermarkets, etc. This is connected also with the introduction of a number of novelties in the realization of the organization and technology of commercial activity, which is a strength of the development of trade as a whole. In this way there are preset opportunities for expansion of competitive advantages in the entire sector, hence also for boosting efficiency.

One issue, however, is the large share of expenditure in the sector, which makes it difficult to achieve higher rise in efficiency. Furthermore, one should keep in mind the involvement of many middlemen in wholesale trade, which is signified by its considerably higher relative share in the total turnover of trade. This, as a result, leads to the increase in the end price of goods and services. The solution to the problems in this perspective (reducing the number of individual units) can be sought in the more rational use of distribution channels and in the reduction of logistics costs. To that end there should be a more accelerated use of the specialized management information systems for management and control of commercial activity, ensuring cuts not only in costs, but also in the time for accomplishing the trade cycle.

**Conclusion**

Based on the analysis presented in this work, it can be summed up that the main issue in the development of economic efficiency of sector trade is the large amount of cost. The reasons for that are conditioned by various circumstances, which are greatly influenced by the unstable economic situation in the country. In this connection the principal threat facing the development of the sector is the crisis, whereas the greatest weakness is the fact that Bulgaria takes the last places in the international rankings of economic growth. The most important thing for raising economic efficiency is the use of all possibilities to increase added value. Therefore there should be sought directions for expansion and development of sector trade as an economic structure, which succeeds in realizing growing added value.
ISSUES OF THE ECONOMIC EFFICIENCY OF SECTOR TRADE IN BULGARIA

Chief Assist. Prof. Dr Miglena Dushkova

Abstract

The present article clarifies the main indicators of economic effects of trade which are used as the basis for the calculation of economic efficiency. There is conducted a study of the more important economic effects such as turnover, profit, added value and gross output of sector trade during the period 2005-2012. There are also studied indicators like number of commercial enterprises and number of persons employed, through which there is revealed important information on the state of economic efficiency of sector trade in Bulgaria. On this basis the work provides the opportunity to track changes in the development of the main economic effects of sector trade and to reveal the more important issues of its economic efficiency.

Keywords: trade, effect, economic efficiency, turnover, profit, added value, gross income, gross output.
OPTIMIZING THE LEASING ACTIVITY OF THE CONSTRUCTION ENTERPRISE

Chief Assist. Prof. Dr Velina Yordanova

Introduction

The actual economic conditions in which enterprises function are characterized by constantly growing competition and dynamically changing environment. This creates ever growing requirements and challenges for each enterprise, including construction enterprises, with which they have to cope in order to survive under these conditions. All this determines the need to seek and apply effective methods for renovation of equipment and facilities and change of fixed assets as objects of the various forms of ownership. One of these methods is the lease, which provides better financing terms.

Leasing is one of the most widespread forms of investment in fixed assets in many European countries and in the USA. Despite its popularity in this country, this form of financing is not yet widely used. One of the main reasons for that is the insufficient awareness of local entrepreneurs of the nature and peculiarities of this kind of financing (Чапаров, 2011:136). In the present study the author adopts the definition given below, according to which leasing is defined as: „An agreement, bound with a contract, according to which one party, the owner of a certain fixed asset, called lessor, gives the right to its use to the second party to the deal, called lessee, in return for fixed payments for a limited period of time, after which the lessee may become the owner of the object of the leasing deal“ (Encyclopedia of Economics, 2005:404).

The main kinds of lease, recognized in the global practice, are the finance and the operating lease. Each one of these kinds of lease has its advantages and disadvantages (Чапаров, 2011:248) and having in mind the peculiarities of the Construction sector, in certain cases it is necessary to use both kinds. However, in the present study we have introduced a limitation and have moved towards a discussion of the finance lease.

The objective, which the author sets in the study, is to propose a method for the optimization of the leasing activity of the construction enterprise – one of the fundamental issues, connected with the use of the lease.

In order to achieve this objective we have set and solved the following tasks:

• proposition of an economic and mathematical model for optimization of the lease payments of the construction enterprise;
• approbation of the model in order to demonstrate the economic effect of its application.
1. Economic and mathematical model for optimization of the lease payments

In the present study the author broadens the scope of the lease and views this concept as a special kind of financial lease. Such an approach is prompted first and foremost by the realities of the practice. With this adopted approach we will discuss one of the possible schemes of the lease:

- a bank provides the lessor with credit;
- with the amount received under the credit the lessor acquires the object of the lease from a certain supplier;
- the lessor provides the right to use the object of the lease to the lessee (the construction enterprise);
- the lessee periodically pays to the lessor the leasing instalment and after the completion of the lease agreement with the construction enterprise the former can buy the object of the lease on residual value;
- the lessor repays his obligations under the credit by the bank and pays the respective tax.

Let’s assume the lease agreement covers \( n \) periods. Let us fix some unit for measuring time and assume that the points in time \( T_i \) are known, determining the term of completion of the \( i \)-th period (since the beginning of the operation of the lease agreement). For simplicity of statement we assume that it is precisely in these points in time \( T_i \) that the financial operations connected with the lease agreement are carried out.

The construction enterprise – at the point in time \( T_i \) – pays to the lessor the subsequent lease payment, and the lessor repays the part of the credit with the bank, including the respective interest rate, and pays his tax liabilities. The amount of the latter depends on the lease payments, which are governing parameters for the process under study. The incorrect choice of the leasing payment leads to unjustified increase in the tax deductions. Let the lessor in each individual period of time receive a certain sum of the incoming lease payments in the form of remuneration, which is transferred in the beginning of the operation of the contract. Essentially, it is about discounting the amounts being received: if \( \delta \) is the income at point \( T_i \), then it is equivalent to the amount \( \delta e^{-rT_i} \), received at the initial point in time \( T_0 = 0 \), where:

\[ r = \text{constantly accrued risk-free rate of the lessor}. \]

The lease payments are assessed by the construction enterprise in the same manner.

The task consists in planning the lease payments in such a way that:

a) the construction enterprise effects minimum total transferred lease payments at fixed constantly accrued risk-free percentage rates \( R \) of the lessor;

b) all the requirements on the repayment of the lessor at every moment in time \( T_i \) are calculated i.e. no exceeding of costs over income is allowed, besides there is the possibility to use unspent funds from preceding periods;

c) the transfer of the due remuneration \( \sigma \) to the lessor is necessarily guaranteed;

d) the lease payments are nonnegative.

With the mathematical formalization of the model, the income on added value
isn’t taken into consideration for simplicity reasons (it can be assumed, for instance, that it is transferred immediately). All costs of the lessor will be divided into two groups: costs dependent on the amount of lease payments, and costs, which are not dependent on the latter. In the first group we will include turnover tax and profit tax.

Let \( x_i \) be the lease payments of the lessee to the lessor at the point in time \( T_i \); \( \theta \) – tax rate on turnover (\( 0 < \theta < 1 \)), i.e. the turnover tax, paid for lease payments \( x_i \) amounts to \( \theta x_i \).

All costs from the second group are divided into two constituent parts: \( \alpha_i \) – costs included in profit tax, paid for the point in time \( T_i \); \( \beta_i \) – cost for the point in time \( T_i \), which are not included in profit tax (for instance, repayment of part of the credit); \( d_i \) – the depreciation of the object of the lease, included in profit tax, paid for the point in time \( T_i \) (this value does not depend on the amount of the lease payments).

With the symbols set above the amount of profit for the \( i \)-th period can be computed using the formula

\[
\gamma_i = x_i - \theta \kappa_i - \alpha_i - d_i - \sum_{j=1}^{i-1} k_j (\gamma_j)_+, \tag{1}
\]

where:

- \((\gamma)_+ = \max\{0;\gamma\}\)
- \(k_i\) – nonnegative coefficient, the meaning of which consists in the following: it is clear that profit can be achieved in the cases of nonnegative \( \gamma \), otherwise losses are generated amounting to \( (-\gamma) \). These coefficients \( k_i \) set, on the one hand, the registering of profit for the \( i \)-th period, the losses for the \( j \)-th period and are subject to the following conditions:

\[
k_{i,j} = 0, \quad i = 1, j, \quad \sum_{i=1}^{j} k_{i,j} \leq 1.
\]

Let us assume the rate of profit tax is \( t \) (\( 0 < t < 1 \)). Then the income of the lessor for the \( i \)-th period can be calculated using the formula

\[
\delta_i = x_i - \theta \kappa_i - \alpha_i - \beta_i - t(\gamma_i)_+, \quad i = 1, n. \tag{2}
\]

Now the condition of the problem can achieve the following form:

\[
\min_i \sum_{i=1}^{n} x_i e^{-\delta_i}, \tag{3}
\]

\[
\sum_{j=1}^{i} \delta_j \geq 0, \tag{4}
\]

\[
\sum_{i=1}^{n} \delta_i e^{-\sigma i} \geq \sigma, \tag{5}
\]

\[
x_i \geq 0, \quad i = 1, n. \tag{6}
\]
We introduce supplementary symbols for \( \forall i = 1, \theta \):

\[
a_i = \frac{\alpha_i + \beta_i}{1 - \theta},
\]

\[
b_j = \frac{(\alpha_i + d_i)}{1 - \theta},
\]

\[
c_i = e^{-\theta}, \quad v_i = e^{-\alpha_i},
\]

\[
g_i = \frac{\gamma_i}{1 - \theta},
\]

\[
s = \frac{\sigma}{1 - \theta}.
\]

As a result of the introduced symbols the problem (3)-(6) becomes:

\[
\min: Z = \sum_{i=1}^{n} c_i x_i \quad \text{(7)}
\]

under the following conditions:

\[
g_i = x_i - \beta_i - \sum_{j=1}^{n} k_i (\gamma_j),
\]

\[
\sum_{j=1}^{n} [x_j - \alpha_i - t(g_j),] \geq 0, \quad \text{(8)}
\]

\[
\sum_{j=1}^{n} v_j [x_j - \alpha_i - t(g_j),] \geq s, \quad \text{(9)}
\]

\[
x_i \geq 0, \quad (i = 1 \pm n). \quad \text{(10)}
\]

We will note that \( c_i, v_i, s \) are positive values, the coefficients \( c_i \) and \( v_i \) are subject to the condition of monotony, i.e.:

\[
c_{i+1} < c_i, \quad v_{i+1} < v_i.
\]

In addition to that, the conditions are met:

\[
\sum_{i=1}^{n} a_i \geq \sum_{i=1}^{n} b_i,
\]

which follow the natural requirement

\[
\sum_{i=1}^{n} \beta_i \geq K_0 - K_n,
\]

where \( K_0 \) is the book value of the object of the lease, \( K_n \) – residual value of the object of the lease and

\[
K_n = K_0 + \sum_{i=1}^{n} d_i.
\]

In order to simplify the appearance of the problem (7)-(11) we introduce the supplementary nonnegative variables \( y_i \), designating through them the sum in the left side of the inequalities (9):
Hence it follows that
\[ x_i - a_i - r(g_j)_* = y_i - y_{i-1}, \quad i > 1, \]
and (10) will become:
\[ v_i y_i + \sum_{i=1}^{n} v_i (y_i - y_{i-1}) \geq s. \]
Let us assume \( z_i = v_i - v_{i-1} = 1 \) at \( i = 1, n \) and \( z_n = v_n \). Then the above inequality will become:
\[ \sum_{i=1}^{n} z_i y_i \geq s. \] (13)

Since the participating non-linear elements are of a special nature, then by introducing additional variables it is possible that the model be reduced to a linear one. It is well-known that there are finite and accurate methods for finding solution to linear models (Атанасов, Николаев, 2012). For that purpose we introduce the nonnegative variables \( u_i \) and \( v_i \), characterizing the profit and loss of the lessor for the \( i \)-th period, respectively assuming \( g_i = u_i - v_i \) and the following requirement:
\[ u_i v_i = 0, \] (14)
The equations (14) are known as a condition for complementarity (Lenke, 1999). Then
\[ u_i v_i = (g_i)_+ v_i = (-g_i)_+. \]

By realizing the respective substitutions in (9) and (12), we obtain linear restrictions regarding the variables \( x_i, y_i, u_i, v_i \), but conditions for complementarity must be present (14). Thus the model will be transformed and will become:
\[ \min : \sum_{i=1}^{n} c_i x_i \] (15)
under the conditions:
\[ \sum_{j=1}^{i} x_j - \sum_{j=1}^{i} u_j - y_j = \sum_{j=1}^{i} a_j, \] (16)
\[ -x_i - u_i - \sum_{j=1}^{i} b_j y_i + v_i = b_i, \] (17)
\[ \sum_{i=1}^{n} z_i y_i \geq s, \] (18)
\[ x_i \geq 0, \quad y_i \geq 0, \quad u_i \geq 0, \quad v_i \geq 0 \quad (i = 1 + n), \] (19)
It is demonstrated that from the optimal solution of the problem of linear optimization (15)-(19) the values of the variables $x_i$ of the model (7)-(11) are readily determined (Osadchij, Shmyrev, 2002:115).

Practice shows that leasing companies usually arrange lease payments in such a way that they are able to cover their running costs, connected with the leasing agreements. In the article “Расчет лизинговых платежей исходя из потока денежных средств” V. Shtelmah proposed a method for determining lease payments, which later on became known as the “stream of financial resources” method (Штельмах, 2000:7). The advantage of this method consists in its adequacy to the applied tax legislative practice in many European countries, whereas its disadvantage lies in conditions for increasing the sum of the lease payments.

For the case being discussed, the proposed model can be solved with the method „stream of financial resources“, whereby it is assumed that

$$\sigma_i \geq 0, \quad x_i \geq 0, \quad i = 1 + n,$$

where $\sigma_i \geq 0$ is the remuneration set in advance, received by the lessor in the $i$-th point in time. In our view, despite the series of advantages, this method does not always allow us to obtain optimal solutions. Let’s for instance consider the case where the number of lease payments is $n = 2$ (two-period lease), being limited only to the case of $\sigma_i = 0, \ i = 1, 2, \sigma = 0$, i.e. the lessor works „in vain“. Let us again assume that

$$\sum_{i=1}^n a_i = \sum_{i=1}^n b_i.$$ 

If the number of lease payments is small, then the condition (20) allows for the transformation of the model (15)-(20) in 2^n problems of linear optimization. Let’s present the problem (15)-(20) for the case under study, i.e. when there are only two lease payments:

$$\min_{u,v} : u_1 - v_1 + e^{-RT}(u_2 - v_2 + ku_1)$$

subject to:

$$v_1 - u_1 \leq b_1,$$
$$v_2 - u_2 - kv_1 \leq b_2,$$
$$(1-t)u_1 - v_1 \geq l_1,$$
$$(1-t)(u_1 + u_2) - (1-k)v_1 - v_2 \geq 0,$$
$$(1-t)u_1 - v_1 + e^{-RT}(1-t)u_2 - v_2 + kv_1 \geq p,$$
$$u_i \geq 0, \ v_i \geq 0, \ i = 1, 2,$$
$$u_i v_i = 0, \ i = 1, 2,$$
where \( l = a_i - b_i, \ T = T_2 - T_1, \ k = k_{21}, \ p = l_1 + e^{-\delta T} l_2. \) The lease payments themselves are calculated by means of the equations:
\[
\begin{align*}
&x_i = u_i - v_i + b_i, \\
&x_2 = u_2 - v_2 + b_2 + k v_1.
\end{align*}
\]

In the case under study the income of the lessor will be determined by means of the formulas:
\[
\begin{align*}
&\delta_1 = (1 - \theta) \{(1 - t) u_i - v_i - l\}, \\
&\delta_2 = (1 - \theta) \{(1 - t) u_2 - v_2 + k v_1 - l_2\}.
\end{align*}
\]

Four combinations of the complementary variables \( u_i \) and \( v_i \) are possible:
\[
\begin{align*}
&u_i = 0, \ v_i \geq 0, \ u_2 \geq 0, \ v_2 = 0, \\
&u_i > 0, \ v_i = 0, \ u_2 > 0, \ v_2 = 0, \\
&u_i > 0, \ v_i = 0, \ u_2 = 0, \ v_2 > 0.
\end{align*}
\]

It is not difficult to establish that a solution of the model (15)-(20) cannot be achieved in the case of the combinations \( u_1 = 0, \ v_1 > 0, \ u_2 = 0, \ v_2 > 0. \)

It is most interesting to consider the situation, in which the conditions \( u_1 = 0, \ v_1 \geq 0, \ u_2 \geq 0, \ v_2 = 0, \) are met, which is possible only in the case when \( l \leq 0 \) (we will note that the inequality \( l \leq 0 \) excludes the possibility for the existence of a solution under other combinations):
\[
\begin{align*}
&\min_{u_i, v_i} -(1 - k e^{-\delta T}) v_1 + e^{-\delta T} u_2 \\
&- v_i \geq l_1, \\
&- (1 - k) v_i + (1 - t) u_2 \geq 0, \\
&- (1 - k e^{-\delta T}) v_1 + e^{-\delta T} (1 - t) u_2 \geq p, \\
&u_2 \geq 0, \ v_i \geq 0.
\end{align*}
\]

The solution of this problem is determined:

a) under \( R > R_f \) at point \( U_1^* \) with components
\[
\begin{align*}
&v_i(U_1^*) = -l_1, \ u_2(U_1^*) = \frac{(1 - k) l_1}{1 - t}; \\
&x_i(U_1^*) = a_i, \ x_2(U_1^*) = b_2 = \frac{(1 - k) l_1}{1 - t};
\end{align*}
\]

b) under \( R < R_f \) at point \( U_2^* \) with components
\[
\begin{align*}
&v_i(U_2^*) = 0, \ u_2(U_2^*) = 0; \\
&x_i(U_2^*) = b_i, \ x_2(U_2^*) = b_i;
\end{align*}
\]
c) under $R = R_f$, for each point of the segment $\{U^*_1, U^*_2\}$, where the threshold value of the lessee’s rate is calculated using the formula (Штельмах, 2000):

$$R_f = \frac{1}{T} \ln \frac{1 - k t}{1 - t}.$$  

The point $U^*_1$ corresponds to the method „stream of financial resources“, since in this point the income of the lessor for each period is equal to zero: $\delta_i = 0$, $i=1,2$. In point $U^*_2$ the income for the first period is equal to $\delta_i = -(1 - \theta) l_i \geq 0$, and for the second $\delta_i = (1 - \theta) l_i \leq 0$.

The transition from point $U^*_1$ to point $U^*_2$ corresponds to the inequality of the first payment with the quantity:

$$\Delta x_1 = x_1(U^*_2) - x_1(U^*_1) = -l_i \geq 0$$

and a reduction of the second with the quantity:

$$\Delta x_2 = x_2(U^*_2) - x_2(U^*_1) = l_i \leq 0.$$  

Under this scheme the amount of the transferred payments will change by

$$\Delta x_1 + e^{-\theta t} \Delta x_2 = -[1 - e^{\theta t - R_f t}] l_i.$$  

This amount is negative on condition that $R < R_f$ and consequently in this case the transition from $U^*_1$ to $U^*_2$ is inexpedient and the refusal to use the method „stream of financial resources“ is economically justifiable.

2. Approbation of the model

We will consider an example, which has above all illustrative character, without any claims to seek correspondence of tax rates with the effective regulations. Rather, the example is meant to demonstrate what the economic effect of rejecting the method „stream of financial resources“ would be.

We will consider a point, which does not generate losses ($\sigma = 0$, $t = 1,2$, $\sigma = 0$). Let the price of the object of the lease be $K_0 = 1$ mln BGN. The object of the lease is recorded under the fixed assets of the lessor as of 01.07.2014 in point of time $T_0$. The contract expires on 31.12.2014. The annual rate of depreciation is 10% at an acceleration coefficient equal to 3. The property is transferred to the lessee on 31.12.2014 on residual value of BGN 875,000. The effective annual percentage rate is 10% and its repayment for each quarter is accomplished according to the clauses set in the contract. The entire amount of the credit is refunded to the bank after the final completion of the credit agreement. Let the rate of profit tax be $t = 30\%$. The total rate of turnover tax is $\theta = 4,1\%$. The depreciation of the property for the first quarter is $d_1 = 50$ 000 BGN, for the second $d_2 = 75$ 000 BGN. The value of the property until the beginning of the second quarter is $K_1 = 950$ 000 BGN. The rate of property tax is 2\%. The
property tax for the first and second quarter is the same and is equal to BGN 2,375. After repayment of the credit under the agreement, the bank is refunded the amount of BGN 1 mln. The first repayment coincides with the second and is equal to BGN 25,000. The losses from the first quarter are only partially included in the cost price of production from the second quarter ($\alpha = 20\%$).

The quantity $\alpha_i$ includes the repayment of the credit from the bank and the property tax: $\alpha_i = 27,375$ BGN, $i = 1, 2$. The quantity $\beta_i = 0$ BGN, whereas $\beta_i$ is equal to the difference between the credit deposited with the bank and the residual value paid up by the lessee: $\beta_i = 125,000$ BGN. Then $\alpha_i = 28,545.36$ BGN, $\alpha_i = 158,888.47$ BGN, $b_1 = 80,683.00$ BGN, $b_2 = 106,751.82$ BGN.

The inequality $l_i < 0$ is valid and therefore the solution is realized in the region: $u_1 = 0, v_1 \geq 0, u_2 \geq 0, v_2 = 0$. The lease payments, corresponding to point $U_1^*$ are: $x_1 = 28,545.36$ BGN, $x_2 = 176,765.22$ and their sum is: BGN 205,310.58. Point $U_2^*$ has components $x_1 = b_1$ and $x_2 = b_2$. The lease payments, corresponding to point $U_2^*$ are equal to: $x_1 = 80,683.00$ BGN, $x_2 = 106,751.82$ BGN, and amount to a total of BGN 187,434.82. The increase of the first lease payment to the quantity BGN 52,137.64 will lead to the formation of a balance in the account before the second leasing instalment, amounting to BGN 50,000. As a result of this the lease payments upon the transition from point $U_1^*$, corresponding to the method „stream of financial resources“, to point $U_2^*$ decrease to BGN 17,875.76.

**Conclusion**

On the basis of the conducted study we could sum up that the lease is an important source of financing for enterprises. The mechanisms of the lease allow construction enterprises – lessees to acquire assets and to increase their production capacity under favourable financial terms. Therefore the lease is an effective tool for optimizing the cost of developing the equipment and facilities of a construction enterprise. Its application furthers the realization of investment projects in a period of limited lending, which provides the enterprise with the opportunity to carry out effectively its production and economic activity.

The economic and mathematical model presented herein is conducive to optimizing the leasing activity of the construction enterprise. This model allows property developers to make the best decisions and to implement them, and in so doing to achieve optimal results from the production and economic activity of the enterprise.

**Bibliography**


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**OPTIMIZING THE LEASING ACTIVITY OF THE CONSTRUCTION ENTERPRISE**

Chief Assist. Prof. Dr Velina Yordanova

**Abstract**

The lease is an important source for financing the enterprise. The leasing mechanisms allow for construction enterprises to acquire assets and to increase their production capacity under favourable financial terms. Therefore the lease is an effective tool for optimizing costs connected with the equipment and facilities of the enterprise. In the present article the author proposes an economic and mathematical model for optimizing the leasing activity of the construction enterprise, which allows it to take well-grounded and effective management decisions.

**Keywords:** leasing activity, optimization, construction enterprise.
CONDITIONS FOR SUSTAINABILITY OF THE ORGANIZATION’S COMPETITIVE ADVANTAGE

Chief Assist. Prof. Veselina Maksimova

The term „competitive advantage” is pivotal in strategic management literature. The scientists’ pursuits in this area have a large scope – ranging from attempts to define and measure the advantage, through its resources to the set of attributes which generally presupposes its presence, and its sustainability for a longer period. The striving for conserving an organization’s competitive advantage is an exceptional challenge in the conditions of a highly dynamic environment. Thus major significance is put on the question of necessary and sufficient conditions, to which the sources of competitive advantage should be able to respond in order to guarantee its sustainability. Studying the sustainability conditions calls for the definition of the latter at that, with the necessary respect to the requirements for dynamism, coming from the external environment.

The purpose of the present article is to study, systematically analyse and generalize the existing opinions in science about the conditions providing sustainability of an organization’s competitive advantage. In view of the fulfillment of the set objective the following tasks have to be carried out.

1. To review the prerequisites for sustainability and draw out a definition for “sustainable competitive advantage”;
2. After surveying the scientist opinions about the set of attributes for advantage sustainability, to come out with the necessary and sufficient attributes for the competitive advantage availability and protection, respectively its “sustainability”.

The subject of scientific interest is the sustainability of companies’ competitive advantage and the conditions which ensure it. The object of study is organizations looked at as “goals-directed social entities, designed as intentionally structured and coordinated activity systems, linked to the external environment” (Daft, 2007).

1. Theoretical conditions for the existence of sustainability and defining “sustainability”

The issue of sustainable advantage raises controversial disagreements in scientific opinions on different aspects, among which the ones related to: (1) existence of sustainability at all; (2) defining sustainability;

The existence of sustainability is a subject of scientific dispute between proponents of traditional economic theory and researchers in the field of strategic management. Whereas the former try to explain that advantages cannot be sustained (stay for a longer period), the latter analyse what conditions are needed for their

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1 The advantages are viewed namely on the level of „organization”, but not in marketing aspect – on the level „product”.
implementation. The traditional economic theory postulates claim that on a highly competitive market the advantage of a specific participant would be short-term. The economists think that any advantage, gained from a participant would be rapidly identified and copied by the rest and that would provide a long-term competitive equality.

Dennis Mueller is one of the first scientists whose research seeks the answer of the question whether the advantage would prove to have longer duration than the traditional economic theory presumes. He divides a sample of 472 companies in eight categories, on the basis of their results in 1949, after studying the impact of initially registered company results on the subsequent figures (Mueller, 1977). Traditional economic theory hypothesis would be that all companies in the sample would **draw their result figures nearer** to the average values for the sector. However, this hypothesis is not confirmed in Mueller’s research. The findings show that companies with good results in the past tend to keep their good performance in the next period, whereas those with unsatisfactory past results tend to maintain this performance for a future period, as well.

Geoffrey Waring further develops Mueller’s study explaining the reason why the competitive advantage in specific industries lasts longer than in other industries. Waring finds out (Waring, 1996), that companies operating in industries which (1) are characterized with „information complexity”, (2) insist on customer’s wide range of competences concerning the product use, (3) require more research and development activities and (4) generate significant economies of scale, are more likely to possess sustained competitive advantage than companies operating in industries which lack the above mentioned characteristics.

Amit and Shoemaker offer a more generalized explanation of sustainable gained advantages without limiting the conditions to specific industries only. They attribute their expectations for company differences to (1) imperfections of the resource market, as well as to the fact that (2) the managerial decisions concerning resource development and utilization are influenced by personal considerations. This predetermines the **differences in resources and expertise** which specific companies possess and control. Likewise, this asymmetry, in authors view may be a source of **sustained economic annuity** (Amit and Shoemaker, 1993).

The findings of the quoted research provide arguments for the fact that advantages could be sustainable. However, different researchers interpret **sustainability definition** equivocally. Before reviewing their standpoints we will pay attention to the meaning of the word given in the general, as well as specialized business dictionary.

Oxford Advanced Learner’s Dictionary defines the word „sustainable” as „that can continue or be continued for a long time”\(^2\). A specialized business dictionary defines the concept “sustainable competitive advantage” as “a long-term competitive advantage that is not easily duplicable or surpassable by the competitors”\(^3\).

There are two points to consider in the above mentioned definitions: (1) the **long-term character** of the advantage (as calendar time) and (2) **it is difficult to**
copy or surpass it by competitors. In order to understand the extent to which these points exist in researchers definitions we will study and compare the ones which are most often cited and used by other scientists.

The term “sustainable competitive advantage” emerged in 1985, when Porter put forward the core competitive strategies (low-cost leadership or differentiation), which companies can adhere to if they want to gain a sustained competitive advantage in a long-term aspect. Despite using the concept, Porter does not offer any formal conceptual definition.

Although Coyne does not offer a formal definition either, he promotes the understanding of the concept by saying that „in order to possess a sustained competitive advantage consumers have to distinguish between the company product and the one offered by its rivals. The advantage is sustained when the competitors either could not or would not undertake actions to close this gap.” (Coyne, 1986).

Part of the authors focus on the long-term nature of results, irrespective of conditions needed to keep them for a longer period. So, Flore Bridoux stipulates that under the term “sustained competitive advantage” she understands “a competitive advantage which continues for a long period of time.” The approach suggested by Porter in 1985, is used by many authors, including later studies as the ones of Acquaah (2003) and Wiggins and Ruefli (2002)⁴.

Barney opposed to the use of calendar time for defining sustainability and thinks that “the advantage is sustained only on condition that it continues its existence after the competitors’ attempts to copy it cease.” (Barney, 1991). So Barney adds the sustainability attribute to his definition that “a company possesses a competitive advantage when it is implementing a value creating strategy, not simultaneously being carried out by any of its current or potential competitors. The latter relates to the condition that “competitors should not be able to duplicate the benefits of this strategy”. In this conception the author also assimilates the conclusions of other researchers (see also Lippman and Rumelt, 1982) and perhaps is the first to come nearest to the formal definition of the term “sustainable competitive advantage”.

In addition to Barney’s definition, the viewpoints of Bharadwaj, Varadarajan and Fahy add another opportunity to gain advantage: „The competitive advantage can be a result of either an implementation of value-creating strategies which at the same time have not been carried out by any current or potential competitor, or through the same strategy to outperform the competition” (Bharadwaj, Varadarajan and Fahy, 1993). In that way the definition comprises the concept that the strategy implementation manner also has a determining role regarding the end results (advantage, equality, lagging behind).

Despite the long-term being Potrer’s point of departure, his idea about sustainable advantage leads also to the answer of the question how fast an idea can be copied (imitated). The choice of a unique position in the sector is not sufficient to guarantee

⁴ The two authors claim that the time frame, determining the advantage sustainability may vary in different sectors because of variables which are specific for the particular sector such as duration of product lifecycle, protection of patents, protection of copyrights, etc.
a sustainable advantage. The winning position instigates the competitors to attempt to imitate it. The strategic position cannot be sustainable, unless, by choosing it, we refuse another position, Porter explains. The compromise is necessary when activities required for implementing one or other position are incompatible [.....] If the compromise is not necessary, there will not be a need for choice. Every nice idea can and will be rapidly copied. (Porter, 1996).

To sum up the reviewed attempts for definitions of sustainable advantage, we would adhere to the formal definition which Hoffman (2000) works out, namely “Sustainable competitive advantage is a continuous benefit of implementing some unique, value-creating strategy which at the same time has not been applied by any current or potential competitor along with the inability to duplicate the benefits of this strategy.”

The above mentioned definition is considered sufficiently summarizing and consensual because of the following characteristics:

(1) It contains the concepts of both the time frame, where the advantage manifests itself (“prolonged benefit”), as well as the difficulty in copying it (“inability to duplicate benefits”);
(2) The expression “a strategy that has not been applied” is sufficiently summarizing and may encompass the different reasons for which the competitors have not done it:
   ✓ They cannot implement the same strategy (Barney)
   ✓ They could but do not undertake actions to implement the winning strategy (the nuance added in Coyne’s formulation)
   ✓ They apply the same strategy but not in such a good way (Bharadwaj, Varadarajan and Fahy) and consequently cannot “duplicate its benefit”.

2. Conditions for sustainability of the advantage

Although the majority of advantage definitions include sustainability as its inherent characteristic (or the advantage would not have had its nature if it did not imply sustainability)⁵, neither theory, nor practice exclude the cases of “temporary advantage”. In other words – sustainability is never guaranteed only by presence of advantage. In order to provide sustainability certain attributes are required. They are exactly the subject of our interest in the present article.

Sustainability is most often rendered dependent on the nature of advantage resources. One of the principle comprehension of resource approach is that not all resources are equally important and do not possess the same potential to be sources of sustainable competitive advantage.

Different authors formulate in various ways the attributes which the resources should possess in order to obtain sustained advantage. In table 1 we compare the

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⁵ The advantage is regarded as returns, which “constantly exceeds the industry sector average” (Almanac of competitiveness), and is related to “better financial long-term returns” (Ghemawat and Rivkin, 1999), it is defined as “sustained above the normal returns” (Peteraf, 1993), it is stipulated that the strategy which helps to attain it should not be followed either by current or potential company competitors (Barney, 1991).
viewpoint of most cited authors about the set of attributes needed for sustainable advantage. A view on the table as well as the insight into the scientists’ interpretation of every definition indicates a similar set of attributes among different authors.⁶

Table 1

Attributes providing sustainability of competitive advantage

<table>
<thead>
<tr>
<th>Barney</th>
<th>Teece, Pisano, Shuen</th>
<th>Grant</th>
<th>Collins, Montgomery</th>
<th>Amit, Schoemaker</th>
</tr>
</thead>
<tbody>
<tr>
<td>value</td>
<td>Replicability (inside the company)</td>
<td>Strategic value ⁷</td>
<td>Compliance with the strategic factors for the sector</td>
<td></td>
</tr>
<tr>
<td>rarity</td>
<td></td>
<td>Competitive advantage</td>
<td>scarcity</td>
<td></td>
</tr>
<tr>
<td>difficult/costly imitation+lack of substitutes</td>
<td>Degree of imitability</td>
<td>Degree of imitability + degree of transparency + degree of transferability</td>
<td>Non-imitability + non substitutes</td>
<td></td>
</tr>
<tr>
<td>With organization support</td>
<td>durability (continuously in time))</td>
<td>Control on resources (appropriation of its advantages)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The resource value is related to value creation – it has to possess value or contribute to its creation. Value, according to Barney and Hesterly has reference to the fact whether the respective resource contributes to making use of opportunities and/or neutralizes the threats coming from the external environment (Barney & Hesterly, 2006). The condition „to be in line with the strategic-sector factors”, which Amit and Shoemaker include in their list with eight criteria, has similar meaning, namely – the set of resources and company capacity have to be applicable to the specific

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⁶ In Barney’s list the attributes sequence is logically justified – each next attribute for advantage sustainability is made pointless if the former one is not present. Thus, we choose the above proposed sequence of attributes as leading, and arranged the lists of other authors attributes which provides comparability in table rows.

⁷ The authors consider creation of value as interaction between demand conditions, scarcity of resources and company ability to control resource (the attributes in the final table row) - see Collins & Montgomery, 2008.
environment conditions where they operate (Amit & Shoemaker, 1993). „The resource value is determined by their interaction with market forces”, Collis and Montgomery (2008) pointed out. It cannot be studied in isolation from the conditions of the particular sector and the specific time period.

Failure to meet the condition for resource value deprives an organization of the ability to create value. Barney, as well as Fahi (2000) highlights that even if the resource fits other conditions, it is not a potential-advantage resource if it does not aid value creation.8

Another attribute discussed by Teece, Pisano and Shuen (1997), is placed in the first row of the table. Replicability9 (inside the organization) the authors relate to the ability of resource to be utilized in various organizational processes. In our opinion, this “adds to the “value” of the resource. Being used in various processes the respective resource aids making use of different capabilities, arising from the environment (the way Barney interprets the meaning of “value”).

Though a specific resource may be valuable, however, if plenty of current or potential competitors possess it, it may be capable of neither competitive nor sustainable advantage (Barney, 1991), i.e. the resource has to be rarely exposed.10 At the same time Barney emphasizes that the resources which do not comply with the second criteria should not be discarded as useless. Resources which are valuable and possessed by many competitors are significant although they provide competitive equality, not advantage.

The resources complying with the above mentioned two conditions are capable of sustainable competitive advantage only if the competitors that do not possess them are not capable of gaining them. Namely the degree of imitability is the criterion which finds its place in all researchers’ lists (see row three in table 1). Barney, Lippman and Rumelt called these resources “incompletely (or wrongly) imitable”, whereas Collis and Montgomery – inimitable. Amit and Shoemaker introduce the attribute of inimitability, and as a benefit to the limited capability of gaining resources add the conditions ”to be difficult to trade them” and to have “limited substitutability”. The condition to be complementary (to other resources) also reduces the competitors’ capability when imitating one of the resources to “imitate” also its advantage in case they do not possess the complementary product. In addition to the immutability degree, Grant includes the degree of resource transparency and transferability among “the characteristics which are vitally significant sustainability determinants” (Grant, 1991). The last ones, in our opinion, influence exactly the resource imitability, which again indicates its significance for the sustainability of the advantage.

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8 Fahi, and many other authors (Collis and Montgomery, Amit and Shoemaker, Grant) pay attention to the necessity to possess capability for resource benefits appropriation (appropriability). Once the resource value has been obtained the key question is: who is it meant for? Who makes use of it? Value is a target of interest for many involved parties –consumers, suppliers, staff, shareholders, government, etc. The condition considered by the cited authors is that companies should be able to avoid dispersion of obtained added value and turn it into profit.

9 „replicability” in the original.

10 In Amit and Shoemaker list the criterion with similar meaning is “scarcity of resources”.

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The last attribute which Barney and Hesterly include in the VRIO-model created by them, concerns the organization elements. The last should “support and create conditions for complete utilization of valuable, rare and difficult to imitate resources and capabilities owned by the company” (Barney & Hesterly, 2006). The note the two authors made concerning the organizational elements is that “they solely are not capable of sustainable advantage”. They are called “complementary” resources because they cannot create advantage separately without other resources.

The researchers’ concept about the necessary and adequate attributes is synthesized in the VRIO-framework created by them (table 2).

### Table 2

<table>
<thead>
<tr>
<th>Resource</th>
<th>Valuable Value</th>
<th>Rarely Met Rarity</th>
<th>Difficult to Imitate Inimitability</th>
<th>With Organizational Support</th>
<th>Competitive Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>..........</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>yes</td>
<td>Competitive disadvantage</td>
</tr>
<tr>
<td>..........</td>
<td>yes</td>
<td>-</td>
<td>-</td>
<td>yes</td>
<td>Competitive parity</td>
</tr>
<tr>
<td>..........</td>
<td>yes</td>
<td>yes</td>
<td>-</td>
<td>Temporary advantage</td>
<td></td>
</tr>
<tr>
<td>..........</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>Sustained advantage</td>
<td></td>
</tr>
</tbody>
</table>

According to Barney & Hesterly (2006)

In accepting the logic of the model which is well illustrated by the table above we can draw the conclusion that the first pair of attributes (resources have to be valuable and rarely met) are necessary but not adequate for creating a sustainable competitive advantage. The requirement that the resource has to be inimitable or difficult to copy is a key attribute for sustainability of a certain advantage.

Nearly all of the following conclusions and attempts to formulate a set of attributes for sustainable advantage bring to the fore the difficulties to imitate resources that help its creation.

Peteraf suggests “an alternative” model for the way the companies gain a sustainable competitive advantage, discussing four conditions, which have to be fulfilled in order to create such advantage. (Peteraf, 1993): (1) superiority of resources (heterogeneity within the industry), (2) limitations at the exit (ex poste limits to

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11 The first letters of the English words for value, rarity, imitability and organizational support.

12 As organizational elements which support advantage, researchers point out the formal system for company accountability, the formal and informal control mechanisms, the system of rewards, etc.
Articles

competition) – the competitors should not be able to achieve same results (profitability), (3) imperfect resource mobility, (4) limitations for competitors at the entrance (ex ante limits to competition). The latter suggests imperfections on the resource market.

Thus, on the basis of resource approach, Peteraf formulates a set of conditions which encompasses part of the attributes which Barney stipulates. Heterogeneity is the attribute which has a leading impact in Peteraf model. It means difference in relation to resource possession („rarity” in Barney model), but it is only a prerequisite, necessary condition for advantage. The rest are reviewed by the author of the model as “protecting” the result (ensuring sustainability), achieved thanks to the first condition. It can easily be noted that the second and third conditions from Peteraf’s model are highly relevant to the attributes of difficulty in advantage imitability and limitations in competitors’ capabilities to achieve it (including the case of imperfect resource mobility).

3. Factors influencing the imitability degree

Highlighting imitability degree as a key condition for sustainability of the advantage, the interest is turned to the factors which influence imitability. There are three attributes which separately or in combination can determine incapability to imitate resources (Barney, 1991). They are objects of theoretical postulates and empirical checks by scientists who are interested in sustainability of the advantage. They concern the following:

(1) the resource has to be acquired in unique historical conditions – depending on the time and place we are located at. Collis and Montgomery (1995) also pointed out that everything which has happened in the process of resource acquiring is for the benefit of resource inimitability (path dependency);

(2) an existence of causal ambiguity between the source of competitive advantage (capability) and the advantage itself. Reed and DeFillippi (1990) point out that such ambiguity of the relation „capabilities - results” exists when capabilities are hidden, difficult to identify (highly tacit), very complex and result from accumulated, specific activities for the company.

(3) to be characterized with “social complexity”, which is difficult to yield to systematic impact.13

Research done by scientists in the Massachusetts Institute of Technology aiming at finding out what makes 6 out of 70 automobile companies different from the rest14, is considered one of the most significant tests about the degree of which the historical conditions, causal ambiguity and social complexity of attained resources influence the ability to achieve and protect the competitive advantage. (Womack, Jones, Roos, 1990, cited Barney & Hesterly, 2006). The research shows that the distinguished success made by the six companies depends on “socially complex” relations among staff

13 Such socially complex phenomena may be the relationships between managers, company culture, company reputation among clients and suppliers, etc.
14 These six companies for the research period have simultaneously very low costs and extremely high quality.
members, between staff and implemented technology, and between staff and the company they work for.

In search of the factors which determine the degree of resource imitability and the advantages achieved through them, Dierickx and Cool (1989) introduce the term “reserve assets”. The latter is the result of a continuously conducted and consistent company policy. What is characteristic of those is that they cannot be effectively accumulated in a limited time by competitor firms. The two authors point out that exactly such non-tradable assets are able to create sustainable competitive advantages. They develop and accumulate in the company itself, and the fact that they are inimitable is explained precisely with the above factors: causal ambiguity, social complexity, or the fact that they are created as a result of particular company history and the specific processes of organizational study.

The significance of various resources for competitive-advantage sustainability is a subject of researchers’ interest and some authors have their “favourite” ones. The role of the “organizational knowledge” is increasingly being emphasized for company’s competitive-advantage sustainability (Narasimha, 2000). Bartlett and Ghoshal (2002) point out that a large number of managers appreciate development of internal resources and abilities as a process which is more difficult to imitate. Morgan and Hunt (1996) pay attention to the significance of the combination of specific resources in order to develop resources of higher line or competences. The process of building these long-term interconnections between resources is viewed as more difficult to imitate by competitors and therefore a more secure source of sustainable competitive advantage. With the approach “dynamic capabilities” Teece, Pisano and Shuen (1997) focus on the “key role of strategic management to adapt, integrate and reconfigure in an adequate way internal and external organizational skills, resources and functional competences with the objectives to achieve compliance with the requirements of the changing environment”. Achieving compliance both with the external environment conditions and between particular components of the company, in our opinion, is a skill that is difficult to imitate. Therefore, its impact on creation and protection of the organization’s competitive advantage is an object of our scientific interest, too.

The theoretical review gives us causes to adopt the attributes, included in the VRI-framework as a credible reference point in creating sustainable competitive advantage. Therefore, in our research we look for empirical evidences that resources, capabilities and competences, complying with the VRIO-model gain

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15 As examples for untradeable assets on strategic factor markets Dierickx and Cool point out corporate reputation, customer trust, suppliers and dealers loyalty, ability to carry out research and development project activities, etc.
16 Foss (1998) assumes that the terms “capabilities”, „competences” aim at taking hold of exactly these grouping and interaction between different resources.
17 The research is carried out on a draft R54/2011 and is a part of the author’s dissertation thesis “Sustainability of company competitive advantage (based on the example of the dairy plants in Bulgaria)”. It includes 40 companies from the dairy sector. The managers of the researched companies are the respondents in the survey.
advantage\textsuperscript{18} for the companies which own them and that the anticipated results are retained long-term. In search of particular sources of advantage and as a result of a theoretical study, a number of hypotheses were formulated, the proof or rejection of each one is being done after empirical check. The main assumptions read that: (1) the reasons for differences in organizations’ performance can be found mostly in their intangible assets and (2) in organizations which sustain their competitive advantage there exists a compliance between components which create the organization, \textit{(internal compliance)}\textsuperscript{19}, as well as between organization and the environment (\textit{external compliance}).

The review of the formulated assumptions proves that companies which have sustainable competitive advantage:

(1) implement decisions (mostly strategic ones), which provide compliance of their activity with the environment (input and output of an organization). For the companies in the sector which is the object of our empirical study these decisions comprise: various forms of cooperation with suppliers, as well as implementing a \textit{backward vertical integration strategy} in order to overcome input problems related to scarcity of raw materials; running an \textit{export business operation} and providing a \textit{vast range of goods} in order to overcome the domestic demand limitations and adapt to the different needs of Bulgarian and foreign consumer; intense \textit{innovation activity} and \textit{availability of patents} in response to the fierce and sometimes unfair competition they have to outplay.\textsuperscript{20} The presence of such \textit{external compliance} (between decisions of the organization and external-environment conditions where it operates) adds \textit{value}\textsuperscript{21} to resources which the company has accumulated for implementing these decisions.

(2) possess availability of resources which are \textit{difficult to imitate} because of their \textit{intangible nature}, social complexity and causal ambiguity, namely: \textit{staff loyalty}\textsuperscript{22}, \textit{consumer trust and loyalty}, \textit{established positive image},

\textsuperscript{18} The advantage (higher operational results) is calculated through \textit{value supplied to consumers} (measured by sales profits –derivatives of price which the client is willing to pay for the product and the volume he/she decides to buy) and \textit{the proprietor value} (measured by return rate). For the \textit{long-term nature} of results we judge by the average annual sales profits growth in the company for a period of 6 years. Getting ahead of (or lagging behind) the average sector rates for the specified indicators is accepted as presence, respectively absence of competitive advantage.

\textsuperscript{19} The internal compliance is sought for a set of pairs „strategy- component of formal organization”. The formal organization components for which specific information has been gathered through empirical studies are: control system, decision-making and delegating system, characteristics of structure, staff rewards system, processes formalization degree, continuous improvement focus.

\textsuperscript{20} Part of these findings has been published in a paper on the subject” Strategic decisions and sustainability of competitive advantages of dairy companies”// The human factor in management: Jubilee scientific – practical conference, 2012, Svistov, publ. Tsenov, 2012, p. 338-344

\textsuperscript{21} According to the meaning which Barney and Hesterly imply in the concept “value” (the first attribute in VRIO-framework).

\textsuperscript{22} In our staff loyalty research we judge by the subjective assessment of phenomenon, given by the respondents- managers, as well as by the more objective indicator “percentage of experts” and „percentage of personnel working in company for more than 3 years”.
long-term and fair relationships with suppliers and traders, management philosophy and understanding of the reasons for success/failure;

(3) possess characteristics which even if tangible are difficult to imitate because of their relevance to the particular company history, namely: location (in relation to major input), company size, relations of long standing with suppliers, sales network distribution, owners/partners’ interest in running the business;

(4) possess a complex of resources and skills which has a proven link with gaining the advantage. Namely the combination of different factors (which is unique for each organization) is a prerequisite for fulfilling both the condition for resource rarity (the complex of resources) and the condition for inimitability. It is quite unclear for a competitor what combination of factors contributes to success which impedes imitating the behavior that leads to success.

(5) the successful organizations are designed in a way relevant to the chosen strategy and helpful for its implementation. The study demonstrates that the presence of compliance with the relation “strategy-component of formal organization” (“internal compliance”) influences the attainment of sustainable competitive advantage and this is most explicitly given a proof for the relation “strategy – staff rewards system” and the relation “strategy – organizational-managerial structure”24. In this way, organizations with a competitive advantage possess organizational support (the fourth condition in the VRIO-framework) for implementing the selected strategy.

The summary of the empirical study findings gives us good reasons to consider that the set of conditions deduced from the theoretical review of the sustainable competitive advantage is effective to our practice, too. It is also a reliable diagnostic tool for the company potential to develop and protect its competitive advantage. The study confirmed the positive relation between the company long-term results and availability of valuable, rare, difficult to imitate resources and capabilities. Organizational support is also provided for their beneficial use.

Conclusion

Knowledge of conditions to which an organizational resource needs to comply with in order to be a source of sustainable competitive advantage, may have both a

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23 The findings of the present empirical research manifested that looking for the causes of possible failure in internal environment (rather than in circumstances from the external one) is typical exactly for companies with competitive advantage. The managerial conception that success, respectively failure are the result of mustering the internal strength of organization is a particular capability materialized in and stemming from the manager’s mindset which makes it difficult to copy and consequently a reliable source of sustainable advantage.

24 We found out that some of the checked compliance pairs “strategy-component of formal organization” („strategy-processes formalization degree” and “strategy- continuous improvement focus”) were feasible at the same degree for the successful and lagging behind companies. This determines them as a necessary but insufficient attributes for attaining advantage. The attribute “organizational support” in the VRIO-framework is exactly perceived as such.
diagnostic and a pro-active role for management performance. On the one hand, the set of attributes described in the present article may serve as a specific test for the extent the available company resources and capabilities "promise" long duration of the attained competitive advantage. On the other hand – awareness of sustainability attributes is a pre-requisite for managers’ active search for resources which are difficult to imitate in view of the purposeful plan for their creation and development. Awareness of the need for development process continuity is a pre-condition for dynamism in the behavior of economic entities and sustainability of the results they achieve.

References


CONDITIONS FOR SUSTAINABILITY
OF THE ORGANIZATION'S COMPETITIVE ADVANTAGE

Chief Assist. Prof. Veselina Maksimova

Abstract

In the article there are compared and generalized the opinions of various authors on the complex of conditions, which must be met by the sources of competitive advantage for the latter to be sustainable. Research is founded on the views of the resource approach, according to which not all resources possess the same potential to be sources of sustainable competitive advantage. The requirement for the resource to be difficult to imitate affirms itself as a key condition for the sustainability of the advantage. There are also mentioned examples of resources that are difficult to imitate, for which various studies (including the author’s) prove a positive connection with the achieved advantage of the organization in the long run.

Keywords: competitive advantage, degree of imitability, sustainability of the competitive advantage.
ASPECTS OF IMPROVING FESTIVAL TOURISM IN BULGARIA

Assist. Prof. Dr Krasimira Yancheva

Introduction

In the modern social system tourism has an even bigger importance despite the indications of decreasing tourist demand as a result of the processes of crisis in economics. One of the basic tendencies is the development of alternative forms of tourism. The essence of alternative tourism is actually revealed in its name – it is the alternative of mass or traditional tourism and it is exactly what its significance is – by adding to the forms of mass tourist supply alternative tourism contributes for:

• improving the tourist product of the region or destination;
• attracting new target groups of tourist;
• making popular and then keeping natural and anthropogenic tourist resources in the region or destination;
• providing extra employment for locals and others.

Festival tourism is also a type of alternative tourism which requires various resources – both natural and anthropogenic. Nowadays it is preferred because of the unique tourist product it offers; however, its development in Bulgaria needs improvement and perfection. A good example for the way festival events satisfy the demands of more and various target groups is the Festival of folk costume in the village of Zheravna.

The subject of study in this paper is the festival of folk costume in the village of Zheravna.

The topic of study in the research is the positive experience of organizing and holding festival events in Bulgaria.

The aim of this paper is to analyze and assess the festival in Zheravna as a good practice in developing festival tourism in Bulgaria.

The relevance of the topic is a result of the following:

• Bulgaria offers various opportunities for developing festival tourism. It is considered that this type of tourism underpins the improvement of tourist demand and leads to overcoming many economic and social issues in Bulgaria;
• the village of Zheravna is an example for a place that has resources for offering alternative forms of tourism and opportunities for developing festival tourism in particular;
• there exist certain problems in the village for Zheravna – for example, depopulation, infrastructure issues and unemployment decrease competitiveness of the destination and it is considered that improved tourist supply through activating and spreading festival tourism contributes for increasing tourist demand in the region.
The tasks assigned for reaching the aim of this paper are as follows:
- characterize briefly the essence and significance of festival tourism in Bulgaria;
- present the concept of the Festival of folk costume in Zheravna;
- use the good example of Zheravna for developing successfully festival tourism in Bulgaria.

The information basis for this study includes special literature on the topic, personal interviews, as well as a questionnaire concerning the development of festival tourism in the region.

1. Essence and specifics of festival tourism

Festival as a phenomenon encompasses a very broad range of activities in the field of art, cultural heritage and cultural-creative industries. In specialized literature a festival is defined “as an event that is created on a special festive occasion, jubilees, days of remembrance or honor, or through a special selection of performers” (Koutin, 2004). (“Festival” - from the Latin “festum” or “festus” means “holiday” - an event of festive character.) A festival is a program of various performances of artistic character that achieves a level of festivity of the event itself.

A festival achieves an extraordinary festive mood at a particular place. Its unique attractiveness can be maintained only for a specific period of time. This characteristic feature must be underlined by a high quality of the work performed and a strive for perfection in which the landscape, the peculiarity of the city, the involvement of its citizens and the cultural identity of the whole region are contributory factors.”

The Statute of the European Festival Association adds several other peculiarities to the characteristics of festivals, http://www.efa-aef.eu/en/festivals/, 02.07.2014)
- each festival has its specific name and representation;
- festivals guarantee free movement of programs, artists, audience and media;
- each festival should have a solid financial base that is subject to inspection.

Festival tourism is characterized to be mass, various in terms of genre and it offers tourists participation in different forms of traditional and modern cultural holidays. These can be festivals of various types of art, authentic events and others. Festival tourism encompasses also adaptations of famous folk festivities, holidays of specific national symbols. Festival cultural-familiarization tourist trips (festivals and demonstrations of various types of art, folk holidays, celebrations of traditional national crafts) - are those trips that are caused by interest in traditional or modern reenactments of cultural events, as well as taking part in them. Most often these events and festivals are guided by particular types of art. In this group one can include also traditional crafts, visits to fairs, bazars and others.

Festival tourism is one of the most quickly developing types in the whole tourist sector. The trips concerning particular events are exceptionally popular and result from the increased need for experiences. We mean a specially organized events whose
basic characteristics are uniqueness, transiency, rarity so that they can stand out among the remaining natural and constant events in the field of music, theatre, art and religion, as well as traditions, rituals, science, technology and media. More and more regions consider festival tourism as an opportunity to attract attention and interest to themselves through big and large-scale projects, thus attracting more visitors and increasing revenues.

Having in mind the above-listed characteristics, festival tourism is a type of event tourism that is practised by a specific group of users. The target group is ready to make long-distance trips in order to attend the festival occasion. The basic users of this type of tourist product come from a more mature and financially sound part of the society.

Proto festivals were found to exist in ancient times and Middle Ages when at religious and dynastical celebrations many performers presented their art in temples, palaces and at city fairs (Apostolov, 2003). They encompass various genres of culture which affected the place of carrying out the event, the structure and number of participants and audience, the necessary technical facilitiies, the period of holding the event and so on.

One can use different criteria for classifying the variety of festival events such as topic, frequency of holding the event, space dimensions and others. An exemplary classification is given in Table 1. (See table)

Table 1

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Types of festivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main topic of the festival event</td>
<td>baroque festival</td>
</tr>
<tr>
<td></td>
<td>festival of arts</td>
</tr>
<tr>
<td></td>
<td>festival of cinema</td>
</tr>
<tr>
<td></td>
<td>music festival</td>
</tr>
<tr>
<td></td>
<td>festival of theatre</td>
</tr>
<tr>
<td></td>
<td>festival of literature</td>
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<tr>
<td></td>
<td>culinary festival</td>
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<tr>
<td></td>
<td>religious festival</td>
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<td></td>
<td>festival of spring</td>
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<tr>
<td></td>
<td>festival of science</td>
</tr>
<tr>
<td></td>
<td>youth festival</td>
</tr>
<tr>
<td></td>
<td>folk festivals</td>
</tr>
<tr>
<td></td>
<td>other types of festivals.</td>
</tr>
</tbody>
</table>

1 The table is made by the author of the article
The great variety of festivals determines the depth of their social and cultural significance.

### 1.1. Specifics and characteristics of festival tourism

Festival events vary a lot according to their content and place in social life. What unites them is the similar organization of tourist service and reaching similar effects of entertaining-emotional and cultural-intellectual type.

Modern festival events are an obvious reflection of world and European tendencies for increasing international cultural exchange and the intensity of social contacts. These important modern processes exist and develop through an ongoing information flow of economic-and-financial, technological, political and cultural character.

What is important is the specific atmosphere in which a festival is carried out. This includes the natural-and-geographic factor (landscape), socio-cultural factor (character of the location, the cultural tradition of the whole area) and the socio-psychological factors (involvement of locals, performers and tourists).

The main peculiarities of each festival event boil down to: (Kostov, 2001)

- **Frequency of holding the event** – usually there is an inversely proportional correlation between the length of the time distance and the number of participants, revenues respectively. Those festivals that are held seldom attract more participants and guests. Whereas meetings with monthly or seasonal distance have less audience and their professional, institutional, educational and cultural structure is more homogenous, at that.

- **Location of holding the event** – most suitable turn out to be big cities, simply because they have the necessary infrastructure – halls, palaces of culture, finance for media and other type of communication, as well as various hotel and other types of accommodation for participants. In view of calm

| Frequency of holding the festival event | ➞ regular; with affirmed repetition every tenth or fifth year; |
| ➞ every 4-5 years; | ➞ every other year; |
| ➞ every year; | ➞ every six months; |
| ➞ seasonal or monthly. |

| From the point of view of play | ➞ competition | ➞ representative festivals |
| From the point of view of spatial dimensions | ➞ regional | ➞ national and international |

| From the point of view of the time (season) of holding the festival | ➞ spring | ➞ summer |
| ➞ autumn and | ➞ winter festivals |

**Source:** *Classification of the author.*
atmosphere for work and search for an anti-urban environment or authenticity, festivals are held in well-established luxury resorts and colorful small towns or villages with interesting nature, castles and others.

- **Transport accessibility** – in big cities and especially in capitals of countries it is there due to the cities’ various and large-scale functions. Usually in the inner-urban morphology there are regions with better accessibility that turn out to be suitable for business and cultural events such as the central business area, big parks, the spaces in and around railway and bus stations, and lately near airports, in particular.

- **annual calendar disposition** – Even though they do not depend on seasons and climate, these events, similar to recreation tourism, also have specific seasonal concentration. The end-of-spring and start-of-summer maximum are relatively equal, whereas these events are quite restricted at the peak of summer (July – September) and during typical winter time. For scientific events what matters in their star-of-autumn maximum is that participants are less busy in school or universities. As for time of the week, almost always one observes end-of-the-week (Thursday-Friday-Saturday) concentration. This is due both to the chance of using half of the weekend (Saturday) for holding part of the festival program and travelling, and the fact that people are busier at work at the start of the week.

Annual distribution of festivals is characterized by dispersion, yet, for the particular genres there are preferred months and seasons.

- **National structure of participants** – When an event is international, there arise organizational difficulties: (transfers, possible delays; duly compliance with specific national requirements and others.

- **Cultural program other than the main topic of the event.** It concerns all participant and their companions, including their families. The duration of the event can be half a day or more depending on the topic and location – radial or circular itinerary for attractive natural and anthropogenic sites in the hinterland nearby. It is possible to include visits to gastronomic sites with characteristic cuisine and interior, as well as other initiatives.

- **Hierarchy of events and location** – hierarchy is a result of aligning events according to their significance and social recognition of performers. First come those of world importance and uniqueness, followed by national and local ones.

- **High frequency of holding the festival** – this depends on people’s interest in the event. For example, at a theatre festival performances could be on in the time of the cultural season or at a particular time segment as part of it. This allows enlarging the audience significantly and increasing the social importance of the art of theatre. Besides, the number of spectators depends largely on the place of holding the event – seating capacity of halls, open-air theatres, stadiums or other used indoor and outdoor spaces.

- **Differentiation and split of tourist interest** – Perceiving multicultural values is usually underpinned by intuitional judgment, yet, it depends on one’s age,
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gender, social background and other individual features of tourists. In organizing festival this circumstance sets the requirement to direct the event to a particular user (market niche). In many cases differentiation is a result of the tourists’ interest, the uniqueness and opposing character in respect to tourists’ local culture. This circumstance is due to tourists’ strong sympathy for the cultural life in touristic areas.

At the same time, one needs to point out that due to lack of systematic information for getting to know the audience (tourists), it is hard to set a precise boundary between the interest of local population and tourists in a particular festival event.

In view of the Act for local autonomy and local administration municipalities have the right to organize festival events. This is the most popular form of organizing traditional and well-established festival events held in Bulgaria. Most of the significant festival events are financed with money in the section “Other cultural activities” of municipal budgets. Having in mind audience, festivals create the most powerful institution for assessing art today. In many aspects it is the audience that has crucial influence both for the development of artistic genre-activities, styles and categories, and for creative artists and performers of artistic works. That is why, besides having an immediate social and economic effect, making festivals popular professionally performs significant and responsible functions in national cultural policy.

European experience shows that festivals which attract tourists can be an exceptionally reliable tool both for mutual familiarization and cooperation between peoples in Europe and for the socio-economic growth of regions. Because of their specific feature festivals create a natural environment and conditions for large-scale implementation of a wide-range of services. This is a good base for developing tourism, stimulating small and medium local businesses, changing the whole socio-economic profile of regions and improving the quality of life. An example of good practice for developing festival tourism in Bulgaria is the Festival of folk costume in the village of Zheravna.

2. Characteristics and positive sides if the Festival of folk costume in the village of Zheravna

The evaluation of using the opportunities of the Festival of folk costume in Zheravna as a good example for developing festival tourism in Bulgaria is based on a specific research process focused on:

- Carrying out a field study because there are no operating and statistical data, neither secondary sources of information.
- Clarifying specific features of tourists about whom one has little knowledge as users.
- Complexity of the characteristics of the subject of study – user tourists have complex and different behavior which results from their various needs, judgments, motives for participation in a festival event;
- Clarifying difficulties and hardships of organizational, linguistic and technical character for determining tourists’ behavior in respect to the folk product
offered, in view of defining the directions for using folklore in the festival event.

- **Formulating restrictions** that result from the specific features of Bulgarian folklore and presenting it in a festival event (professional groups, aptitude of sites, props and others).

The field research provided information on tourists’ attitude to Bulgarian folklore based on their participation in the Festival of folk costume in the village of Zheravna. The study was made in August 2013 by using a questionnaire. The respondents were:

- 30 tourists participating in the Festival of folk costume in Zheravna in August 2013,
- 30 performers participating in the festival program (dancers, instrumentalists, choristers), including event organizers, employees of the Zheravna municipality aiming at providing more complete information.

Due to the presence of two general sets of respondents in the research (tourists and performers as service providers) two separate questionnaire studies were made and extra information was gathered by making three personal interviews.

The Festival of folk costume was created by the initiative and idea of the producer, choreographer and director of the National Dance Ensemble “BULGARE” Hristo Dimitrov. Characteristic features of the festival are:

a) it has been held annually in August since 2008 and this year marks the 7th edition in the park “Dobromirets” near Zheravna. The dates of the traditional event in 2014 are 23, 24 and 25 August. The Festival of folk costume is privately organized – the entrance fee is BGN 20. According to data of the people interviewed since its very first edition the organizers’ idea was to make it an international festival, yet, it received participants from abroad in 2009. In 2008 the “BULGARE” ensemble performed the role of a host and main performer in the festival programme.

b) The main objective of the festival event is the rich folk programme, as well as the experience of both adults and youth in putting on a folk costume. The Festival makes people “search for something that their grandmother left them in their old chests...”.

c) In the first festival evening a concert is given by a Bulgarian professional dance ensemble. Until today in the festival there participated: the Thrace Ensemble, Severnyashki Ensemble, the Pirin Folk Ensemble, the Philip Koutev Ensemble and the “Bulgare” National Ensemble (there is still no information about which professional ensemble will perform this year). The second festival evening presents foreign ensembles – in 2013 these were from Indonesia, Russia, Holland, Serbia, Poland and Cyprus; Russia being on the festival stage in a second consecutive year. The regulations of the festival give foreign performers 35 minutes to dance on stage after an application for participation.

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3 Interview with the artistic director of the festival.
that needs to be confirmed beforehand. In the third festival evening the so-called “camp fire” is started, with the participation of hot-coal dancers.

e) Every year the festival is attended by guests from regional structures, as well as representatives of the authorities. In 2013 about 15,000 participants were on the festival premises.

f) In the area there are no accommodation facilities up to 70 km away from Zheravna. In 2014 bookings for the Festival of folk costume start as early as December 2013. To handle the accommodation issue a campsite with tents is made.

g) The focus of the festival is on putting on a folk costume, tasting delicious food by use of 180-year-old recipes, as well as demonstration of crafts. The festival event is a chance to make Bulgarian crafts popular and known.4 The Festival of folk costume in Zheravna gathers masters of musical instruments, weavers, woodcarvers, potters and stimulates immensely the development of souvenir industry. The emphasis of the festival is to experience something together with others – go 200 years back in time, rather than folk dances. To do this every participant has to know and obey the following rules at the event:

The festival organization includes:5

- **Compulsory condition:** Participants have to wear folk costumes (authentic, stage or stylized. It is allowed also to wear clothes from the beginning of XX C, as well as traditional clothes for other countries, old military uniforms and arms.

- **It is forbidden to:**
  - Use video cameras and cameras on the territory of the festival;6
  - Use mobile phones except at places specially meant for it.
  - Bring alcohol and soft drinks, as well as using plastic cups, plates, bottles, thermos flasks, forks, spoons, napkins and others.
  - Wear modern ladies’ and men’s bags, suitcases, backpacks, carry-alls and others;
  - Use blankets and mats, hats and scarves;
  - Use sun glasses.

- **It is allowed to:** use fur hats, white scarves against sun and neck-wraps, use matches.

- **The festival is attractive with its authentic experience similar to a time machine.**

In order to define the condition and opportunities for developing festival tourism in the village of Zheravna, the field research provided valuable information as follows:

4 For the objectives of this study an interview has been made with Ivaylo Stoev - producer of Bulgarian drums and wooden bushels from Varna, who has participated 4 times in the Festival of folk costume in Zheravna. For him the festival event is a chance to make Bulgarian crafts popular and known to people. The contacts made during the festival days are priceless. I. Stoev’s participation is a prerequisite for more sales all the year round.


6 The guests have the opportunity to have their pictures taken by photographs or order a DVD.
The results of the survey have been summarized further in this paper. We can analyze the degree of influence of the festival of folk costume on the development of tourism in Zheravna and tourists’ attitude to it based on respondents’ replies in the questionnaire.

![Chart 1. How did you learn about the event?](image)

From Chart 1 it is evident that information about the event has reached tourists mainly “by word of mouth”. This shows that the municipality needs to optimize its marketing-and-communication policy and direct its activities to signing contracts with more tour operators who will promote the festival of folk costume in Zheravna, simply because only 5% of the people questioned have learned about the event from a tour operator. A relatively small percentage of people have been informed from Internet which means that the municipality has to increase advertising online too.

Most respondents have been to Zheravna before and this proves that the region is familiar. At the festival they are accompanied by families, friends and relatives. The main goal of most guests in Zheravna, who practice festival tourism, is to be entertained and have pleasant emotions. 35% of the individuals questioned arrive with their families. Therefore, Zheravna and the Festival of folk costume are preferred by families with children. The festival event held in Zheravna attracts audiences of all ages.
According to the last two charts, part of the respondents assess transport and information accessibility as excellent. These are about 40% of the people questioned. About 25% give a satisfactory assessment which shows that the municipality needs to work for improving these two elements of the tourist product offered. For 15% of the tourists transport accessibility is unsatisfactory due to lack of regular direct bus shuttles.
The assessments of the tourist servicing of the event are undisputable, most of the tourists have evaluated it as excellent and very good, which proves the organization the “Bulgare” NFE has made.

**Chart 5. A second visit to the region and the Festival of folk costume**

Chart 5 shows tourists’ positive attitude to festival tourism in the village (65% would visit Zheravna and attend the festival again) and their readiness to recommend it to relatives and friends.

**Chart 6. Attitude to the festival event in Zheravna**

**Chart 7. New job vacancies in the region due to the festival event**
Data in Chart 6 and Chart 7 makes it clear that the municipality employees are unanimous about the positive attitude to the organized Festival of folk costume. They characterize the festival event as too short – almost 50% of them think that it creates employment only temporary. The small duration of the event is an obstacle for developing sustainable tourism which is also proved by the fact that neither of the questioned individuals accepts the festival as a basic opportunity for making a living.

**Chart 8. Study of possible conflicts between the Festival of folk costume and local population**

According to 50% of the questioned Zheravna-municipality employees, the festival of folk costume contributes positively for the development of tourism in Zheravna. According to Chart 8, though, 40% of the responding professionals and organizers think that despite the positive effect of the festival, it generates problems for the local population. These issues concern various aspects of this type of event – noise, the specific segment of tourists visiting the festival, litter, loading the infra- and superstructure of the region.

**Chart 9. Involvement of local authorities in developing festival tourism in the village of Zheravna**
Chart 10. „What could be done to develop better festival tourism in the village of Zheravna?”

Data in the last two charts show that, according to the respondents local authorities do not help enough the development of festival tourism in the village of Zheravna. The figures assess the private initiative of organizing the festival. Most of the respondents think that in the last couple of years the municipality has worked for the development of this type of tourism, but they still need to do more in order to use the complete potential of resources. 65% of the professionals and organizers recommend increasing advertising the festival events, especially abroad. It is necessary also to improve the infrastructure of the village and hold other types of festivals.

In view of data shown, we can sum up that tourists’ attitudes to the Festival of folk costume in the village of Zheravna are positive and most of them besides attending the festival again, would recommend it to friends and relatives. Local authorities should focus attention on improving the transport and information accessibility of Zheravna, as well as the quality of the tourist service.

According to the other beneficiary of the study – professionals and organizers, festival tourism contributes for creating a positive image of the village and has a strong impact on its identity. However, there is still more to do for solving the issues caused by the festival to locals, as well as to attract more tourists to this type of tourism.

3. Conclusion

The analysis of the uniqueness, organization and condition of the Festival of folk costume in the village of Zheravna and the results of the study shows that the event is a good practice for developing and encouraging festival tourism in Bulgaria. The big number of various types of festivals in the country determines their considerable social and cultural significance and a closer connection needs to be made between improving the opportunities for the development of festival tourism in Bulgaria. There should also be added:

- Broadening advertising activities for promoting the festival events in the country-advertising campaigns, organized together with business;
- Training unemployed and other people who are offered jobs at the festival events;
• Applying good practices from other regions, including outside Bulgaria, in respect to organization, coping with issues which concern festival events;
• Promoting the significance of festival tourism among businesses in the region with the aim to get support in advertising and marketing the events;
• Cooperation with non-governmental organization, thus enhancing knowledge and broadening information on festival events;
• Implementing internship and other programs which concern universities in the region with the aim to provide personnel;
• Studying opportunities for organizing also festival events on various topics with the aim to attract more tourists with specific interests;
• Making a detailed analysis of the municipal activities oriented to promoting festival practices and improving these activities with the aim to increase recognition of the festival tourist product;
• Participation of municipalities in international competitions, forums and presentations for promoting festival tourism in Bulgaria;
• Signing contracts with foreign tour operators and organizing trips with visits to festival events in the country.

As a consequence of the outlined opportunities and weaknesses in developing festival tourism in Zheravna, a conclusion can be drawn that: **there exist all prerequisites for turning festival events into a competitive advantage of the tourist product and affirming Bulgaria as an interesting and attractive destination for festival tourism.**

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2. Atanasova, L. Branding na grad chrez festivalni sabitiya i izsledvane na naglasite kam festivala „”Vklyuchi grada” v Burgas – metodicheski i prilozhni aspekti
6. Rafailova, G. i dr.(2012), Specializirani vidove turizam, IU, Varna.
ASPECTS OF IMPROVING FESTIVAL TOURISM IN BULGARIA

Assist. Prof. Dr Krasimira Yancheva

Abstract

Festival tourism represents one of the fastest developing kinds in the entire tourism sector. Trips connected with certain events are extremely popular and are the result of the increased necessity for experiences. It’s about specially staged events whose main features are uniqueness, transience, rarity, thus they differ from the remaining natural and permanent cultural offers. Their cultural variety encompasses different events in the area of music, theatre, art and religion, as well as traditions, customs, science, technology and the media. More and more regions see in festival tourism the possibility - through big and large-scale projects - to attract the attention and interest to themselves, by which to increase their cultural capital, and which would lead to attracting more visitors and increasing economic revenues. One example of such a region is the village of Zheravna and the festival of the national costume.

Keywords: festival, festival tourism, event tourism.
ATTITUDES AND PERCEPTIONS OF HOTEL MANAGERS ON TIMESHARE DEVELOPMENT ALONG THE SOUTHERN BLACK SEA COAST OF BULGARIA

PhD student Elena Klateva

Introduction

The term timeshare has been adopted from the English literature and if translated, it literally means ‘shares of vacation time’, which is behind the concept of sharing time in a vacation property where multiple parties hold the rights to use the property. Since its beginnings in the early 1960s, the timeshare concept has developed steadily and showed a continued upward movement in terms of number of timeshare resorts, units, property owners and received revenue from usage.1 Despite all this, timeshare seems to be poorly studied and fails to produce a single definition embracing the entire concept. For Bulgaria, timeshare is a comparatively new phenomenon, having emerged in the hotel sector for the last 8 years, and it exists in the form of modern varieties and mixed type of properties clustered along the southern Black Sea coast and in the winter resorts. That’s why the main point of research of the present study is to investigate hotel managers’ attitudes and perceptions on prospects for development of timeshare along the Bulgarian southern Black Sea coast.

Understanding timeshare and its specifics

Timeshare can be seen as part of the broader concept of ‘shared ownership’ which has taken off in popularity exhibiting a dynamic curve over the past few years. Object of timeshare property ownership can be a number of different things such as a car, a bicycle, office space or a machine2, in tourism however it most often involves use of transport vehicles3 and vacation property (timeshare). Studies of timeshare abound in definitions which can be explained with the different standpoint of researchers... In some of our earlier publications we have also dwelled on timeshare definitions supporting the opinion that ‘timeshare is a hotel product […] What is specific about it is the way it is sold – unlike the classical hotel model where you pay for a room to stay, with timeshare you buy4, the right to use the property, and due to its recent origin, it is defined as “a modern type of hotel accommodation”.

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2 Brown, A. Equipment timeshares. Mechanical engineering, Sep 2007, p. 10
4 Dabeva, T. Timeshare and its application in Bulgarian hotel industry, Tourism in the new millennium, Col. Papers. Blagoevgrad, June 2007
5 Dabeva .. et.al., Hotel operation in Europe - categories, locations, development, Science and Economics, Varna, 2000, p. 143
It would be far too long to cover all aspects of timeshare here, therefore we have focused on those we consider to be more important in disclosing the nature and specifics of the product. It is more appropriate to discuss the latter from the point of view of marketing mix in timeshare, taking into consideration the fact that timeshare is identified as a consumer product rather than an investment product.\(^6\) In this respect, we shall adhere to E. McCarthy’s formulation of the 4 P’s of the marketing mix, i.e. product, price, place and promotion being the main components of the modern marketing mix.\(^7\)

Traditionally, the timeshare product is a long-term contract concluded between the timeshare property owner and the buyer for a period between 25 and 50 years, the subject of which is the sharing of vacation time between individual sharers (each is allotted a period of time to use the property). According to the specific character of owned interval of vacation time, it is divided into the following:

- **Fixed-week ownership** – a deed to use the unit for a single specified week every year;
- **Floating week ownership** – units are sold as floating weeks during a specific season or on yearly basis;
- **Flex-week ownership** – normally this relates to a single timeshare unit, where weeks are rotated forward or backward through the calendar, giving the owner a fair opportunity to use prime weeks – most commonly the off-season intervals are floating, and fixed, during high season.

In terms of the type of lodging, the timeshare unit can also be split into fixed and floating. The first type can be found with single properties, where the owner can use the unit for a single specified week which largely augments the feeling of having a “second home”. The floating week ownership is indicative only of the type of timeshare property in terms of size, view and amenities. It is common with timeshare developers having more than one property such as hotel chains and vacation clubs. Hotel chains enter the timeshare business during the 1990s. Some of the most popular hotel chains are Marriott, Four Seasons, Hilton, Hyatt, Accor, Radisson and Ramada\(^8\). Vacation clubs form a specific category in the timeshare industry being represented by large consortia which build, operate and manage a great number of units in different locations. They have introduced their own vacation ownership programs which are based on point systems commending a product that is modern and flexible. Points programs give the owner an amount of points which can be converted into a range of products and services. Major holiday operators such as Marriott Vacation Club, Disney Vacation Club, RCI Vacation Club, Hilton Grand Vacations, Club Med, Hyatt Vacation Club etc.\(^9\), are among those operating vacation programs based on point systems.

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\(^6\) Hovey M. Is timeshare ownership an investment product, Toowoomba, University of Southern Queensland, 2002, p. 8-23.


\(^8\) Leposky G. Timeshare basics, Timesharing today, 22 Jan 2010, p. 2.

Another important aspect of the timeshare product is the type of ownership, which is represented by the following five (5) popular varieties:

Table 1

<table>
<thead>
<tr>
<th>Type of ownership</th>
<th>specifics</th>
<th>Advantages for the owner</th>
<th>Disadvantages for the owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>Fractional ownership; for life; Spain and Portugal</td>
<td>The owner can lease, use or sell the property; a wide range of rights</td>
<td>Lack of flexibility during the vacation interval</td>
</tr>
<tr>
<td>Right to use</td>
<td>Between 10 and 50 year period; after that the usage rights revert to the hotelier/property owner</td>
<td>Flexibility of the time-based interval – fractional ownership and exchange.</td>
<td>Limited rights; risk for the operator of becoming insolvent.</td>
</tr>
<tr>
<td>Lease contracts</td>
<td>Right to use on a long-term lease basis; up to a 25 year period; Greece</td>
<td>Flexibility; Shorter contract terms.</td>
<td>Limited property rights.</td>
</tr>
<tr>
<td>Company share</td>
<td>Assets or bonds; Access to company units; France and Switzerland.</td>
<td>Flexibility; Opportunities for long-term profits.</td>
<td>Insolvency risk; the owner may be dissatisfied with the choice of unit.</td>
</tr>
<tr>
<td>Point-based club membership</td>
<td>Points systems; 25 to 30 year period; Great Britain and the Mediterranean region</td>
<td>Flexibility; Possibility to convert into various products and services</td>
<td>Risk of insolvency; the owner may be dissatisfied with the choice of location.</td>
</tr>
</tbody>
</table>

The timeshare price is paid upfront, but as it is considerably higher than the traditional package price and covers a certain amount of future vacations at the property, it is often seen as an investment. On average, the highest registered price in the USA is $9500, whereas in Europe, France and Italy have reported prices within the range of $8700 and $8900 on average. With regards to other markets, Mexico maintains high prices in the timeshare segment ($9,400) together with South-east Asia.

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which identifies them as growth markets. Studies show that the average price of a vacation week is steadily on the rise. In 2001 the timeshare interval (or week) cost $14,652 on average, whereas in 2004 it exhibited a 7% rise ($15,571), and in 2012 the average interval price reached $19,000 (+22%), which can be taken as a sign for the industry’s positive development.

A basic peculiarity of the timeshare price is the fact that the purchase price is not the only component in the blanket price of the product. Timeshare owners must pay an annual fee for upkeep and maintenance of the property. In most cases, the amount of said fee varies between $200 and $1000 for a vacation week, but some extra fees might also be involved in terms of number of bed nights at the unit.

In hindsight, aggressive tactics to sell the product were a severely criticized aspect of the product promotion due to unfair marketing practices such as street scams, hard-sell techniques and inaccurate or misleading information. Nowadays the timeshare industry seems to be fairly well regulated owing to the efforts of many organizations, institutions and associations to clean up the industry and give it a much more professional image. In contrast to marketing techniques used in the past, today timeshare operators resort to special marketing tools.

**Table 2**

<table>
<thead>
<tr>
<th>Techniques and practices</th>
<th>Basic peculiarities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mini-vacations</td>
<td>Staying in a timeshare unit at preferential prices to get to know the vacation property and eventually buy it</td>
</tr>
<tr>
<td>Reference programs</td>
<td>Timeshare owners attract potential customers by offering bonuses and discounts on ancillary services</td>
</tr>
<tr>
<td>“Tour-no-buys”</td>
<td>Prospective buyers who didn’t make a purchase on previous presentations, but may change their mind or give reasons for their decision not to buy</td>
</tr>
<tr>
<td>“Trial programs”</td>
<td>Prospective buyers who refrain from making an actual purchase but are interested in the property and prepay their stay for the next year. If they eventually buy a timeshare option, the amount paid will be deducted from the purchase price.</td>
</tr>
</tbody>
</table>

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13 http://money.usnews.com/money/personal-finance/articles/2012/07/19/should-you-invest-in-a-timeshare
Timeshare product distribution can be classified according to the point of sale location:

- **In situ** – the marketing and sales unit is based in the vacation resort, often occupying ground floor office premises;
- **Remote sales** – the marketing unit is located outside the vacation resort, usually in a tourist or custom generating area.

The main peculiarity of the timeshare product can be found in the channels of distribution. In contrast to the marketing techniques used to sell the traditional hotel product, the direct selling techniques tend to be the main marketing tool with timeshare products. This is so, as the timeshare product requires training and hiring of a special sales force.\(^{16}\) Successful sales organization of this type of tourist products is in the hands of qualified sales staff who generate sales on the basis of marketing studies and taking into account the specific needs of their clientele.\(^{17}\)

**Role and participation of major subjects in the timeshare industry sector**

In view of the above-mentioned characteristics and peculiarities of the timeshare hotel product, we can distinguish between two major subjects involved in its distribution:

- timeshare interval owner;
- timeshare developer.

The timeshare interval owner is an individual or family, who have interest in owning a vacation property but for certain objective or subjective reasons prefer to share the usage of the property along with other co-owners. Through this shared usage, the owners have guaranteed quality accommodation in the property on an annual basis and subsequently reduced maintenance fees.\(^{18}\) On the one hand, said subject is seen as the owner of the timeshare product while on the other, especially from hotelier and host community point of view, the owner is a guest, which accounts for his dualistic role. As an owner, he brings revenue to the local community in the form of taxes, bills, etc. and as a man of property he participates in local events and

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contributes to the local economy as he visits the place at least once or several times a year. On the other hand, the timeshare interval owner is also a tourist at the host destination, as he resides permanently in a different country or location and his stay as a tourist involves certain expenditure for local products and services thus performing the role of an ambassador for the destination at home. From the point of view of the hotelier, the timeshare owner is also a guest who influences the former’s perceptions of the product and product characteristics, through his needs, expectations and feedback on hotelier’s operations.

On the other hand, the timeshare developer is mainly interested in selling the product. This is a business operator who has made investments and subsequently developed and built the property, and in most cases is the actual real estate owner of the timeshare property. He divides the occupancy of owned timeshare units into time-based intervals or points which he sells to prospective buyers. Whether it is an independent hotel or part of a hotel chain or a vacation club, the timeshare hotel owner aims to place all vacation intervals on the market to achieve his sales objectives and manage the property in such a way that individual timeshare owners are able to visit the property annually and pay their maintenance fees regularly. In this way, the developer generates a maximum amount of revenue from fees and services sold to interval owners including the provision of typical hotel services to maximize profits. From the point of view of the timeshare developer, the property manager or the management team plays a crucial role in the operation of the timeshare property. Good managerial skills in operating the property account largely for the sale of timeshare units and intervals of ownership, and keeping the property and facilities in good condition and occupancy as a whole. This appears to be in direct relationship to the accurate estimation of maintenance fees and ensuring high degree of satisfaction on the part of timeshare owners. It is our belief therefore that the subject who can be credited most for the timeshare unit management is no other than the timeshare developer. We also think that this is the subject whose opinion and assessment of the management of the timeshare unit is most useful and for this reason, hereinafter we shall focus our study on the managerial attitudes and perceptions of the timeshare sector and its development.

A study of the attitudes and perceptions of the hotel operators about prospects for timeshare development along the southern Black Sea coast of Bulgaria

In some of our earlier publications we have discussed in great detail and provided examples of the types of timeshare ownership along the Bulgarian Black Sea coast. We can assert that these are modern varieties of timeshare vacation property and they are basically represented by condominium apartments and timeshare units of a mixed type.
Basic characteristics of the condominium and timeshare units of mixed type in the Bulgarian hotel industry

<table>
<thead>
<tr>
<th>Variety of timeshare unit</th>
<th>Characteristics and peculiarities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condominium</td>
<td>Timeshare units with up to 4 owners; Rotating weeks ownership; Flexibility in usage – the unit serves as tourist accommodation paying off dividends to its owners</td>
</tr>
<tr>
<td>Mixed type</td>
<td>A single building or a complex of buildings; a mixed type of traditional hotel ownership and timeshare units; Part of the timeshare units might be used by tourists during specified periods</td>
</tr>
</tbody>
</table>

In view of the regulatory framework provided under the Tourism Act, these are apartment hotels, a variety of the traditional type of hotel and because of that, when surveyed for statistical purposes, data on these hotels are gathered on an aggregate basis.

Table 4

Hotel location according to the number of timeshare units over the period 2009 – 2013

<table>
<thead>
<tr>
<th>Index</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of hotels</td>
<td>1 646</td>
<td>1 823</td>
<td>1 862</td>
<td>1 936</td>
<td>2 055</td>
</tr>
<tr>
<td>Total number of units</td>
<td>3 533</td>
<td>3 540</td>
<td>3 776</td>
<td>2 758</td>
<td>2 953</td>
</tr>
</tbody>
</table>


Data presented in the above table show that in 2013, hotels accounted for nearly 70% of the total number of units in the hotel superstructure in Bulgaria. According to Dabeva, this is due to the fact that vacation apartments, found in the so-called apartment hotels, were also included in the survey sample. And this may be the very reason why it is difficult to estimate the exact percentage of apartment hotels in view of the total number of hotels. Also, taking into consideration the fact that existing timeshare units outnumber several times those that are officially reported, it would be hard to give a precise estimate of the number of timeshare units operating in the country up to date. In view of their location, and based on our observations, these units are mostly situated in the mountain resorts, Borovets in particular, and in some holiday resorts along the southern Black Sea coast. For this reason, and owing to the fact that timeshare units have appeared recently on the domestic tourism market, our study will be mainly preoccupied with the southern part of the Bulgarian Black Sea coast.

The present survey was conducted from April 15, 2014 to May 30, 2014, with a target sample embracing 15 timeshare unit managers, running eight (8) of the biggest summer resorts along the southern Black Sea coast. The survey is prepared in the form of a questionnaire and interview with managerial staff among which 12 hotel managers and three vacation property managers (timeshare units of mixed type). The questions included in the survey are closed ended questions, with some of them inviting more than one answer. These questions (‘Yes’/‘No’ questions) are ranked on a 1-5 point rating scale, whereas an average rating is interpreted as neutral i.e. neither ‘positive’ nor ‘negative’, while the extremes 5 and 1 respectively, equal a conclusive ‘Yes’ or ‘No’, and ratings in between can be interpreted as a positive or negative bias. Items included in the survey questionnaire aim to elicit respondents attitudes towards two main issues: ‘Are there opportunities for development of timeshare units in the surveyed region?’ and ‘Has the timeshare sector really got the potential to address some of the major concerns of the hotel operation in Bulgaria, respectively tourism, such as seasonality, low annual return on investments and few repeat visits?’

The interview questions aim to understand the perceptions of hotel owners operating in the main segments, identify the need for specialized management activities to develop timeshare operations, and barriers to the successful development of timeshare properties along the Bulgarian southern Black Sea coast.

**Table 5**

<table>
<thead>
<tr>
<th>Name of timeshare unit</th>
<th>Resort</th>
<th>Category</th>
<th>Number of units</th>
<th>Unit type</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. George Palace</td>
<td>Vlas</td>
<td>5*</td>
<td>72</td>
<td>Condo</td>
</tr>
<tr>
<td>Sun Village</td>
<td>Sunny beach</td>
<td>4*</td>
<td>153</td>
<td>Condo</td>
</tr>
<tr>
<td>Azzuro</td>
<td>Sunny beach</td>
<td>3*</td>
<td>58</td>
<td>Condo</td>
</tr>
<tr>
<td>Sunny Day 1</td>
<td>Sunny beach</td>
<td>4*</td>
<td>124</td>
<td>Condo</td>
</tr>
<tr>
<td>Severina</td>
<td>Sunny beach</td>
<td>4*</td>
<td>50</td>
<td>Mixed type</td>
</tr>
<tr>
<td>Palm Court</td>
<td>Sunny beach</td>
<td>3*</td>
<td>80</td>
<td>Condo</td>
</tr>
<tr>
<td>Emerald Beach Resort and SPA</td>
<td>Ravda</td>
<td>5*</td>
<td>778</td>
<td>Condo</td>
</tr>
<tr>
<td>Marina Cape</td>
<td>Aheloy</td>
<td>5*</td>
<td>760</td>
<td>Condo</td>
</tr>
<tr>
<td>Sunset Resort</td>
<td>Pomorie</td>
<td>5*</td>
<td>770</td>
<td>Condo</td>
</tr>
<tr>
<td>Marina Holiday Club</td>
<td>Pomorie</td>
<td>5*</td>
<td>150</td>
<td>Condo</td>
</tr>
<tr>
<td>Festa Pomorie Resort</td>
<td>Pomorie</td>
<td>5*</td>
<td>229</td>
<td>Mixed type</td>
</tr>
<tr>
<td>Santa Marina</td>
<td>Sozopol</td>
<td>5*</td>
<td>1200</td>
<td>Condo</td>
</tr>
<tr>
<td>Grand Hotel Primorsko</td>
<td>Primorsko</td>
<td>5*</td>
<td>28</td>
<td>Mixed type</td>
</tr>
<tr>
<td>Bay View</td>
<td>Tsarevo</td>
<td>3*</td>
<td>107</td>
<td>Condo</td>
</tr>
<tr>
<td>Aparthotel Vris</td>
<td>Tsarevo</td>
<td>4*</td>
<td>75</td>
<td>Condo</td>
</tr>
</tbody>
</table>
Before analyzing the collected data, we shall briefly present the timeshare units and specify a few things about them. In view of the current grading system, many of the timeshare properties rank between 3 and 5 stars, however 4 and 5 star properties have the largest share in this market, which seems to be in line with the assertion that timeshare properties traditionally are high-ranking and conforming to high standards of quality and service. The better part of the units are condominium apartments – 12 in total, while the remaining 3 are of a mixed type. It is worth noting that with condominium units, not all of the apartments are offered to tourists as serviced accommodation, while those offered to tourists constitute between 5% to a little over 50% with timeshare units. The remainder are exclusively used by the timeshare owners which makes them vacation apartments of the type ‘second home’. Basically, the mixed type properties represent a condo unit with a typical hotel part, which is usually a separate building. In two of the three mixed type units (Severina and Festa Pomorie Resort) the hotel part is of largely limited capacity as compared to the vacation unit, which implies that timeshare has become the dominant activity in the area, while classic hotel operation is given a complementary status.

Based on our survey among managers of timeshare units, we have arrived at the following essential and most significant conclusions:

✓ Nearly all of the managers - 13 of the respondents (87%), have expressed a positive or somewhat positive perception of the timeshare vacation complexes situated along the Southern Black Sea coast of Bulgaria. Of the remaining 2, one has given a neutral rating and one a ‘somewhat negative’ rating, which accounts for managers’ positive outlook on timeshare development in the region of our study.

✓ In terms of their attitude, respondents (interviewed managers) see the development of timeshare vacation properties as a driver in creating a more favourable business climate in the tourism sector: 67% of the managers have given a ‘somewhat positive’ rating, 27 % - ‘strongly agree’ and only 6% - ‘strongly disagree’, which boils down to 1 person of the respondents, thereafter our final assessment is also positive.

✓ As for their evaluations, respondents see the rise in timeshare vacation properties as a factor that can boost tourism development by attracting more investments (10 responses), expansion of hotel operations (7 responses) and improving the quality of accommodation (6 responses), which in our opinion will have a positive effect on Bulgarian hotel operation and tourism as a whole.

✓ Respondents of the survey share the opinion that a timeshare model, in its original form of one or two week intervals and up to 52 owners per unit is virtually inapplicable for Bulgaria. This can be explained with the more elaborate marketing involved, higher selling price and a more complex system of management, maintenance and use. In this line, modern varieties of timeshare ownership such as condo-based resort units and mixed type units seem to be the better option in hotel operations along the southern Black Sea coast as these exhibit less owners per unit and offer flexibility in the usage of the timeshare property.
Among the most tangible benefits of timeshare vacation property ownership, higher return on investment comes first, followed by the overall product upgrade resulting in higher quality. Submitted scores by respondents are 4.1 and 4.0 respectively, with a possible ranking from 1 to 5 /the latter being the most significant/. The results of the above survey are on a par with another research in this area, where higher return on investment of apartment hotels have been pointed out as an advantage together with a lesser risk as more timeshare owners share in the responsibility for the property. This analysis serves to highlight some of the main advantages of timeshare units as compared to classic hotel operation from a managerial point of view.

Owing to the fact that owners use their timeshare interval to stay at the resort mainly in ‘low season’ (6), the peak of the season (5), and in ‘off season’ (4), the perception that the more vacation property owners, the better the distribution of timeshare usage throughout the year, and the more positive the effect upon seasonality in the sector, may not be unequivocal. Most of the respondents ranked this item as ‘somewhat positive’ (7), with 5 of them remaining neutral, and another three giving a negative response. Thus, we have reasons to conclude that there is clearly a need for specialized managerial practices to gain more in this area.

In the opinion of most of the respondents, the annual fee for maintenance and upkeep of timeshare property helps to cover for the fixed costs, with 5 of the respondents ranking this item as ‘somewhat positive’ and another 5 giving a ‘strongly agree’ response. From the remainder, three have remained neutral with ‘neither agree’ or disagree’ response and two giving a ‘somewhat disagree’ response. This analysis shows that one of the reasons for the positive attitudes on prospects for timeshare development in the surveyed region, can be attributed to the specifics of the timeshare product and its ability to achieve higher profitability.

A fair part of the respondents (74%) believe that timeshare vacation owners are loyal to the resort property owner or developer, which bodes well for the timeshare business – 4 of the respondents have given ‘strongly agree’ and seven – ‘somewhat agree’. From the remaining, only one has given ‘strongly disagree’ response, with ‘neither agree nor disagree’ for the remaining three. This characteristic is indicative of the positive prospects for timeshare development of these vacation properties.

The respondents affirm that they have no problems with staff training and organization of leisure time for the owners during their stay at the resort, as in their perceptions, hotel operators in the main segments are traditional for Bulgaria as a tourist destination. These are mainly Russian, English and Irish property owners. This comes as no surprise, since in 2005, Bulgaria became a hit on the British tourist market and was promoted as a good place to invest in real estate properties. This was also the time when many Russians invested

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in the newly built apartment complexes, mostly in the 4-5 star accommodation units. This speaks clearly in support of the fact that timeshare property development along the southern Black Sea coast does not entirely hinge on bringing in huge investments into the sector.

✓ All of the respondents see the need for extending the range of services for timeshare property owners and introduction of new price policies and meals at preferential costs which are to guarantee the vacation property positive development. In addition, some of the bigger timeshare property developers started offering special cards to timeshare owners which can be used to pay for services on credit, to be settled at the end of their stay. The amount owed can be deducted from the dividend due on the timeshare unit for the previous year and thus the owner is able to pocket his profit.

✓ As for management policies, the perceptions of hotel managers show that they expect a more liberal policy and more flexible approach to be applied to units of smaller capacity and low-category units when choosing the property management operator. The owners are given the right to decide whether to use the services of an on-site property management team or use an outside property agency. Offering the property as serviced accommodation to tourists is made possible through adverts on the Internet, placing ads in newspapers, etc. According to the respondents, major setbacks in timeshare property development along the southern Black Sea coast of Bulgaria are as follows: lack of discipline and the fact that many of the timeshare owners fail to pay regularly for their maintenance or other fees. In each timeshare unit on average, between 10% and 30% of owners are in default as they failed to pay their annual maintenance fees, not to mention those who simply refuse to pay or complain about exorbitant fees. On the other hand, those who wish to offer their timeshare unit to tourists in return for a dividend, prefer to use their vacation property in a prime week or in peak season which can act as a deterrent in the timeshare exchange process.

Based on collected data and our analysis we can draw the following **main conclusions**: hotel managers have positive attitudes on timeshare development along the southern Black Sea coast, even though timeshare vacation ownership spread as a variety of the original timeshare product. However, there are barriers to the development of timeshare in Bulgaria, which can be overcome by taking appropriate action. In view of the above summary, we can propound a few ideas on how to overcome these barriers and offer guidelines on how to make timeshare operations along the southern Black sea coast more efficient:

> Alongside the two most common timeshare varieties in our country, it would be a good policy to develop residence clubs which fall within the high-end luxury condominium properties but may be privately owned as well (the so-

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called private residence clubs), offering a high-quality product. These residences, usually 4 to 5 star, offer a wide range of ancillary services and amenities. Development of such residence clubs could hike prices in the sector, with subsequent increase in revenue and profit.

- To avoid issues associated with maintenance fees, timeshare owners should have more transparency as to the exact amount of fee, what is included in it and what are the consequences if the fee is not paid, which can encourage a more proprietary attitude to their owned unit. If the above fee seems to be too high, then it shall be ‘stripped’ of all components that can be paid separately such as property taxes, electricity bills, water supply, etc. and thus reduce these fees to more reasonable levels. This can be part of an overall strategy to improve conditions for timeshare development in the discussed region.

- Timeshare units which do not have clauses providing for limitation of their owners’ stay at the resort, but which are offered to tourists as serviced accommodation in prime season, need to be contracted on the basis of additional agreements to allow for their use by tourists during the high season and help generate revenue by typical hotel operations. This may even impact hotel managers’ perceptions and attitudes in favour of timeshare development along our southern coast.

- The managerial team responsible for running the unit are expected to encourage services by offering discounts and preferential prices in the use of ancillary services which in turn will bring more financial benefits to the unit. Liberalization of policies should be carried out mainly with regards to outside companies chosen to maintain the property whose services are regulated by a management contract as the latter will guarantee better quality management and servicing of the unit. In our opinion, this will encourage managers to achieve higher performance results and will have a positive effect on their perceptions about opportunities for timeshare development in the future.

**Conclusion**

The prospects for timeshare development along the southern Black Sea coast of Bulgaria are currently upbeat despite the fact that only certain modern varieties of the timeshare ownership have spread in the region discussed. We tend to accept the assertion that the emergence of timeshare vacation properties will impact positively the tourism sector and will help resolve some of the major hoteliers issues. The last couple of years have been particularly troublesome for Bulgarian hoteliers with rock-bottom prices of 2 euro a bed night, with hoteliers going bankrupt unable to pay for their debts which resulted in a situation where more than 90 hotels had been put up for sale\(^1\). Thus, any opportunity to extend their business in areas different from traditional hotel operation may be a way out of the situation. Arguably, quick return on investments, expansion of hotel operations, product diversification and measures to cover for fixed costs of the units will foster hotel operations and help hoteliers in particular. In conclusion

\(^1\) Spasov, S. Hotels for sale, Horemag, issue. 8, 2007, p. 36-37.
we can say that attitudes expressed by hotel managers for the benefit of timesharing in hotels along the southern Black Sea coast, and some of its features could be the basis for further advanced research in this area which is to reveal more fully the potential of this business at home.

**ATTITUDES AND PERCEPTIONS OF HOTEL MANAGERS ON TIMESHARE DEVELOPMENT ALONG THE SOUTHERN BLACK SEA COAST OF BULGARIA**

PhD student Elena Klateva

**Abstract**

The main objective of the article is to reveal the attitudes of managerial staff in Hotel keeping with respect to the possibilities for developing timeshare on the Bulgarian Southern Black Sea coast. In this connection there are briefly explained the nature and peculiarities of hospitality timeshare, there are also pointed out the main subjects in the system and is stressed the role of managers. There is an emphasis on the author’s survey among managers of timeshare sites in eight Bulgarian southern sea resorts, on the basis of the estimation of which there are drawn four major guidelines for improving the prospects before the use of timeshare. The proposed study could serve as the basis for an extended survey of the possibilities for the development of timeshare in this country.

**Keywords:** Timeshare, Hotel keeping, managers, attitudes, Bulgarian Southern Black Sea coast.
APPLICABLE INDICATORS FOR MEASURING THE LIQUIDITY OF BULGARIAN STOCK MARKET

Doctoral student Krasimira Naidenova

Introduction

Market liquidity is defined as the possibility of converting an asset into cash and vice versa (marketability) without significant price changes and a resulting loss of value. Market liquidity is an essential characteristic of a national stock market and defines it in a qualitative manner by representing the economic potential for attracting foreign long-term equity. Bulgarian stock market is an emerging one and therefore accounts for a lower degree of transparency and protection of investors, with the corresponding problematic attractiveness of investments, low rates of market evaluation of assets and number of traded securities, low market liquidity and high required rate of return.

The problem of liquidity of Bulgarian stock market is a current issue in view of the need for the national economy to develop at a faster rate. Growth of productivity and GDP require funding for long-term high-risk projects with a potential for high return rate. The availability of liquid secondary market is a factor for growth of investment, as shareholders are able to get their money and capital gain back at any time. Secondary markets have to ensure liquidity and mobility for investors and are likely to facilitate raising new investment, provided they reduce price volatility and are effective in an operational, distributive and informational level (Yordanov, 2009). Primary market is also of utmost importance, as it takes on newly issued securities and under circumstances of low investment interest company projects will not be financed. The concept of market mobilized capital is of vital importance for the growth rate (Azfar and Matheson, 2003). This capital represents investment in equity and debt, mobilized by the country’s equity market as a share of GDP. These investments are functions of national savings but access to foreign capital by means of integration and international risk sharing practically renders the size of this capital unlimited. It is only the local market liquidity that sets limits to market-mobilized capital, as both national and international investors require the option of being able to sell their securities at a fair price and at any time.

The object of the present survey is stock market liquidity in Bulgaria. Its subject is a specific aspect of market liquidity, and in particular, the ability to measure this liquidity under conditions of undeveloped stock market. Conventional indicators do not cover the peculiarities of emerging markets concerning quality of information about transactions. Very often data that hypotheses are tested on, do not meet developed markets standards and consequently, the results do not show objective values.

In view of the above mentioned considerations, we shall examine the following Hypothesis:
Bulgarian stock market liquidity that is measured by means of conventional indicators does not always give an objective evaluation. Stock market in Bulgaria is an emerging one and, consequently, its liquidity will be more accurately represented by an alternative indicator that accounts for specific peculiarities.

The aim of the present study is to highlight the problems related to measuring liquidity and to come up with specific, more adequate indicators which should overcome data inconsistency and irrelevance and allow for an objective analysis of the liquidity of Bulgarian stock market.

1. Conventional indicators for market liquidity

1.1. Aggregate absolute indicators

Stock market liquidity is difficult to measure - it cannot be observed directly and cannot be represented by means of a single indicator (Amihud, 2002), therefore various indicators are used for different aspects of liquidity. One of the most widely used is market capitalization. It represents the sum total of the market evaluations of listed companies and is an absolute indicator for the potential size of the market. It is calculated according to the following formula:

\[ MC = \sum Pi \times Ni \]

where \( MC \) is the capitalization of the stock market, \( Pi \) is the price of the public company \( i \) shares, \( Ni \) is the number of the listed shares of the public company \( i \). The indicator does not represent the liquidity of assets at a micro level, but does provide information on the overall state of the market through the number of listed securities and their price.

The volume of trade (\( V \)), represented as the number of traded securities is also a frequently used indicator for liquidity and one that gives essential information about investors’ interest (Amihud, 2002). The second variable based on trade turnover is trade volume as a sum total (\( TVT \)), equal to the multiplication of the number of traded securities times the price of transactions. High volume signifies high investment interest presented both by the number of securities as objects of trade and the high evaluation of assets (\( TVT \)) (Fernandez-Amador, Gachter, Larch, Peter, 2011).

The indicators for volume and capitalization can be used as aggregate ones (with reference to the overall market) and as micro measurements (referring to particular companies). They are also important components of aggregate relative measurements.

1.2. Aggregate relative indicators

The absolute measurements presented above do not give an idea of the stock market’s “weight” in the economy in general and cannot serve as instruments of comparison between different countries. For this purpose it is necessary to use indicators

\[ MC = \sum MC_i \]
of a relative character. A basic indicator of the kind is the stock market size compared to the size of the national economy. This indicator provides information about the valuation of that particular part of national economy which has access to stock market (Beck, Demirguc-Kunt, Levine, 2009):

\[ Rmc = \frac{MC}{GDP}, \]  

(2)

where \( Rmc \) is the rate of market capitalization compared to GDP with MC standing for market capitalization. The values of the indicator reflect both the evaluation of public companies and the extent to which business is interested in attracting foreign equity. An economy with a large number of high-value listed companies suggests high levels of trust and transparency, as well as access to considerable foreign capital, including international capital.

Market liquidity is also represented through the notion of market activity, which is measured by the total value traded (TVT) as a share of GDP representing the size of the economy (Beck, Demirguc-Kunt, Levine, 2009). This indicator can also be referred to as “value traded ratio”:

\[ MA = VTR = \frac{TVT}{GDP}, \]  

(3)

where \( MA \) stands for market activity, \( VTR \) stands for the value traded ratio, TVT is the total value traded on the stock exchange and GDP is the gross domestic product. By means of this indicator the stock exchange turnover is juxtaposed against economic activity (Demirguc-Kunt, Levine, 1999). The indicator measures the organized trade of company equity as a proportion of GDP and positively influences liquidity on a wide economic base. The indicator provides generalized information but nevertheless contains a sufficient number of qualities that are prerequisite for a market liquidity analysis – high turnover compared to GDP means a high degree of investment interest in public companies and considerable listed capital, which is itself a forecast for high investing activity and high interest on the part of issuers of securities in the future.

The next widely used measurement of market liquidity is the relation between the overall traded value at the stock exchange and market capitalization, which is often referred to as turnover ratio (Beck, Demirguc-Kunt, Levine, 2009):

\[ TR = \frac{TVT}{MC}, \]  

(4)

where \( TR \) stands for turnover ratio, TVT stands for the total traded value, and MC stands for market capitalization. This indicator measures traded stock value against the stock market size and complements the market size indicator, also known as market activity. Both indicators distinguish between the important characteristics of stock markets, such as size, activity and liquidity. Market activity shows the share of stock market, its relative size against national economy while turnover ratio illustrates activity and liquidity as listed securities trade potential. These indicators do not directly measure the ease with which investors sell or buy (the liquidity of particular assets), but only trade in securities as compared to the size of economy (Levine, Zervos, 1996) and the size of the market (aspects of market liquidity).
2. Relevance of indicators to Bulgarian stock market

The study of Bulgarian stock market liquidity calls for not only calculation and comparison of indicators values against those of other markets, but also for an assessment of their relevance and adequacy. In the process of analysis one has to establish how objective an indicator is, based on the quality of input data.

Aggregate relative indicators measure liquidity on a macroeconomic scale - the degree to which agents can cheaply, quickly and safely trade the rights over their equity (Levine, 1996) and enable comparison between the conditions for investment in different countries, while at the same time overcoming the differences in these countries’ size of economies and markets. Juxtaposition is important, as it shows the attraction of the national market and the extent to which it will draw investors, based on the indicators of competitive markets. The following tables examine the values of basic aggregate relative indicators for market liquidity for a period of 5 years, with selected countries including the developed financial market of the US, the new market economies of similar economic background such as Bulgaria, the Czech Republic, Slovakia, Romania and Croatia and, in view of a better comparison, data are included on the highly-developed, though predominantly bank-based financial system of Germany.

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Rate of market capitalization compared to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td></td>
<td>Bulgaria</td>
<td>0,171</td>
</tr>
<tr>
<td></td>
<td>Czech Republic</td>
<td>0,217</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>0,306</td>
</tr>
<tr>
<td></td>
<td>Croatia</td>
<td>0,385</td>
</tr>
<tr>
<td></td>
<td>Romania</td>
<td>0,097</td>
</tr>
<tr>
<td></td>
<td>Slovakia</td>
<td>0,052</td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>0,797</td>
</tr>
</tbody>
</table>


Table 1 presents data on the rate of market capitalization against GDP (Rmc=MC/GDP), showing public companies evaluation compared to the size of the national economy. High values of the indicator characterize markets with high levels of trust and transparency, and consequently high investment interest. Values show Bulgaria’s exceptionally poor performance, though comparable to that of the majority of new economies.
Market capitalization (a constituent measurement in the ratio) is an indicator that is subjected to a certain degree of manipulation of data concerning emerging markets. With non-liquid issues market evaluation of companies depends on one-off transactions, often for nominal purposes only, or due to random factors, and, as a result, the indicator is subject to distortion. Examples include sporadic deals, trade carried out with the objective of arithmetic accumulation of issue turnover or end-of-session trade, aiming to change the closing price. In this sense, the evaluation of the liquidity of the Bulgarian stock market by means of the market capitalization indicator or its derivative, cannot be categorized as fully objective for all listed securities. Nevertheless, disparities in performance are serious enough and the relevance of input data to the formulation of indicators does not alter markets rating according to which emerging markets are at a lower level of development compared to developed ones regardless of the financial system base (bank-based or market-based). Among emerging markets, that of Croatia accounts for the largest share of national companies traded, but trade activity rate is comparable to that of the remaining new economies.

Table 2

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1,841</td>
<td>0,734</td>
<td>0,782</td>
<td>0,634</td>
<td>0,630</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>15,254</td>
<td>10,845</td>
<td>6,381</td>
<td>6,747</td>
<td>5,116</td>
</tr>
<tr>
<td>Germany</td>
<td>59,092</td>
<td>42,158</td>
<td>44,580</td>
<td>43,914</td>
<td>39,815</td>
</tr>
<tr>
<td>Croatia</td>
<td>2,855</td>
<td>2,230</td>
<td>1,736</td>
<td>1,463</td>
<td>0,872</td>
</tr>
<tr>
<td>Romania</td>
<td>1,105</td>
<td>1,384</td>
<td>1,067</td>
<td>1,388</td>
<td>1,077</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0,019</td>
<td>0,192</td>
<td>0,188</td>
<td>0,300</td>
<td>0,180</td>
</tr>
<tr>
<td>USA</td>
<td>322,195</td>
<td>364,523</td>
<td>216,627</td>
<td>188,911</td>
<td>143,196</td>
</tr>
</tbody>
</table>


Table 2 presents indicators for market activity \( MA = VTR = \frac{TVT}{GDP} \) in different countries. The share of public companies traded stock is a major indicator for the development of the stock market. Again, data shows poor performance of Bulgarian stock market in comparison with developed economies, while comparable to that of the new economies. Here the Czech Republic and Slovakia are the notable exceptions – Czech stock market considerably overtakes the other emerging markets, Slovenian one lags behind, while stock markets in Bulgaria, Croatia and Romania perform at comparable rates.
As an indicator, market activity is largely influenced by the relevance of data concerning traded values turnover TVT, as the indicator does not disclose the way the transactions it includes are performed. Often on emerging markets there is pre-arranged trade, as well as nominal/technical transactions aiming to manipulate the closing price, which distorts the value of securities price, and they, in turn, affect the sum total of turnover. Examples include trade in large volumes, which, unless pre-arranged, will cause a high price impact, and it, in turn, will considerably alter prices and the resulting turnover value.

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bulgaria</td>
<td>10,771</td>
<td>5,020</td>
<td>5,133</td>
<td>4,116</td>
<td>4,852</td>
</tr>
<tr>
<td></td>
<td>Czech Republic</td>
<td>70,391</td>
<td>40,588</td>
<td>29,417</td>
<td>38,010</td>
<td>27,044</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>193,267</td>
<td>107,159</td>
<td>103,036</td>
<td>134,512</td>
<td>91,773</td>
</tr>
<tr>
<td></td>
<td>Croatia</td>
<td>7,416</td>
<td>5,411</td>
<td>4,104</td>
<td>4,130</td>
<td>2,271</td>
</tr>
<tr>
<td></td>
<td>Romania</td>
<td>11,333</td>
<td>7,501</td>
<td>5,428</td>
<td>11,954</td>
<td>11,455</td>
</tr>
<tr>
<td></td>
<td>Slovakia</td>
<td>0,373</td>
<td>3,592</td>
<td>3,937</td>
<td>6,063</td>
<td>3,566</td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>404,067</td>
<td>348,581</td>
<td>189,065</td>
<td>187,620</td>
<td>124,604</td>
</tr>
</tbody>
</table>


The share of regulated trade in listed equity against the market size \((TR = TVT/MC)\) (table 3) shows investors interest in local public companies. This indicator overcomes the impact of market prices, as they feature in both the nominator and denominator and represents the real interest in company equity and for this reason will be accepted as a relatively adequate measurement of market liquidity. According to data, Czech stock market is the most attractive one, but its size is comparable to that of the other emerging markets. Romanian market demonstrates a similar performance, but is less active than the Czech one. Bulgarian stock market exhibits an average rate of size and activity against emerging economies.

In view of these considerations we can assume that indicators deriving from the number of traded securities are less subjected to manipulation on emerging markets, whereas indicators based on securities prices suffer from a certain degree of inadequacy of input data.

\(^2\) Price impact or market impact is the effect a market participant causes when buying or selling an asset, and correspondingly the degree to which buying or selling changes the price against the buyer or the seller – up during purchases and down during sales. A low value of the indicator suggests high liquidity.
3. An alternative indicator for measuring the liquidity of Bulgarian stock market

Regarding the indicators examined above, it has been assumed that the price of deals made under conditions of low market liquidity and undeveloped market is subject to manipulation and, consequently, distorts the values of trade turnover and market capitalization (which are themselves constituents of essential aggregate relative measurements of market liquidity). Bulgarian market is an emerging one and therefore exhibits some deviations from developed markets. One of the most substantial distortions of information is a result of contractually arranged trade. They are the reason why price impact values will not represent the real opportunity for instant trade and transactional costs offered by the market.

Contractual trade is a practice on illiquid markets. Contractually arranged deals are a registration of an agreement between contractors that has been reached in advance, regarding an issue, a number and a price of securities, by means of simultaneously entering “buy” or “sell” orders of equal parameters into the trade system and their automatic matching. In this type of trade transactional costs for seeking a contractor are high, because the market does not provide enough width and depth for the volumes quoted but deals remain hidden for the public as a measurement of liquidity. Without a preliminary arrangement, a market order for a large number of shares would lead to a high price impact and would later result in a freeze of trade in a particular issue. Establishing the contracted character of a deal requires access to the list of orders and deals and, respectively, detecting the time for entering and matching. With such deals failure to consider the preliminary contractual arrangement distorts information regarding market liquidity and individual liquidity.

All that has been said above suggests the formulation of an indicator to measure the share of contracted number of securities in the total numbers traded, for a particular company or the market in general, over a certain period. The indicator represents the share/proportion of the traded volume that has been an object of contract/arrangement:

\[
RCT = \frac{CV}{V}
\]

where RCT – ratio of contractual trade, CV – contractual volume for the period – number of securities or value of trade of a particular issue, V – total traded volume for the period in number of securities or value for a particular issue. High values will signify high preliminary contracted volume, and, respectively, high estimated transactional costs involved in seeking a contractor and will be an indication for low liquidity of the asset. The indicator presents another important aspect of liquidity – immediacy, by showing what amount of stock can be traded without preliminary negotiations and looking for a contractor. The indicator is suitable for use in relation to emerging markets and provides additional information other than depth and width of positions. The difference stems from the fact that amounts that are subject to contractual arrangements do not feature in the list of unexecuted orders and are not visible, i.e. do not form market demand and supply and are not accessible to investors.
The indicator can also be used as an aggregate one, for the whole market, and in this case the number of securities must be weighed for every company, as different companies have different registered capital. In this case a more objective representation can be achieved by using the total value of all preliminary contracted deals as a share/proportion of total trade on the market.

\[
RCT_a = \frac{TVT_c}{TVT}
\]  

(6)

where \(RCT\) – aggregate ratio of contractual trade, \(TVT_c\) – total value of contractual trade for the period (contractual value traded), \(TVT\) – total value of trade for the period.

Table 4 presents data pertaining to a 16-day period within a three-year timeframe. Data includes total stock exchange turnover, volume of trade in issues where contractual arrangements have been identified, and the volume of contractual trade in these issues. The ratio for contractual trade is calculated for individual assets and for the market as an aggregate/total. \(RCT_i\) (ratio of contractual trade for individual assets) values are calculated when the contractual volume for a particular asset is divided by the total turnover for the particular issue, while values for \(RCT_a\) (ratio for contractual trade for the aggregate/total market) are calculated when the total contractual volume for the day is divided by the total turnover of the stock exchange.

Data shows high rates of preliminary contracted trade. For some issues the indicator’s values are close to one, which means that traded volume of that issue is problematic without the additional transactional costs of seeking a contractor. The average market indicator shows that approximately one third of all traded volumes require preliminary contractual arrangements.

On the basis of calculated measurements \(RCT_i\) with a value of approximately 70% and \(RCT_a\) about 30%, it is proved that the market liquidity of Bulgarian stock market measured by conventional indicators does not objectively represent the rate of liquidity. Bulgarian stock market is an emerging one and that is why its liquidity will be more accurately represented by an alternative indicator, accounting for its characteristics, and namely the indicators for the ratio of contractual trade. According to the presented data, the rate of contractual trade is calculated at about 30% for the period quoted; in other words, the rate of distortion of results for standard indicators will refer to approximately 30% of the deals on the stock market.

Failure to take into consideration the pre-arranged deals will lead to inaccurate results, as without the element of preliminary contractual arrangement, price impact will be higher. With a high price impact, deals prices are subject to serious change against the agent who places an order, whereby the agent sustains considerable losses and causes an additional market imbalance\(^3\). As a result, deals prices will differ and that will result in changed values of the indicators for turnover and market capitalization which are basic input data in the aggregate indicators for liquidity.

\(^3\) Market imbalance is a deviation in the price and quantities (demanded, supplied and volumes of transactions) from estimated values. Market imbalance arises because of information asymmetry or high price impact.
### Values of the indicator Ratio for contractual trade for BSE Sofia for a sixteen day period over three years

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<tr>
<td></td>
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#### Table 4
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**Source:** Author’s own calculations based on BSE - Sofia database.
Conclusion

Market liquidity is a multi-aspect notion, therefore its measurement requires the application of a number of indicators, including individual ones that account for the peculiarities of the national stock market. Most conventional indicators are based on data about deals prices, which suggests a certain inaccuracy of values because of the specifics of input data characteristic of emerging markets.

Regarding Bulgarian stock market, calculations of the ratio of contractual trade for particular issues and for the market as an aggregate total, prove a certain inadequacy of input data referring to deals prices. The number of traded securities is a relatively credible indicator, as it represents the performed transactions (absolute interest in assets) and contractually arranged volumes do not substantially distort this number. Turnover ratio represents the proportion of contractually traded securities against the total number of registered stock and can also be considered adequate enough. Aggregate ratio of contractual trade represents that section of trade which requires additional transactional costs and can be used as a correction value for the conventional indicators for market liquidity. Because of the above mentioned considerations, the most suitable measurements of Bulgarian stock market liquidity appear to be the volume of traded securities, corrected or not against the contractually arranged volumes, turnover ratio (TR) and aggregate ratio of contractual trade (RCT).

Reference


APPLICABLE INDICATORS FOR MEASURING LIQUIDITY ON THE BULGARIAN STOCK MARKET

PhD student Krasimira Naydenova

Abstract

The liquidity of the stock market is a multifaceted and abstract concept, which is why it is difficult to measure. Emerging stock markets differ from the developed ones due to the lower liquidity, the level of protection of investors, the investment interest, the attractiveness of the investments, the application of the regulations. The measurement of their market liquidity requires a revision of the standard indicators and the composition of alternative ones, suitable for more precise estimation. Such an adequate indicator can be the aggregated level of agreement of trade.

Keywords: stock market, market liquidity, measurement indicators, emerging markets.