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INCOME INEQUALITY AROUND THE WORLD

Gulzar TAHIROVA\(^1\)
Ramiz RAHMANOV\(^2\)
Asif QASIMOV\(^3\)

Abstract

This paper aims to identify the significant determinants of income inequality in developed and developing countries. The empirical analysis of the panel of 147 countries over the period from 1980 to 2010 shows that for developed countries, the significant determinant of income inequality is public spending on education, and for developing countries, the significant determinants are public spending on education, affordability of financial resources, and infrastructural development. Furthermore, no significant evidence supporting the existence of Kuznets’ curve is found.

Introduction

Income inequality has always been an important issue for economic, social, and political reasons. In countries with high income inequality, households at the bottom of the income distribution face difficulties in maintaining their consumption and financing their debt in the short-run. Such circumstances lead to a decline in aggregate consumption and increase the proportion of non-performing loans, thereby worsening the economic performance of the country and increasing the fragility of the financial sector. High income inequality also creates social challenges since households at the bottom cannot access good quality health care and education services because of unfavorable affordability. As a result, the society has a stratum of socially excluded households which can threaten social stability as well as economic development of the country. Finally, unequal societies tend to have political systems which serve interests of the rich. The poor households can blame the biased politicians in their misfortune and express their dissenting opinion by creating social unrest.

1 Economic Development Research Department, Central Bank of the Republic of Azerbaijan, Baku, Azerbaijan. e-mail: gulzar_tahirova@cbar.az
2 Economic Development Research Department, Central Bank of the Republic of Azerbaijan, Baku, Azerbaijan. e-mail: ramiz_rahmanov@cbar.az
3 Economic Development Research Department, Central Bank of the Republic of Azerbaijan, Baku, Azerbaijan. e-mail: asif_qasimov@cbar.az
Finding the significant determinants of income inequality is necessary in order to design policies which will be able to reduce inequality and thereby prevent its negative consequences. This paper attempts to identify significant determinants of income inequality for developed and developing countries. The estimation results show that in developed countries, the only statistically significant determinant is public spending on education. In developing countries, the significant determinants include public spending on education, affordability of credits, and infrastructural development. The income level and maturity of the legal system have no significant influence on income inequality in both developing and developed countries. Furthermore, we fail to find any significant evidence in favor of the existence of Kuznets’ curve.

There exists a large body of literature on determinants of income inequality, most of which focuses on one or two determinants. This paper extends the existing literature by analyzing a rich set of determinants of income inequality and a large sample of developed and developing countries at the same time. Such a fortunate combination will allow us to obtain more accurate, up-to-date and efficient estimates and thereby provide solid empirical evidence for designing effective anti-inequality policies.

The rest of the paper is organized as follows. The next section analyzes the evolution of income inequality in developed and developing countries. In the following section, we provide an overview of the potential determinants of income inequality. The fourth section specifies the equations, the fifth section describes the data, and the sixth section presents and discusses the results. The final section concludes the paper with the summary of the empirical results and their policy implications.

**Evolution of income inequality**

In the mid 1980s, the world average of the Gini coefficient was at the level of 34.89 (Figure 1). By the mid 1990s, the average value of the coefficient increased by 14%. Then the equality began improving but the world in 2010 was still more unequal than it was 25 years ago.
Sources: World Bank, OECD, European Commission, UN WIDER, and the Gini project.

Figure 1. Income inequality around the world

If we split our sample into developing and developed countries, we observe that the level of inequality in developing countries has been always higher than that in developed countries (Figure 1). For example, in the mid 1980s, the value of the Gini index in developing countries was 32% greater than the value of the index in developed countries. It is also interesting that the gap between inequality levels of the poor and rich countries did not decline but slightly increased. Thus, in 2010, the Gini index in developing countries became 35% higher than in developed countries.

Furthermore, over time the evolution of inequality in developed and developing countries demonstrated different patterns. In developing countries, the inequality was increasing from the mid 1980s till the mid 1990s, and then it started gradually declining. In developed countries, the Gini index was increasing for a longer period, till 2000, and then it was decreasing till 2010. The common feature for both developed and developing countries is that in 2010, the societies in both country groups became more unequal than they were in 1985.

Determinants of income inequality

Evolution of income inequality is not an ad-hoc process but the consequence of changes in the economic and social environment. The elements of this environment include income level, financial development, availability and quality of education,
infrastructural development, and maturity of institutions. Below we will separately discuss the mechanics of each element.

**Income level**

An increase in income level is supposed to reduce income inequality because economic development assumes an increase in the state budget income which, in turn, allows the government to finance generous social assistance programs. However, in the seminal paper, Kuznets (1955) concludes that at the early stages of economic development, income inequality increases, then it stabilizes, and, at the later stages, it declines. Graphically, the relationship between income and inequality has an inverted U shape. According to Kuznets (1955), at the first stages of economic development, assets and therefore income generated by the assets are concentrated in hands of the small fraction of population. At the same time, as the industrialization progresses, the share of urban population increases. Given that urban areas have greater income heterogeneity than rural areas do, urbanization is accompanied by an increase in inequality. At the later stages, when the economy achieves a certain level of economic development, the redistributive policy of the government comes into effect and income inequality moderates. Kuznets’ paper has been followed by an array of studies which present mixed evidence. For example, Campano and Salvatore (1988) extend and update the sample to test Kuznets’ hypothesis. Their results confirm the existence of the inverted U shaped curve for the top 80 percentile of population. Ram (1988) re-examines Kuznets’ hypothesis using a sample of developed and less developed countries. The author finds strong evidence for Kuznets’ hypothesis for the whole sample, but little support for the inverted U curve when the sample is limited only to less developed countries. Bahmani-Oskooee et al. (2008) test time series data covering 16 countries for Kuznets’ hypothesis. The cointegration analysis only weakly supports the existence of the inverted U relationship between income and inequality.

**Finance**

In the presence of credit market imperfections, households, especially the poor ones, encounter obstacles when borrowing for investment and therefore need to rely on personal wealth. We can expect the poor households will underinvest in their human capital and businesses, while the rich households will provide adequate investment. The underinvestment by the poor households will hinder the income convergence between the poor and rich, and, as a result, the income inequality will persist (Galor and Zeira, 1993). The empirical literature generally supports this hypothesis. For example, analyzing Latin American household data, Westley (2001) concludes

**Education**

For employers, education usually signals on productivity of employees. As more productive workers are paid more, we can expect that if heads of the poor households have higher and better education, their income will increase. As a result, the gap in income between the poor and rich households and hence inequality will narrow. Generally, the empirical studies support this hypothesis; however, some studies find that either broader access to education increases inequality or the relationship between education and inequality display a non-linear pattern. For example, Hoeller et al. (2014), who analyze data for OECD countries over the period from 1998 to 2009, document that education reduces income inequality. Sylwester (2002), who examines a sample of 50 countries for the years of 1970 and 1990, finds that an increase in expenditure on public education reduces income inequality both in OECD and developing countries albeit the effect is stronger in OECD economies. Analyzing the mathematical model, Hendel et al. (2005) conclude that an increase in access to education through lowering interest rates on study loans actually leads to an increase in inequality. The authors explain this result in the following way. The poor households consist of high ability and low ability members. As a rule, high ability workers receive higher wages than low ability workers. When financial constraints are eased, high ability members take study loans to obtain higher education. After completing their studies, they find well paid jobs and get out of poverty, and after the wage gap between those who leave the pool of the poor households and those who remain there widens, and therefore income inequality rises. Rehme (2006) conclude that more education first increase and then decrease income inequality. The initial increase of inequality documented by
Rehme (2006) can be explained by Hendel et al.’s (2005) hypothesis, and the subsequent decline in inequality can be due to the redistributive policy which usually becomes effective as the economy graduates from the developing status.

**Infrastructure**

Improvements in infrastructure can ameliorate income distribution. Better infrastructure in the rural areas and districts where the poor reside eases access of the low income households to education and health care facilities creating necessary conditions for human capital development. Developed infrastructure also allows poor households to work at jobs which pay more but located at places which previously were difficult to commute to. Furthermore, improved infrastructure gives an opportunity to micro businesses to access more advantageous product and input markets which can increase their income. Calderon and Chong (2004) use a sample of developed and developing countries for the period from 1960 to 1997 to investigate the relationship between infrastructural development and income inequality. The authors conclude that better infrastructure reduces inequality in both developing and developed countries, but the effect is larger in the developed economies. Calderon and Serven (2004), analyzing a sample of more than 100 countries over the period 1960-2000, also find that infrastructural development lessens income inequality.

**Institutions**

Institutions affect allocation and use of public and private resources. If institutions are underdeveloped, resources are misallocated and ineffectively used. The social assistance does not reach the needy, and the poor households refrain from investing their limited wealth because of a high risk of misappropriation. Ultimately, the income inequality prospers. However, the empirical literature presents mixed evidence. Some studies find that better institutions reduce inequality, whereas the other studies find that better institutions increase inequality. For example, Gyimah-Brempong (2002), who uses panel data for 21 African countries over the period of 1993-1999, finds a positive correlation between corruption and income inequality. Gupta et al. (2002), who employ a sample of countries over the 1980-1997 period, also find a positive relationship between corruption and income inequality. But, Dobson and Ramlogan-Dobson (2010), who employ data for 19 Latin American countries over the period 1984-2003, determine that lower corruption is associated with higher income inequality. As an explanation of this surprising finding, the authors suppose that the improvement of institutions imposes higher transaction costs on the shadow economy where the poor are employed, thereby decreasing their income.
Empirical approach

To identify the significant determinants of income inequality, we will estimate the following equation using a two-stage least squares (2SLS) technique which will take into account the possible endogeneity:

\[
\text{income inequality}_{i,t} = \alpha_0 + \alpha_1 \text{income level}_{i,t} + \alpha_2 \text{finance}_{i,t} + \\
\alpha_3 \text{education}_{i,t} + \alpha_4 \text{infrastructure}_{i,t} + \alpha_5 \text{institutions}_{i,t} + \varepsilon_{i,t}
\] (1)

where \(\varepsilon_{i,t}\) is the error term, \(i\) denotes a cross-section dimension of the sample, and \(t\) denotes a time series dimension of the sample.

Furthermore, to reexamine the existence of Kuznets’ curve, we reestimate equation (1) augmented with the square of income level:

\[
\text{income inequality}_{i,t} = \alpha_0 + \alpha_1 \text{income level}_{i,t} + \beta_1 \text{income level}_{i,t}^2 + \\
\alpha_2 \text{finance}_{i,t} + \alpha_3 \text{education}_{i,t} + \alpha_4 \text{infrastructure}_{i,t} + \\
\alpha_5 \text{institutions}_{i,t} + \varepsilon_{i,t}
\] (2)

Data description

It is problematic to find an indicator which precisely reflects income inequality; therefore, in empirical analysis, we usually use the proxies of income inequality. Income inequality metrics include such proxies of inequality as GINI index, Hoover index, Theil index, and ratio of percentiles. In this study, we use GINI index as a proxy for inequality because in contrast to the other proxies, GINI statistics is available for many countries and for a long period. As a proxy of the income determinant, we use GDP per capita. The finance variable is proxied by the real interest rate which is a difference between a nominal lending rate and inflation. To quantify the effect of education on income inequality, we use per capita expenditure on secondary education. Telephone lines per 100 people variable captures the impact of infrastructural development on inequality. We also use the law and order index, which measures the maturity of the legal system and abideance of the laws in a society, to estimate the role of institutions in determining inequality. Since we use 2SLS estimator, additionally, we employ a set of instrumental variables which includes latitude, land-lockedness, legal origin, ethnical fractionalization, religious fractionalization, and lingual fractionalization.

The GINI data were compiled from the databases of World Bank, European Commission, OECD, UN University, and the GINI project. The statistics on the interest rate, inflation, per capita public spending on education, GDP per capita, and telephone lines per 100 people were taken from the database of the World Bank. The
law and order index data were collected from the PRS Group’s reports. The data on latitude and land-lockedness were taken from the database of the CEPII. The figures on ethical, religious, and lingual fractionalization come from Alesina et al (2003). Finally, the legal origin data were taken from La Porta et al (1999).

In our analysis, we use annual data which cover 147 countries and the 1980-2010 period. The sample includes 33 developed and 114 developing countries. Although the time span is long, we are forced to use the panel data methods because, for many countries, the GINI data are published only periodically. To build the panel, we divide the 1980-2010 period into six sub-periods.

We also have to acknowledge that a change in inequality determinants does not have an immediate effect on income inequality: it takes some time for inequality to respond to a change in the environment. For this reason, we regress the average values of the determinants for the periods of 1981-1985, 1986-1990, 1991-1995, 1996-2000, 2001-2005, and 2006-2010 on the values of the GINI index for the years of 1985, 1990, 1995, 2000, 2005, and 2010. If the value of the GINI index was missing for the year of interest, we used the value of the nearest year. However, despite all the efforts, the panel is still unbalanced. All monetary variables are in constant 2005 USD. The GINI variable, GDP per capita, and public expenditure on education per capita are expressed in the log form.

**Empirical results**

Table 1 reports the estimation results for equation (1) for developed and developing countries. The p-values of J statistics indicate that the instrumental variables are valid. The regressions also contain a full set of period dummies to control for country trends in income inequality. The negative sign of GDP per capita coefficient implies that an increase in income reduces income inequality in both developed and developing countries, but the effect is not statistically significant at the conventional level. The found negative association is in line with the theory which says that economic development if accompanied by the effective redistributive policy leads to reduction in income inequality. Although this relationship must not be necessary significant in developed countries because these countries have already attained a high level of development, and therefore the further development has only a marginal effect, the impact of economic development on inequality in developing countries is expected to be significant because these countries have a low level of economic development, and therefore a small economic growth should generate a large effect. We can propose two reasons for the insignificant relationship between economic development and inequality in developing countries. First, it can be the case that governments in devel-
oping countries pursue ineffective redistributive policy which hampers the effect of economic development. Second, the relationship between economic development and income inequality can be non-linear, e.g. follow Kuznets’ curve.

Table 1

Determinants of income inequality
(dependent variable: log(Gini index), 2SLS estimator)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Developed</th>
<th>Developing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log (GDP per capita)</td>
<td>-0.037</td>
<td>-0.115</td>
</tr>
<tr>
<td>Log (Spending on education per capita)</td>
<td>-0.026*</td>
<td>0.740**</td>
</tr>
<tr>
<td>Real lending rate</td>
<td>0.014</td>
<td>0.028***</td>
</tr>
<tr>
<td>Law and order index</td>
<td>-0.037</td>
<td>-0.037</td>
</tr>
<tr>
<td>Log (phone lines per 100 people)</td>
<td>-0.087</td>
<td>-0.480**</td>
</tr>
<tr>
<td>Constant</td>
<td>4.269***</td>
<td>1.823</td>
</tr>
<tr>
<td>Period dummies</td>
<td>Included</td>
<td>Included</td>
</tr>
<tr>
<td>N</td>
<td>137</td>
<td>239</td>
</tr>
<tr>
<td>J statistics (p-value)</td>
<td>0.313</td>
<td>0.300</td>
</tr>
</tbody>
</table>

Note: * p<0.1; ** p<0.05; *** p<0.01

An increase in per capita public spending on education significantly decreases income inequality in developed countries but increases income inequality in developing countries. The positive relationship between inequality and public expenditure on education in developing countries is surprising. In fact, an increase in public education spending is supposed to improve access of the low income households to education and therefore reduce income inequality because better educated household members can be eligible for higher paid jobs. To explain this empirical finding, we refer to Hendel et al’ (2005) line of argument. Thus, although an increase in public spending on education in developing countries improves access of the poor to education facilities, one part of the poor household members are not able to take advantage of new opportunities due to low ability. As a result, the income gap between those who earn their degree, find well paid employment, and leave the pool of the poor and those who fail to do so increases, and the inequality problem toughens.

Higher real interest rate is associated with greater income inequality in developed as well as developing countries, but the effect is significant only in developing countries. The positive relationship between real interest rate and inequality accords with the empirically confirmed hypothesis that financial development reduces income inequality since high real interest rates impose liquidity constraints on households. The negative
coefficient of the phone lines per 100 people variable implies that improvement of infrastructure reduces income inequality in advanced and developing economies albeit the effect is statistically significant for the latter. The effect of the improving infrastructure and financial system has a statistically significant effect only in developing countries because the level of infrastructural and financial development in these countries is low; therefore, small improvements in quality of infrastructure and financial institutions immediately produce a large positive effect. In developed countries, in contrast, infrastructure and financial institutions are already well developed, so their improvement has only a marginal effect on income inequality. Finally, development of the legal system negatively but insignificantly affects income inequality in both developing and developed countries. The probable reason why our estimation results show that the effect of institutional development on inequality is insignificant even for developing nations is the relatively short time horizon of the sample. It usually takes a long time for a change in the legal system to generate a marked effect on economy.

Table 2 presents the estimation results of equation (2) which tests for the existence of Kuznets’ curve. The results show that although the coefficients of the income variable in level terms are positive and the coefficients of the income variable in quadratic terms are negative in both developed and developing countries, we cannot statistically confirm the existence of Kuznets’ curves because all coefficients except the coefficient of the quadratic term for developing countries are statistically insignificant at the conventional levels.

**Table 2**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Developed</th>
<th>Developing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log (GDP per capita)</td>
<td>3.392</td>
<td>2.019</td>
</tr>
<tr>
<td>[Log (GDP per capita)]²</td>
<td>-0.166</td>
<td>-0.169*</td>
</tr>
<tr>
<td>Log (Spending on education per capita)</td>
<td>-0.028*</td>
<td>0.818***</td>
</tr>
<tr>
<td>Real lending rate</td>
<td>-0.007</td>
<td>0.031***</td>
</tr>
<tr>
<td>Law and order index</td>
<td>-0.100</td>
<td>-0.003</td>
</tr>
<tr>
<td>Log (phone lines per 100 people)</td>
<td>-0.145</td>
<td>-0.368*</td>
</tr>
<tr>
<td>Constant</td>
<td>-12.767</td>
<td>-5.094</td>
</tr>
<tr>
<td>Period dummies</td>
<td>Included</td>
<td>Included</td>
</tr>
<tr>
<td>N</td>
<td>137</td>
<td>237</td>
</tr>
<tr>
<td>J statistics (p-value)</td>
<td>0.164</td>
<td>0.980</td>
</tr>
</tbody>
</table>

**Note:** * p<0.1; ** p<0.05; *** p<0.01

For developing countries, this empirical finding implies that economic devel-
Development will reduce income inequality only after a certain level of development has been achieved. In such a case, it is legitimate to argue that economic development and institutional development are parallel processes, and so when economic development reaches such a threshold level, its institutions become efficient enough to lay grounds for the effective redistributive policy.

Conclusions and policy recommendations

The empirical analysis of the panel data of 33 developed and 114 developing countries over the 1980-2010 period shows that in developed countries, the statistically significant determinant of income inequality is the public spending on education, while in developing countries, the statistically significant determinants are public spending on education, real lending rate, and the number of phone lines. An increase in public spending on education reduces income inequality in developed countries but raises inequality in developing countries. Real interest rate has a positive association with income inequality in developing countries. Expansion of telecommunications also has a negative effect on income inequality in developing countries. Furthermore, if we compare the magnitudes of the coefficients of the developed countries with those of developing countries, we see that the magnitudes of the latter are the larger. This fact implies that policymakers in developing countries have larger policy space to solve the inequality problem than their colleagues in developed countries.

The results suggest that to reduce income inequality in developed world, policymakers should improve education by increasing public spending on education. Obviously, it is important not only to increase spending but also to take care of the effective use of the resources. The financial resources need to be directed to the areas of education which directly affect labor productivity, e.g. vocational education and research universities. However, we expect that in developing countries, an increase in public spending on education will raise income inequality. Under such conditions, policy makers in developing nations can increase the minimum wages to prevent the wage dispersion and hence an increase in income inequality.

In developing world, to lessen income inequality, policymakers should also raise affordability of credits by moderating lending rates and develop infrastructure. To increase affordability of credits for poor households, policy makers need to implement financial sector reforms which will reduce the interest rate spread and the cost of borrowing of financial resources for credit institutions. Infrastructural development is a broad concept and includes the construction of cultural, sports, and recreational facilities whose existence has a marginal effect on income inequality, so to decrease inequality, the governments of developing countries need to focus on the
development of infrastructure means which can significantly improve standard of living, such as roads, water supply, electrical grids, and telecommunications. Additionally, policymakers can score a success in combating income inequality by increasing the effectiveness of the redistributive policy. For this purpose, they need to design the policy in the way that will ensure social benefits reach the poor.

End Notes

1. There is no single comprehensive database on the GINI coefficient covering all countries for a long period; therefore, to compile the dataset for empirical analysis, we used various reliable sources, such as World Bank, OECD, European Commission, UN WIDER, and the Gini project. The reported numbers are averages of the Gini coefficients of all, developed, and developing countries for the corresponding years.

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Economic Studies 60(1). p. 35-52.
MACROECONOMIC FEATURES OF THE INNOVATION PROCESS IN THE BULGARIAN ECONOMY

Evgeni FILIPOV

Abstract

The article examines the aggregate results of the innovation activity in the economy of Bulgaria. Innovation has become the cornerstone of modern economy, reflecting the increasing importance of technology in the production function, and playing an important role in developing competitive advantages of the national economy.

In this article, the aggregate innovation performance of the Bulgarian economy is evaluated, based on expert international reports and analyses. To determine some of the causes for the unsatisfactory performance, a structural analysis of the expenditure on research and development activities aims to determine certain specifics of the Bulgarian model.

Keywords: Innovation, Technological change, R&D expenditure.

Introduction

The modern economic development refers to the growing significance of technologies. After the Industrial revolution they play a more important role in the production process. The development of the economic theory reflects this fact and a number of publications (Schumpeter, 1942; Abramovitz, 1956; Romer, 1990, Aghion, 1998 and other) emphasize the key significance of the technological development and innovation processes for economic growth. On this ground in the last couple of decades there come to the fore the ideas of an economy based on knowledge, accepting this not only as one of the most successful and competitive international models, but also as a strategic course of development for the global society.

Innovation is defined in the Innovation strategy for smart specialization 2014-2020 (ISSS) accepted in 2015 as “a new idea that turns out to be successful in practice. The new idea can be a new product, practice, service, production process or a new mode of organization”. Every innovation invention has the potential to turn into a starting point for a process of technological change which can lead to economic changes of various sizes (Tushman and Rosenkopf, 1992). Of interest for the

1 Department of General economic theory, University of Economics – Varna, Bulgaria. e-mail: e_filipov@ue-varna.bg
Macroeconomic Features Of The Innovation Process In The Bulgarian Economy

E. Filipov.

Macroeconomic policy is the aggregate national innovation activity which plays a key role in establishing the international competitive profiles of separate countries.

In regard to this, stimulating the processes of innovation has to be viewed as a key task for Bulgarian economy from the point of view of improving the technological level of the country and maintaining a competitive profile in a global market environment. This corresponds also with the strategic goals of Bulgaria as a member country of the European Union. “Smart” growth and developing an economy based on knowledge are one of the three leading priorities of the newly accepted strategy of Europe 2020 (EU Communication, 2010).

This article aims for studying the condition of the innovation activity of Bulgarian economy and establishing the areas in which our country stands out in comparison to other countries. To reach this goal two basic tasks have been assigned:

1) To define how successful Bulgarian economy is in respect to the development of the innovation activity through a comparative analysis based on generalized results of expert international studies and assessments.

2) To identify the possible presence of specifics in the Bulgarian model for stimulating the innovation activity through analyzing the data on investment in research and development activity (R&D).

To accomplish the assigned tasks it is important to use a suitable framework for enabling a relevant evaluation of the available data concerning Bulgaria. To a considerable degree the existing aggregate world tendencies are determined by leading giant economies which happen to be natural designers of new technologies and have much bigger potential and resource base compared to Bulgaria. That is why as a basis for comparison it is more suitable to use the countries in Central and Eastern Europe (CEE) which, similar to Bulgaria, developed the model of planned economy before accepting market principles and later joining EU – Poland, Czech, Slovakia, Slovenia, Croatia and Romania. Out of this group are the countries which are not members of EU yet, as well as the Baltic countries that are located geographically too far away from Bulgaria.

1. Analyzing the performance of Bulgaria in the field of innovation

Stimulating innovations nation- and region-wide is pivotal in developing the modern variant of economy of knowledge. Technological development plays a significant role in establishing the international competitive profile of separate national economies. That is why in most expert international studies of the global economic environment there lie indicators that reflect the innovation activity, thus providing a sufficient basis for making a comparative analysis in respect to the recent performance of separate countries.
One of the most prestigious comprehensive studies of the economic environment in particular countries is the Global report on competitiveness (GRC). The report is made every year by the World Economic Forum; between 2006 and 2014 the number of countries in the survey rose from 125 to 144. According to the predominant methodology, the ranking of the separate countries is carried out on the ground of twelve groups (sets) of indicators with 110 sub-indicators.

Within the framework of the survey there are identified three main groups of countries on the ground of their economic development: relying on factors, relying on efficiency and relying on innovation. There exist also two interim groups of countries which are in the transitional stage between the different levels. In 2014 Bulgaria was defined as a country relying on efficiency (Schwab, 2015). In the same group there belong also countries such as China, Albania, RSA, Montenegro, Serbia, Macedonia, Ukraine; among the CEE countries – Romania. According to the GRC ranking the remaining CEE countries belong either to the transitional stage to innovation economies (Poland, Hungary, Croatia, Lithuania and Latvia) or directly to the leading group (Czech, Estonia, Slovenia and Slovakia).

Out of the twelve groups of indicators used in the report, two can be related directly to the development of innovation activity. These are “Technological readiness” (set nine) and “Innovations” (set twelve). In reviewing the assessments of Bulgaria concerning the period 2006-2014 it is clear that our country shows better results and improved general positions based on the index for technological readiness, yet, it receives unfavourable assessment in respect to the indicators in set twelve.

The analysis of the indicators for technological readiness shows that they are bound mainly to the process of technological transfer which demonstrates the ability of a country to absorb technologies. In the 1960s on the ground of the growing importance of the flows of technological transfer between the developed innovation technologies and the countries affected relatively heavier by the war, the term “technological catch-up” emerges (Gerschenkron, 1962). It reflects the strategy of countries that rely on imitating and adapting innovations from outside sources rather than inside generation of innovation. Geopolitically Bulgaria is closer to the group of countries defined by Grossman and Helpman (1991) as “the Southern group” – they specialize exactly in technological transfer and diffusion. In this regard the good assessments in the sphere of technological readiness should be accepted as a positive sign at this stage of development of the country.

However, in making a structural analysis of the indicators as part of set nine one realizes that the frontline positions of Bulgaria are largely due to indicators that concern the development of the Internet network in the country. Despite being an
important infrastructural factor, from the point of view of the technological transfer
the Internet network is of minor importance. Having in mind this particularity, in the
study here only three indicators from group nine have been used. They concern
directly the technological transfer and give a more realistic idea about the
performance of the country in this sphere. These are, in particular: “Access to new
technologies”, “Direct foreign investment (DFI) and technological transfer” and
“Technological absorbance on company level”. According to these indicators
Bulgaria is ranked at the rear (between positions 85 and 91) in the last couple of
years, which could be defined as an unfavourable result.

As a whole the performance of Bulgaria according to the indicators for
innovation is poor which corresponds to its profile of a country relying on efficiency.
According to most indicators Bulgaria falls behind the first one hundred countries. As
its only strong sphere one can define the indicator “Patent applications” which is
estimated on the ground of the size of the population; yet, in this area a tendency for
lagging behind the other countries has been observed since 2012. Throughout the
studied period the country has been assessed as too poor according to the indicators
“Cooperation between higher education and industry” and “Expenditure of the private
sector on research and development activity”; in the last couple of years the position
of the country in respect to “Innovation capacity” also deteriorates.

One has to report an important observation about Bulgaria lagging not only
behind leading economies but the remaining CEE, too. In 2014 the country received
lower assessment for the indicators identified as key ones in the sphere of
technological change and transfer (Table 1). The best comparative performance could
be reported in respect to state provision of technologies. In this context we can see
that in the field identified as strong for Bulgaria – patent applications – the country is
behind the relevant geopolitical competitors. One can draw the conclusion that in
practice Bulgaria lacks clearly expressed advantages in the field of designing and
transferring technologies and our country has no indisputable excellence in a single
sphere.

It is worrying that Bulgaria has poor performance in respect to attracting direct
foreign investment and the entailing transfer of technologies. The scientific theory
considers DFI a positive phenomenon for the economy because of the secondary
effects that exceed the sheer transfer of capital; it is exactly the transfer of
technologies and knowhow that has greatest significance for the countries receiving
the investment (Mladenova, 2002). On the other hand, despite the active Bulgarian
policy for attracting DFI there are no positive tendencies in this sphere.
Ranking of CEE countries according to GRC for 2014 - 2015

<table>
<thead>
<tr>
<th>Indicator/Country</th>
<th>Czech</th>
<th>Poland</th>
<th>Hungary</th>
<th>Slovenia</th>
<th>Slovakia</th>
<th>Croatia</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Set twelve: Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation capacity</td>
<td>39</td>
<td>72</td>
<td>50</td>
<td>42</td>
<td>78</td>
<td>93</td>
<td>66</td>
<td>105</td>
</tr>
<tr>
<td>Quality of research-and-development institutes</td>
<td>28</td>
<td>67</td>
<td><strong>127</strong></td>
<td>75</td>
<td>89</td>
<td><strong>124</strong></td>
<td>68</td>
<td><strong>108</strong></td>
</tr>
<tr>
<td>Expenditure of the private sector on</td>
<td>36</td>
<td>63</td>
<td>23</td>
<td>33</td>
<td>65</td>
<td>53</td>
<td>55</td>
<td><strong>81</strong></td>
</tr>
<tr>
<td>Research-and-development activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperation between higher education and</td>
<td>31</td>
<td>98</td>
<td>96</td>
<td>72</td>
<td>78</td>
<td>75</td>
<td>65</td>
<td><strong>100</strong></td>
</tr>
<tr>
<td>industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State provision of latest technologies</td>
<td><strong>107</strong></td>
<td>89</td>
<td>95</td>
<td><strong>108</strong></td>
<td><strong>117</strong></td>
<td><strong>129</strong></td>
<td>75</td>
<td>97</td>
</tr>
<tr>
<td>Sufficient number of scientists and engineers</td>
<td>55</td>
<td>62</td>
<td>56</td>
<td>80</td>
<td>76</td>
<td>79</td>
<td>72</td>
<td><strong>96</strong></td>
</tr>
<tr>
<td>Patent applications</td>
<td>30</td>
<td>40</td>
<td>29</td>
<td>23</td>
<td>38</td>
<td>36</td>
<td><strong>56</strong></td>
<td><strong>48</strong></td>
</tr>
<tr>
<td><strong>Set nine: Technological readiness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to latest technologies</td>
<td>51</td>
<td>90</td>
<td>44</td>
<td>40</td>
<td>50</td>
<td>59</td>
<td>81</td>
<td><strong>91</strong></td>
</tr>
</tbody>
</table>
The second relevant international report chosen as a framework for comparative analysis is the Innovation Union Scoreboard. The report covers the EU countries and gives the opportunity to analyze the performance of Bulgaria in the context of the goals set for EU in respect to Europe 2020. The survey assesses the innovation environment and activity in the member countries on the ground of 25 indicators. According to their performance the countries are classified in four basic groups – innovation leaders, innovation followers, moderate innovators and modest innovators (Hollanders, Es-Sadki and Kanerva, 2015).

The survey has been carried out since 2007 and the average score of Bulgaria has been steadily negative. Traditionally our country has the poorest performance among all European countries; in 2014 it was ahead of Romania for the first time after a serious decline in the performance of our border country to the North. On this ground Bulgaria belongs to the group of modest innovators, along with Romania and Latvia only. The growing trend in the score for innovation made by the Union makes a good impression; however, the trend breaks in 2011 and recovers not before 2014. With the exception of Romania, no other country shows such a long period of decline in performance which leads to serious lagging behind the remaining CEE countries, among which Czech is the leader.

The values of the separate indicators, which serve as a basis for the index of the Innovation Union, themselves happen to be a useful analytical tool because they are formed on the ground of EC = 100, e.g. they reflect the degree of Bulgaria lagging behind the other EU member countries.

One could draw interesting conclusions in comparing the scores of Bulgaria in the various areas of analysis with an average value for the studied CEE countries (Table 2) and tracking the areas of lagging behind where negative results appear. It is seen that the only relative advantage of Bulgaria in respect to the comparative group is the field of intellectual property where our country shows relatively good scores owing to the high concentration of brands and designs of the Community issued per capita.
Table 2

Profile of the CEE countries according to the Innovation Union Scoreboard – 2014

<table>
<thead>
<tr>
<th>Indicator/Country</th>
<th>Bulgaria (modest)</th>
<th>Czech (average)</th>
<th>Poland (average)</th>
<th>Hungary (average)</th>
<th>Slovenia (follower)</th>
<th>Slovakia (average)</th>
<th>Croatia (average)</th>
<th>Romania (modest)</th>
<th>Deviation of Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>83</td>
<td>99</td>
<td>97</td>
<td>82</td>
<td>122</td>
<td>113</td>
<td>115</td>
<td>79</td>
<td>-18</td>
</tr>
<tr>
<td>Open systems for research</td>
<td>23</td>
<td>48</td>
<td>24</td>
<td>38</td>
<td>73</td>
<td>31</td>
<td>30</td>
<td>21</td>
<td>-15</td>
</tr>
<tr>
<td>Financing and support</td>
<td>16</td>
<td>75</td>
<td>66</td>
<td>63</td>
<td>94</td>
<td>61</td>
<td>55</td>
<td>26</td>
<td>-47</td>
</tr>
<tr>
<td>Private investments</td>
<td>44</td>
<td>90</td>
<td>79</td>
<td>86</td>
<td>120</td>
<td>63</td>
<td>75</td>
<td>18</td>
<td>-32</td>
</tr>
<tr>
<td>Networks and entrepreneurship</td>
<td>12</td>
<td>90</td>
<td>15</td>
<td>38</td>
<td>119</td>
<td>42</td>
<td>63</td>
<td>9</td>
<td>-42</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>65</td>
<td>66</td>
<td>67</td>
<td>55</td>
<td>108</td>
<td>43</td>
<td>35</td>
<td>27</td>
<td>+8</td>
</tr>
<tr>
<td>Innovators</td>
<td>34</td>
<td>97</td>
<td>49</td>
<td>64</td>
<td>85</td>
<td>74</td>
<td>57</td>
<td>31</td>
<td>-31</td>
</tr>
<tr>
<td>Economic effects</td>
<td>33</td>
<td>86</td>
<td>54</td>
<td>92</td>
<td>72</td>
<td>81</td>
<td>45</td>
<td>54</td>
<td>-36</td>
</tr>
</tbody>
</table>

Source: Innovation Union Scoreboard (Hollanders, Es-Sadki and Kanerva, 2015).

As for the remaining groups of indicators, as a whole Bulgaria steps back compared to the CEE countries, yet, in some trends it shows better results in comparison to some countries, mainly Romania. Mostly Bulgaria lags behind in respect to the provision of finance and support for R&D, also in setting up entrepreneurial partnerships for innovation. Higher scores above the average levels for EU are assigned in respect to private investments in the area; yet, the analysis makes it clear that in this field Bulgaria also lags a lot behind the remaining CEE countries. In combination with low state investment this fact confirms the availability of insufficient resource basis for the development of innovation activity which presupposes the poorer economic effects. On the other hand, even though the results concerning the scientific activity (open systems for research) are among the poorest for Bulgaria, they do not differ too much from those of the remaining CEE countries.

The analysis of the Innovation Union confirms the overall lagging behind in the field of technological development as reported also in GRC. A profile of Bulgarian economy is being formed which technologically lags behind the tendencies observed in EU. This is not a new issue for our country. A long time ago in scientific circles
they identified a discrepancy between research-and-development results in Bulgaria and the standards set for our country as an EU member; a number of measures for solving this issue have been proposed and taken (Mladenova, 2010). More troublesome is the lack of tendencies towards diminishing Bulgaria’s lagging behind in this problematic area, which results into the conclusion that there are structural issues in the model of stimulating the innovation activity in Bulgarian economy.

2. Specifics in the model of developing research and development activity in Bulgaria

The expenditure made on research and development activity is viewed as one of the significant indicators both for the development of innovation processes (Kim, 2012) and the overall condition of world economy. It reflects the entry point in the process of technological change, the conscientious attempts for generating innovation activity and the significance assigned to it.

The existing situation in Bulgaria in view of an environment for implementing innovation activity wouldn’t be assessed correctly without a more thorough analysis of the processes that have taken place in our economy in the last decades. The major event influencing the specific profile of the country is the process from planned to market economy which started in the 1990s. Before that in Bulgaria a different economic system was applied, its characteristic feature being the lack of a private sector. In these conditions the development of technologies was turned into a state task; the process of technological restructuring, as well as all other market functions that normally depend on private initiative were implemented by various state structures.

It was only at the start of XXI century that we can talk about a trend towards increasing investments in R&D. At that, the share of expenditure on R&D in the Gross domestic product (GDP) of the country for the period 1995-2013 amounts average to 0.51% which is a value more than three and a half times lower than the average indicator for EU during the same period of time. From the CEE countries only Romania and Latvia show lower values – the same countries which receive lower scores for their innovation performance according to the Innovation Union.

An important structural moment in analyzing investments in R&D is actually the source of the investments and the channels for using them. Tracking the sources of investments in R&D is bound mainly to the balance between the role of the state and the private sector in this field. Historically the changing role of the state in the economy is one of the basic factors influencing the dynamics of economic processes.
and is often viewed as a major differentiating feature in the classification groups of separate countries (Yakimova, 2006).

Worldwide the general tendencies in leading OECD economies show the dominant role of the private sector as a source of financing similar activities, with a share of more than 55% and a trend for growth. It is observed that after 1988 the share of state participation has increased relatively only in periods of crisis\(^2\). In Bulgaria, on the other hand, one observes the prevailing influence of the state sector and the available data of NSI show that between 2000 and 2009 the state provides more than 60% of the investments in this sphere (Fig. 1).

After 2009 a clearly expressed growth of foreign investments in R&D has been observed; yet, the stable tendency for small participation of the private sector is an unfavourable factor. On the other hand, this situation is not completely untypical for the CEE countries where traditionally the state and foreign sources of financing have unusually great importance.

Source: NSI.

Figure 1. Basic sources of financing for research-and-development activity in Bulgaria (2000 - 2014)

The relatively small role of the private sector stands out also in viewing existing channels for using investments in R&D – e.g. the sectors where this type of activity is carried out in practice. The high share of the state prevails for a long time and only after 2009 one could see a clear tendency for increasing the share of the private sector.
– a trend which might concern increased foreign activity. As a whole this is a specific
dynamics in respect to general tendencies observed in the OECD countries (see
Figure 2).

Of particular interest is the role of the sector of higher education which in
modern statistical groups is viewed separate from the state sector. In the OECD
countries universities are firmly established as the second most important sector for
carrying out R&D. On the other hand, in Bulgaria their share is unusually small.

Source: Eurostat and OECD, R&D statistics.

Figure 2. Share of the basic factors for using investments
in research-and-development activity within the framework
of the OECD member countries and Bulgaria (2000 - 2014)

This is a situation that, as a whole, is uncharacteristic also for the remaining
CEE countries which were accepted as a relevant framework for comparison. From
the country profiles presented on Figure 3 it is clear that in 2013 Bulgaria has the
lowest share of higher education as a sector of spending expenditure on R&D and
only Slovenia shows similar values which can be viewed as a result of the unusually
big role of the private sector.

This situation is not only a snapshot. According to data of Eurostat, between
1995 and 2014 for carrying out R&D activity in Bulgarian universities there were
planned average 0.05% of GDP of the country, whereas in the CEE countries this
share amounts to 0.20%. The powerful role of higher education in implementing
research-and-development projects reflects also the worldly predominant ideas for a
third mission of universities which involves active commercialization of innovation inventions and more active participation of universities in the economic development region-wide (Gibbons, 1994, Etzkowitz, 2000, et al).

Source: NSI and OECD, R&D statistics.

Figure 3. Basic sectors for spending expenditure on research-and-development activity in CEE – 2013

One has to draw the conclusion that this is a sphere in which Bulgarian economy shows unusual deviation and it can serve as a starting point for more detailed studies of a possible interrelation with the poor scores of the country in respect to innovation development.

Conclusion

On the ground of the comparative analysis we can confirm that Bulgaria shows specific features in the field of innovation activity. In respect to technology it lags behind the leading world economies that form OECD and this fact can be explained easily in view of various sizes, resource provision and geopolitical positions of our country. On the other hand, international expert assessment shows weaker development of innovation culture compared to countries such as Czech,
Slovakia, Poland, Hungary and Croatia which need to be viewed as a relevant basis for comparison. Similar poor results in the field of innovation are demonstrated by Romania only. This fact brings forward the idea that technologically Bulgaria has not reached yet the level of the CEE countries which need to be exemplary for the next logical step in the development of the country. Worrying are the contradictory results in the sphere of technological transfer – this process is a natural tool for diminishing the lagging behind.

One of the possible fields where one should look for the reasons for the poor performance of Bulgarian economy is the way R&D activity is organized; it turns out to be a natural source of innovation inventions. Bulgaria has a relatively low relative share of investments in R&D activity in respect to GDP. Structurally one can define the low activity of the private sector as the main reason for this weak innovation environment in Bulgarian economy.

Another essential particularity of the Bulgarian model is the poor participation of the sector of higher education in implementing innovation projects. The share of universities as a channel of spending expenditure on R&D activity is unusually low not only in respect to the predominant tendencies worldwide, but also in respect to the remaining CEE countries.

On this ground we can make the main recommendation for the need to stimulate more active participation of higher education in innovation activity. Thus universities need to play the role of regional R&D centres. In regard to this they have the capacity to take also particular functions in transferring technologies and scientific inventions to production in reality. Improving partnership relations between companies and universities, developing mutual projects and transferring knowhow based on license agreements reflect part of the channels for supporting the innovation activity in Bulgarian economy.

Having in mind the weak innovation environment in the private sector, we need to consider also the potential benefits from stimulating the academic spin-off entrepreneurship which makes provision for setting up a new company aiming at commercializing the technological inventions of higher schools. This type of enterprises is a useful tool for implementing innovation projects in lack of private or foreign partners but requires a well-structured state and institutional framework for regulating and supporting their establishment.

From this point of view, as topics of further studies we can identify the economic aspects of functioning of universities, the strategies for development and commercialization of their research-and-development activity, the consequences of setting up academic spin-off firms and the methods for supporting them.
End Notes

1. According to data of Eurostat
2. OECD. R&D statistics

References


APPLYING THE UNIFORM SYSTEM OF ACCOUNTS FOR THE LODGING INDUSTRY (USALI) FOR THE PURPOSES OF FINANCIAL AND MANAGEMENT ACCOUNTING

Dragan GEORGIEV¹

Abstract

Since long time ago uniform systems of accounts have been developed in many industries for the purposes of accounting, control and management of enterprises, as in the hospitality industry was created so named USALI (Uniform System of Accounts for the Lodging Industry). A study conducted in enterprises of the mentioned sector in Bulgaria in 2014, found that an extremely small share of their financial specialists know USALI, yet most of them are seriously interested in this tool of management accounting. The aim of the article is to survey the Uniform system in the following key aspects for the financial professionals: origin, development, basic principles, essential characteristics, benefits from its implementation, shortcomings and the taken measures for their overcome by the developers of the system.

The Uniform System of Accounts for the Lodging Industry, USALI, created as far back as 1926, has been successfully adopted worldwide as a useful model for creating accounting information for the purposes of financial accounting and management accounting for the companies in the hospitality sector. Nevertheless, the Uniform System is still relatively unknown in a number of countries, Bulgaria included. It can be viewed as a negative fact for the professional and scientific community that less than 4% of financial professionals (including financial directors, chief accountants, bookkeepers internal auditors, etc.) in the hospitality sphere recognize and are aware of the existence of USALI. The said finding is based on a research (Georgiev, 2014), carried out in 2014 and involving 24 companies which own and/or exploit a total of 86 hotels (or 15.13% of the beds in all high-category hotels in the country)¹. This finding can be related to and explained with the state of management accounting in the Bulgarian business practice and the factors that determine it, namely, that management accounting "is generally less common and unsystematically

¹ Department of Accounting, University of Economics – Varna, Bulgaria. e-mail: dragan.georgiev@ue-varna.bg
applied in practice; there is little in-depth knowledge of its methods and there is little awareness of the scope and capabilities of management accounting" (Atanasova, 2015a, p. 7), while its organization is "typical of a post-socialist, post-transitional economy in Europe" (Atanasova, 2015b, p. 206). It is a strongly impressive fact that respondents, with whom further in-depth conversations have been conducted in the process of research (Georgiev, 2015), are seriously interested in the Uniform System and wish to study its potential. Despite its proven significance in the management and accounting practice of the hotelier business worldwide, information about the system in Bulgarian specialized literature is scarce. The circumstances listed above underlie the aim of this paper – to research in a synthesized manner the genesis, essence and development of USALI in the key aspects of hotelier practice. In particular, to identify from a historical perspective the reasons why it was created and to follow the key points in its development so far. Secondly, to explore the nature of the system – its aim, underlying principles, specific characteristics, its structure and the benefits of applying the system. Thirdly, to identify its major disadvantages and the measures USALI developers took in order to overcome them.

For the purposes of accounting, control and company management in certain economic spheres there have been developed, for a long time now, the so called uniform (unified) accounting systems. Tourism and particularly one of its aspects, hospitality, is considered among the pioneers of the initiative (Harris & Brown, 1998) with the developed uniform system for the lodging and accommodation sector – USALI. It is believed to be the foundation for the chronologically later similar systems for management accounting for restaurants, clubs, spa centres and other.

The main concept in developing a system of accounts is "to define accounting standards and financial statements that reflect the terminology and unique character of the activities in the examined industry" (Kwansa & Schmidgall, 1999). When financial professionals in a particular industry implement uniform systems of accounts, this results in uniformity and standardization of the accounting procedures involved in preparing management and financial reports. Thus a possibility is provided for analysis of the operational characteristics of a particular industry and this analysis can meet the information needs of the external and internal subjects of business enterprises and economic groups.

The first edition of the Uniform System of Accounts for the hospitality industry belongs to the Hotel Association of New York City, HANYC) in 1926 and its creation is the result of the growing competition between the "players" in the examined sector. They needed a uniform methodology for preparing reports which should provide a uniform information base for performing a comparative analysis of the finan-
cial results achieved by the individual business units and their pertaining departments. The same year saw the foundation, within the association, of a committee for creating and publishing new revised editions of the system. Since then USALI has undergone a number of alterations, with 11 versions being published so far, all of them preserving to this day the system’s underlying principles.

Until 1961 USALI standards were exclusively applied by large hotels, but following a number of queries on the part of the American Hotel and Motel Association, AH&MA, the National Association of Accountants, NNA commissioned the system’s adaptation to the needs of small and medium-sized businesses, too. From that moment on, the American Hotel and Lodging Association, AH&LA, in cooperation with the Hospitality Financial and Technology Professionals – HFTP, periodically publish the new editions of USALI (Vinogradov, 2009).

For a long time USALI was applied mainly in American hotels and hotel chains and it was only after its ninth edition in 1996 that it gained the characteristics of an internationally oriented system (Quigley, 2011). This breakthrough is mostly due to three factors:

- The leading role of the USA in the process of globalization of the world economy, tourism sector included;
- The gradual expansion of the circle of stakeholders, within which the problems of applying the Uniform System and the prospects of its updating are discussed;
- Its gradual harmonization with the stipulations of IAS/IFRS.

Although nearly a century has passed since the first edition of the USALI guide, thanks to the system’s continual updating, every new edition reflects the contemporary needs of the internal and external users of information, which is why the system acquires an even greater importance and is applied by a growing number of businesses in many countries.

In order to clearly explain the aim of USALI, it is necessary to first identify the characteristics and focus of the generated data which are obtained when the system is implemented in the accounting information systems. In this connection three basic models of system are distinguished. Practically, the most common system is the traditional closed system, whose aim is to ensure the preparation of financial statements that represent the financial state of the business entity at a particular moment and for a particular period of time (Kirpalani, 1973). The information generated, though useful for management analysis and control, is designed predominantly for the business external environment – shareholders, stock exchanges, government institutions and others. The second model of a system of accounting is aimed at performance evalu-
tion. Its main purpose is to provide comparability between the actual performance of cost centres and profit centres according to set plans, standards and budgets and thus contribute to the optimization of the management of responsibility centres in the business entity. The third model of an accounting information system, with a rather limited application at present, is based on an approach that is orientated at providing the relevant information for management decision making. The aim is, by using accounting, operational and statistical data, to evaluate the contribution of various alternatives to management decisions (Mossman, 1974) – about launching a product or dropping a product, about pricing, about client profitability and about conducting marketing initiatives.

The guide to USALI implementation and application in the accounting information systems of the company, which professionals refer to as "the little Green Bible" (Quigley, 2011), reveals the underlying principles of the system – standardization, uniformity, comparability, consistency and decentralization of management by responsibility centres. It is exactly the last one of the principles listed above that gives ground for the classification of USALI-based accounting information systems as performance evaluation-oriented systems.

The accounting information system of a given business entity is a subsystem of its management information system, which presupposes the implementation of USALI in the remaining information systems as well, since the first one exchanges information with all the rest. That is to say, USALI should be integrated at a management information system level, so that a direct information flow of data can be carried out across the responsibility centres of the subsystems. (Fig. 1)
Fig. 1. Implementing USALI in the management information system

Depending on the focus of the generated data, the underlying principles and the place of the accounting subsystem in the management information system, the aim of the Uniform System can be defined as follows: by means of its implementation in all subsystems of the management information system of business entities to provide information about the reporting entity by responsibility centres, which should serve for preparing standardized management reports and financial statements as well as for applying a uniform set of tools of financial ratios and operating ratios in order to meet the information needs of the internal and external environment of the business entity (and the economic group).

The aim of USALI that has been brought forward determines its characteristics of a model of accounting oriented towards performance evaluation. The Uniform System requires that revenues and expenses from operating activity be reported and
analyzed in two types of responsibility centres – operational departments which are classified as profit centres and functional departments which are considered cost centres (Quigley, 2011). In order to follow the matching principle, indirect costs (general overheads) pertaining to departments that have supporting functions and do not generate income are classified as "undistributed operating expenses". The main argument of the creators of the model is that distributing indirect costs can be done by means of different theoretical approaches, and the resulting information may be subjective or even wrong, which in turn will lead to misleading interpretations of the performance of various operational departments (Carvalho & Fernandes, 2011). In order to perform a valuable comparative analysis by responsibility centres and also for the purposes of control, the system requires obtaining and presenting estimated, current and retrospective data concerning operating income and expenses in value, as well as in relative shares (defining the significance of the reporting entities in the income/cost structure).

The examined aim and conceptual characteristics of USALI determine the peculiarities and the functions of the elements interrelated in its structure (Fig. 2):

![Source: Author’s figure](image)

**Fig. 2. Structure of USALI**

- For all the operational and functional departments in the typical hotel activities, USALI offers a set of standardized references about the income and expenditure by departments, which is the basis for preparing a summarizing operating statement. The content of each entry is clarified in detail in the guide and for certain articles referring to specific objects alternatives for reporting are examined and/or examples are presented.
- Items/entries from standardized references are tied up into a uniform system of accounts, which is a connecting core among all the remaining elements of USALI. Every operating revenue and expense that is typical and meaningful for hotelier business is reported in a particular account, which in turn features as an entry in one of the standardized accounting references for the revenue and expense of an operational and functional department.

- The guide contains a separate section with the main financial statements and a list of the key disclosures in the explanatory notes. The section explicitly states that it has been prepared according to the American Generally Accepted Accounting Standards (US GAAP), a circumstance that should be taken into consideration in case another accounting base is used, including IAS/IFRS (Hotel Association of New York City, 2014).

- The guide to USALI contains a section of uniform definitions of the most frequently used in hospitality financial ratios and operating ratios (incl. non-financial ones), as well as methodologies for their calculation under a unified information base – the uniform system of accounts integrated in the standardized references and financial statements.

The underlying principles of USALI that have been preserved to this day, its essential characteristics and specific structure, its regular updates and its American origins are the key factors for the system’s development and its establishment worldwide as an information instrument which brings a number of benefits to both the external and internal environment of the enterprises.

In the first place, USALI has established itself in the accounting practice worldwide as a preferred model of information system for the purposes of financial accounting in big hotels and hotel chains in Europe and USA (Ni, 2010), as the system brings about greater comparability and consistency in preparing the internal and financial statements. The unification and standardization achieved by USALI is a prerequisite for its usage as a basis for cost control and income control at the hotel group level (Dittman, Hesford & Potter, 2008). Besides, it provides a uniform base for the consolidation of financial statements of economic groups. The Uniform System features as an accounting basis in a number of branch contracts, management contracts, debt agreements and other documents (Miller, 2014). Complying with the form and terminology of the system, the said documents explicitly state that statements have been prepared in accordance with USALI.

In the second place, the system standardization facilitates conducting a comparative analysis and benchmarking in real time for various hotel operations ratios (Quigley, 2011, p. 47) on the basis of actual and estimated data, as well as carrying
out a structural analysis of income and expenditure (Carvalho & Fernandes, 2011). For this reason a number of organizations, creditors and consultancy firms use the system in order to identify the average value of financial and operating ratios at a regional, national and international level.

Thirdly, USALI application guide offers detailed reports on performance evaluation per department, where the entries for revenues and expenses are grouped together on the basis of responsibility centres classification. The financial results of individual departments are used in order to evaluate managers’ abilities. The use of USALI also facilitates management information assurance concerning the performance of their functions of control, supervision and optimization of hotel operations (Mia & Patiar, 2001).

In the fourth place, introducing the Uniform System as a model for building a management information system provides an opportunity for performing analysis, monitoring various hotel management ratios, as well as providing statistical data (Carvalho & Fernandes, 2011). The third part of the guide "Financial ratios and operational measures" is aimed precisely at the said USALI applications, by providing a methodology for setting specific hospitality industry ratios based on the financial statements and operating reports from the first two parts of the book. This methodology is a foundation for the methodological set of tools used for creating successful computer programs for analysis of hospitality ratios and for the implementation of other instruments of management accounting.

Despite the wide range of applications and the proven usefulness of economic information prepared according to USALI, like any abstract accounting model, the system does have certain shortcomings. Some of these are identified in the criticisms concerning the application of the Uniform System for the purposes of management accounting, the focus being on the relevance of the generated information to the information needs of hotel management. Another part of the system’s shortcomings concerns its application for the purposes of financial accounting and these deficiencies are connected mainly with debatable reporting entities and with reflecting certain accounting assumptions found in IAS/IFRS.

Regarding the first group of shortcomings, a point should be made that in the short term, managers in the hospitality sphere target their efforts mainly at revenue management, which gives the leading role to their marketing departments (marketing professionals). The latter often use information from the accounting department in making a particular range of marketing decisions. Provided a USALI-based accounting model is used, the obtained information is directed to the profitability of individual services and the hospitality product as a whole. In this case no information is pro-
vided about the costs involved in serving certain guest segments, as well as the marginal income generated by these guests. Although the accounting practices connected with revenue management (yield management) have undergone serious development, hotel information systems are still not adjusted to provide information on client profitability (Karadag & Woo, 2006). Therefore, at this stage the Uniform System cannot provide all the information necessary to marketing management that is crucial to tourism businesses.

In connection to the said problem, the Financial Management Committee (FMC) of AH&LA has responded adequately over the last few years, by focusing its attention precisely on the issues of distribution mix and client profitability. Committee members report that in 2012 Cindy Green of Kalibri Labs and her colleague Mark Lomanno produced a scientific report with the title "Distribution Channel Analysis: A Guide for Hotels" (Braak & Anand, 2015). In her study, Cindy Green finds out that identifying the optimal distribution mix for the hotel and the management of this goal is an urgent necessity in a reality where, in order to attract clients, hotels incur costs amounting to 15% - 25% of the revenues received (Green & Lomanno, 2012). That is, identifying the nature of demand in any market and identifying the most profitable mix in a particular competitive position is vital information that is used for defining the expected revenues, as well as for identifying the goals in sales management, marketing and commission costs for third parties.

The report is expected to be updated and published in 2016 as part of the research initiative sponsored by AH&LA Consumer Innovation Forum. Committee members will use the report findings as a basis for the optimization of USALI concerning distribution channels. They recognize the need to work with other hotel professionals in order to standardize the definitions in the said sphere regarding distribution channels and the costs of their maintenance. The efforts made so far in this field have resulted in introducing new metrics of revenue by distribution channels in the last edition of the guidebook to the Uniform System.

In connection with identifying and overcoming the deficiencies stemming from the application of USALI for the purposes of financial accounting, professionals from HFTP (Hospitality Financial & Technology Professionals) held a round table in November 2008. Participants analyzed in detail the tenth edition of USALI from 2006 in order to identify problem areas and mark possible changes in USALI. Because the system is widely used by international hotel chains ("global players"), participants believe it is feasible that further editions be more internationally orientated, so that the system is applicable in various lodging and accommodation facilities worldwide. (Ramirez, 2009)
Following the discussion about changes in USALI, HFTP carried out a survey (Venegas, 2011), aiming to identify problem areas in management and financial accounting, as well as plan measures for overcoming the problems. The research covers opinions of financial professionals in the hospitality industry on debatable questions: report forms, revenue reporting, calculation of hotel operating ratios, secondary department reporting and adapting the system to IAS/IFRS.

The round tables and surveys carried out among hospitality professionals illustrate the successful approach of USALI creators of constantly revising the system. This approach supports its topicality for a dynamically changing hotelier product and its ability to match the information needs of the internal and external environment of the business entity.

To recapitulate, the latest, eleventh edition of 2014 is a product of professional consensus across a wide range of stakeholders with different and sometimes conflicting interests and one that was achieved by including these stakeholders in the process of the system update through a great deal of in-depth research and debate. Supporting the above statement is also the fact, that, unlike the first edition, prepared to match the needs and views of a narrow group of US hotel owners and professionals, the committee responsible for composing and updating of USALI today has greatly expanded over the years to include owners of individual hotels and hotel chains, lecturers, professional accountants, representatives of Smith Travel Research/PKF Consulting, representatives of management companies owners, hospitality consultants. The latest edition reflects the changes in accounting practice as well as those occurring in modern hospitality regarding technological improvements, sustainable development, globalization, new terminology, service clusters, distribution channels, optimized analysis of operating ratios. Impressive efforts have been put by the editors of USALI in the field of training the system’s users, helping them with electronic resources and optimizing communication with users by creating a section for frequently asked questions and explanatory articles. Obviously, USALI editors bear in mind the fact that no matter how useful an instrument of management accounting is, if it is not clarified and provided with the necessary user training resources, it will remain useful in theory but not in practice.

**Conclusion**

The uniform system USALI was created via the joint efforts of the business and academic community of USA – the world economic leader. The system is the first and unique in character model for unified financial reporting based on the principle of decentralization of management by responsibility centres. Through its implementation
in all subsystems of the management information systems in business entities information on reporting entities is provided by responsibility centres and this information is used both for preparing standardized management and financial reports, and for applying a uniform set of tools comprised by financial ratios and operating ratios thus meeting the information needs of the internal and external environment of business enterprises and economic groups. The outlined aim of USALI determines its specific characteristics and structure of an accounting model that is performance evaluation oriented. These features, combined with the system’s regular updating and its American origin are the key factors for its development and adoption worldwide as a set of information tools bringing a number of benefits that are examined in this paper.

Typically, as is the case with any abstract model of an accounting information system, USALI has certain shortcomings. They are mostly connected with the focus of the generated information and with debatable reporting issues. USALI editors have managed to identify them by means of a number of surveys, round tables and discussions involving representatives of all stakeholders. Apart from seeking and finding solutions and overcoming problems, USALI editors continuously address the most recent changes in hospitality financial reporting by periodically releasing new editions of the Uniform System.

The present study explores the genesis, the nature and the development of USALI system while providing a foundation for future research into the conceptual framework, the implementation and application of the system from a theoretical and methodological as well as practical perspective. Serious scientific contribution to the examined topic could result from research into:

- the theoretical model of the Uniform System and the opportunities for its optimization;
- the extent of implementation, the problems and benefits of practically applying USALI (In Bulgaria and abroad).

**End Notes**

1. According to data from the National Statistical Institute following an inquiry on the activity of lodging and accommodation facilities by statistical zones, statistical regions and districts for 2013.

2. Until 1996 a separate guidebook to the Uniform System and a *Uniform System of Accounts and Expense Dictionary for Small Hotels, Motels, and Motor Hotels* were published, and afterwards the two systems were combined as USALI.

3. A number of software products prepare balanced evaluation scorecards out of information collected in databases in order to facilitate the information needs in
hotel management, such as SAP, Navision, Oracle, Microsoft Dynamics and other, structured according to the USALI model. Internet webpages like Hotstats.com disclose results from analyses of hotel ratios by geographical regions, by hotel-star category or according to other criteria calculated in accordance with the methodology and information model of the Uniform System.

References


CERTIFICATION SYSTEMS OF HOTEL SUPERSTRUCTURE

Stelina Spassova¹

Abstract

This article discussed the status of systems for certifying the quality of balneology and SPA services in the hotel superstructure in Bulgaria. The analysis was carried out using the method of induction and deduction, critical analysis, method of comparison, benchmarking analysis and based on a survey conducted by the author. As a result of the examination were made conclusions and recommendations in order to comply new regulatory requirements, enhancing the quality and investor interest in the hotel superstructure in balneology and SPA tourism.

Introduction

Current trends in present day economies, including those outlined in Bulgaria are indicative of an increasing growth particularly in view of the shift in economic priorities from commodity production to provision of services. Taking into account the rigorous quality criteria applied not only to goods and services on offer but to all aspects of production and service provision, human development and human emotions, development and implementation of quality certification systems for various balneological and spa services provided by the hotel superstructure in Bulgaria, has become a necessary prerequisite (Paskaleva, 2012).

At a macro level, hotel superstructure encompasses all of the accommodation units in a tourist destination area. At a micro level, it includes the hotel property with its distinctive style, design and architecture, the rooms and functional links among them, hotel equipment, facilities and furniture. (Dabeva et al, 2013).

It is true that up-to-date, comprehensive research and studies in the area of spa and balneology in the hotel superstructure prove to be rather limited. Problem solutions have been offered but there is still a need for a clear methodological basis that can help process development and improvement. This calls for a more extensive study of the hotel superstructure in Bulgaria at a national and regional level by addressing the issue of quality of tourism services.

¹ Economics & Management of Construction Department, University of Economics – VarnaB, Bulgaria, e-mail: stelina@ue-varna.bg
Bulgaria has a huge potential for the development of leisure tourism. It is a country rich in natural resources including a wide variety of mineral springs and spa waters, curative mud and a benevolent bio-climate which have been seen as powerful drivers for the development of spa and wellness tourism over the last few years, turning it into a thriving sector.

The author of the present paper aims to examine the certification systems regulating the hotel superstructure and more specifically, Bulgarian balneohotels and spa hotels. In line with conducted research, the author also aims to make recommendations and outline opportunities for investment in this particular tourism sector.

To this end, the author has set forth the following research tasks:

- Evaluation of quality standards and state of quality of spa and balneological services offered by the hotel superstructure in Bulgaria;
- Review of the legislative and regulatory framework/basis in the area of balneology and spa tourism in Bulgaria;
- Offering recommendations as to the improvement of the quality of services and implementation of certification systems in the hotel superstructure.

The study involves the implementation of various analytical methods such as induction and deduction, critical analysis/review, comparison and benchmarking together with surveys and questionnaires conducted by the author.

For her studies, the author used the evaluation criteria and procedures developed by Dabeva (2013) the first step of which is identifying the types of hotels to be certified. Hotel superstructure is extremely varied, which means that standardization normally follows hotel classification (Dabeva et al., 2013).

1. Systems for certification of service quality in Bulgarian spa and balneo hotels

The growing competition on the tourism market has made many companies place a special emphasis on quality to gain a competitive advantage. (Stamov, St. and Alexieva, Y., 2005).

Individual methods for quality evaluation, management and certification in the area of tourism open up new opportunities for tourism providers to control, maintain and optimize the desired level of service. These aim to improve the overall quality of services provided and to offer high quality tourism products and services that will meet customer expectations.

The introduction of quality assurance systems in tourism contributes to the growth and prosperity of tourism enterprises but it also helps attract more satisfied customers and thus generate higher revenue and profitability in tourism on a long term basis (see fig. 1).
Quality assurance/certification in tourism allows for:

- increase in safety levels;
- customers to become aware of the actual quality of certified products and services;
- increase in the volume and speed of manufactured goods, hence higher efficiency of tourism activities as a whole;
- higher level of trust between seller and buyer which leads to a purchase decision;
- introducing higher prices and their acceptance by the certified product user;
- higher product or service competitive value and increase in workforce competitive abilities (Neshkov, 2007, p. 49).

Tourism superstructure forms an integral part of tourism amenities and facilities. Its development and functioning is a major factor in creating the right image and competitive advantage of the tourist destination. Hotel superstructure plays an overriding role for the capacity, quality and image/reputation of the superstructure in general. It embraces all accommodation units in terms of category, capacity, furnishing and facilities. Category and capacity of hotel superstructure can be seen as the scale and limit according to which other superstructure components are being built i.e. restaurants and places for entertainment, transport means, retail outlets and sport facilities, etc. (Neshkov et al., 2013).
For the purpose of this study, we shall use the classification of hotel types covered by the Ordinance on accommodation units, catering and entertainment establishments and procedures regulating the category, annulment, downgrading and termination of category (see table 1).

**Classification of hotel types**

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Based on period of operation</th>
<th>Based on geographical coverage, location</th>
<th>Based on purpose and function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hotel types</strong></td>
<td>All year round sea</td>
<td>Apartment hotel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Seasonal mountain city</td>
<td>Residence hotel</td>
<td>Business hotel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balneo hotel</td>
<td>Spa hotel</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Wellness hotel</td>
</tr>
</tbody>
</table>

**Source:** Ordinance on categorization of accommodation units, catering and entertainment places and procedures regulating the category, annulment, downgrading and termination of category.

As balneo and spa hotels are placed in the focus of the present study we shall only discuss the quality assurance standards that apply to the services provided by this type of hotels.

Rapid growth in the area of balneological and spa tourism has encouraged investments which can help renovate existing properties or build new hotels.

There are several factors which determine the success of a given balneohotel or spa hotel (see fig. 2).
On the one hand, proper zoning and selection of facilities and their flowchart arrangement is important, but there are other features that matter, among which the distinctive interior design which gives an important first impression to tourists visiting the spa area of the hotel, from the point of view of spa facilities and quality of service. Indeed, a good advertising strategy can attract visitors but it is the quality of service and degree of customer satisfaction that generates the return customer. (see fig. 3).

**Fig. 2. Preferences of SPA tourists**


**Fig. 3. Answer to the question: What was in the focus of your attention when designing and building your SPA centre?**

Source: Author’s own studies.
The SPA quality assurance in turn is to certify that all conditions for the success of the SPA centre are at hand and this serves as a quality guarantee.

To ensure better international transparency and fairness of competition, the European Spas Association (ESPA) in collaboration with leading experts introduced EuropeSpa Med and EuropeSpa Wellness as international quality certificates. The above certificates ensure quality services and amenities at balneo and spa hotels and they are presented to the attention of visitors, tour operators and health insurance companies across Europe via the official website of the organization www.europespas.eu which lists all certified sites.

On the strength of its European Spa Certificate, the hotel becomes part of the European Spa network. The benefits of being awarded the above certificate are as follows:

(https://www.spa-consult.eu/Bg/Услуги/СПА_одит_и_сертифициране/14/):

- opportunities to be advertised in a website offering spa services to international visitors/guests;
- opportunities to showcase hotels holding an EuropeSpa certificate – slideshow, photos, online booking facilities;
- option for cooperation and direct bookings with the leading German tour operator FIT Reisen, through the official website of the organization www.europespas.eu;
- improving hotel capacity;
- growth in tourist receipts and generating revenue for hotel owners.

According to expert opinion (using data from a survey conducted by the author with tourism professionals), certification of balneo and spa hotels in Bulgaria will increase their market share and create a shortcut to the health funds in Germany (see fig. 4).
Source: Author’s own studies.

**Fig. 4. Answer to the question: Is certification of hotels/spa centres in the area of balneology and spa tourism in Bulgaria a necessary condition?**

Introduction of certification systems in Bulgaria will give a chance to draw a clear differentiation of quality services provided by balneo and spa hotels. Quality assurance grading schemes will help attract more visitors who are seeking the benefits of spa facilities. The certificate will be seen as a hallmark for a guaranteed high quality and professionalism.

Certification aims to increase quality standards in balneo and spa hotels, becoming a necessary prerequisite for their development. Empirical studies show (Neshkov, 2007, p. 51) that the awarded certificate and improved company image make up for the energy and costs incurred during the preparation for the audit preceding the certificate awarding.

Members of the European Spas Association (ESPA) are 21 member countries with 14 000 sites/units offering spa, wellness and balneological services. ESPA has adopted rules and criteria (Quality Standards for European SPA‘s), which aim to signal out the best SPA hotels on the basis of the independent certification mechanism. Compliance with the above rules and the actual meeting of said criteria will result in awarding certificates for SPA hotel, SPA village and SPA destination. EuropeSpa is the quality stamp/sign of the European SPA Association. It is based on a quality assurance system developed by experts of branch associations in collaboration with a research committee embracing more than 30 international and national laws and standards. „Unsurpassed quality at the highest level all over Europe“ –
these are the principles of the European Spas Association. The organizations awarded the EuropeSpa certificate need to demonstrate a minimum of 80% compliance with all criteria, including the minimum KO (knock-out) – criteria which automatically ranks them among the quality leaders in Europe. The following are embraced under the umbrella of the quality stamp:

The EuropeSpa Med certificate – a quality stamp for spa centres in the area of health treatment and wellness, which can be awarded to:

- balneohotels, clinics, public health institutions and hotels offering health and spa services;
- certifies the quality of treatment resources, infrastructure, hygiene conditions and guests safety;
- offers a catalogue with more than 1000 criteria;
- gives a quality guarantee for services on offer to customers, travel agencies, tour operators and health funds;
- guarantees guests safety, through a range of high quality health and medical services.

The EuropeSpa Wellness certificate – a quality sign awarded to wellness hotels:

- it is designed specifically for hotels with health and wellness orientated philosophy;
- certifies quality in the area of safety, wellness infrastructure and appropriate service;
- it is based on a catalogue with nearly 1300 criteria;
- it gives a quality guarantee of services offered to clients, travel agencies and tour operators;
- guarantees visitors safety during their stay at the wellness facility.

The EuropeSpa Hotel Spa certificate – is a quality stamp for SPA hotels providing spa services:

- it guarantees safety and evaluates infrastructure in the most delicate spa sector from hygienic point of view;
- offers a catalogue with more than 500 criteria;
- emphasizes hotel staff professional attitude to quality in the SPA sector;
- gives a quality guarantee for the services offered to guests, travel agencies and tour operators;
- helps customers recognize those hotels which offer a quality service and fully serviced spa centre.

Many of the requirements on which ESPA standards are based, incorporate ISO and HACCP (Hazard Analysis and Critical Control Point) standards. On showing
compliance with ESPA standards the hotel can easily meet the rest of the criteria, too (http://www.alphaquality.org/).

Quality assurance procedures involve the following scope of activities (http://www.europeanspas.eu/) (see fig. 5):

Activity 1. Sending an enquiry to EuropeSpa med & wellness GmbH in the following manner: using online registration form; email; fax; or by mail

Activity 2. Receiving a written offer to conduct an audit and get ESPA certification

Activity 3. If a decision is taken to start a quality assurance procedure, it is the duty of ESPA to set up a meeting.

Activity 4. Filling in a form, containing information about the hotel subject to audit and returning said form within 3 to 4 weeks before the audit. Receipt of plan for audit specifying audit procedures in view of information submitted in the form.

Activity 5. Main audit of premises including: interview with individuals or groups in terms of audit specifics and inspection of documents; inspection of facilities in the presence of responsible staff; final meeting (usually it involves examination of pictures taken) in the presence of the hotel manager or his/her representative

Activity 6. Evaluation of results and preparation of final report

Activity 7. On completion of audit and providing that all criteria are met, the spa hotel receives: EuropeSpa certificate from the European Spas Association (sent by mail or delivered in person) valid for 3 years; registration at www.europespa.eu, an international quality platform, for a period of 3 years, as of the date the certificate was issued; control audit after 18 months /or if requested every year within the framework of ISO audit. For the EuropeSpa Med certificate, a short control audit is to be conducted 18 months after issuance of certificate, including on site inspection of premises (duration: 1 day). For EuropeSpa wellness certificate – an anonymous test is done by a "mystery client" 8-24 months after the main audit.

Source: Own research by the author

Fig. 5. ESPA Certification Procedure

Certification covers the following fields of audit (Paskaleva, 2012):

Audit field 1. Management and compliance system
  ➢ Basic performance characteristics and requirements for balneohotels;
Compliance with local regulatory acts governing drugs, remedies and environmental protection;
- Medical and therapeutic organization of structure and development;
- managing quality and safety;
- analytical quality assurance.

Audit field 2. Collecting, producing and administering local remedies
- protection of medicinal springs and peloid;
- production of local remedies and processing/treatment;
- curative waters /bathing water and peloid treatment;
- storage of remedies.

Audit field 3. Medical and therapeutic divisions, sectors and procedures
- medical ward;
- use of remedies;
- ward for treatment and rest;
- bathrooms, shower rooms and saunas.

Audit field 4. Shelter
- guest rooms (patients);
- room for disabled people.

Audit field 5. Culinary facilities – dining areas and kitchen
- dining area/restaurants, kitchen, storage room.

Audit field 6. Organization of leisure time
- information on resort attractions, side trips and other options to spend leisure time.

Audit field 7. Medical and therapeutic environment
- the medical and therapeutic environment in general (see fig. 6).
There are 260 spa hotels in Bulgaria, 36 of which are members of the Bulgarian Association of Balneology and Spa Hotels. Eight of them are certified by ESPA and there are eight more hotels being in a process of certification (see fig. 7).

In view of European standards, the number of certified hotels in Bulgaria is very low but we have the right to doubt the opinion. The main reason for the small number of certified hotels is the fact that ESPA started introducing certification for SPA hotels in 2009.

The Association has long experience with spa hotels for which it has drawn up around 35 international quality standards. (http://www.spabusiness.com/pdf/ SB_issue1_2016.pdf).
Fig. 7. Answer to the question: What has changed since your hotel was certified?

The above figures are also true for MED European countries where the number of certified SPA hotels is not so big. What is more, the process demands considerable investment and during periods of crisis, many of the hotel proprietors cannot afford such certification.
Statistical data showing the number of categorized hotels in Bulgaria

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Hotels, total 2011</th>
<th>Hotels, total 2012</th>
<th>Hotels, total 2013</th>
<th>Hotels, total 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of categorized hotels</td>
<td>3 776</td>
<td>2 758</td>
<td>2 953</td>
<td>3 163</td>
</tr>
<tr>
<td>Number of rooms</td>
<td>141 625</td>
<td>150 570</td>
<td>151 120</td>
<td>157 128</td>
</tr>
<tr>
<td>Number of beds in use</td>
<td>283 251</td>
<td>301 140</td>
<td>302 433</td>
<td>314 257</td>
</tr>
<tr>
<td>Total room capacity</td>
<td>58 885 218</td>
<td>56 211 341</td>
<td>58 739 766</td>
<td>61 396 232</td>
</tr>
<tr>
<td>Number of bed nights</td>
<td>18 855 331</td>
<td>20 252 038</td>
<td>21 617 474</td>
<td>21 698 391</td>
</tr>
<tr>
<td>Average room occupancy</td>
<td>32.04 %</td>
<td>36 %</td>
<td>36.4 %</td>
<td>35.3 %</td>
</tr>
</tbody>
</table>

Source: NSI and IAOT.

Perspectives for quality assurance of balneo and spa hotel services in Bulgaria are related to the recent regulatory changes. New, stricter rules in the provision of spa services and certification of hotels have been introduced. The current Law on Tourism states very clearly who has the right to put the label ‘SPA’ on their hotel and offer wellness, medical and thalassotherapy services.

As of January 29, 2016, Special Ordinance №2 was adopted, regulating the terms and conditions for certification of balneological (medical SPA) centre, SPA centre, wellness centre and centre for thalassotherapy. Under Ordinance Nr.2, within a six month period of its coming into effect, all persons operating in centers with balneo and spa services should bring them in line with the new requirements and apply for quality assurance.

In line with the long awaited changes by the tourism sector, the right to use the SPA abbreviation in their name, respectively the designations ‘balneological’ (medical SPA), ‘wellness’ and ‘thalassotherapy’ or provide services under the common name ‘balneology’ or ‘SPA/Wellness’ is given only to service providers who hold a certificate for such type of hotel. The hotels will receive the appropriate certificate if they meet a number of mandatory requirements – for building, furniture and equipment, service, language skills of staff and other.
The certificate is valid for a period of 5 years as of the date of issuance. Certified centres will be entered into a special register which will be public and part of the National Tourism Register. The certification aims to establish the suitability of the centre for balneological and spa services. This will help increase the quality of services and increase safety for guests using the above services.

The certified centres should hold a category symbol depending on their type, including a certificate and plaque placed on site in a prominent position. The law explicitly states that inscriptions of the type, name and category of tourism establishments (tourist sites) should not mislead tourists. This should put a stop to bad practices such as units with one Jacuzzi and a single masseuse boasting SPA in their name thus tarnishing the image of the country as a tourist destination of somewhat poor quality. For centres which fail to conform to this requirement, the certifying body should change the hotel type categorized as balneohotel or spa hotel and issue a new category symbol corresponding to the actual type ‘hotel’. The normative document provides for minimum mandatory requirements which are to be met by balneological and spa centres, in terms of construction, equipment, furniture, maintenance and range of services provided. There are also specific requirements for staff qualifications, skills and language competence.

According to data submitted by the Bulgarian Association of Balneology and Spa Tourism, there are 3775 hotels in Bulgaria, 260 of which are being promoted as balneological and spa hotels. According to the institute, only 60 hotel properties will be able to meet the strict requirements/criteria introduced by the state.

After the 18th ESPA congress which was held on 15-17 May, 2013 at Grand Hotel Pomorie, Bulgaria has gained its foothold on the map of Europe as a year-round tourist destination. Despite the crisis in recent years, the sector has exhibited growth rates both in tourist revenue and in the number of overseas guests.

Currently, revenues from spa tourism vary between 4% and 6% of the total segment, according to various sources, but these can get as high as 10%, according to people working in this sector. Bulgaria is a country with long-standing traditions in balneology and hotel superstructure with over 2 billion euro of investments in this sector for the last couple of years. More importantly, this type of tourism can be operated all-year-round. (see fig. 8).
According to the European Spas Association, Bulgaria has the capacity of becoming the *public health station of Europe* owing to its natural resources but the Bulgarian government should also help. It cost a lot to position Bulgaria on the European spa map. Therefore, from now on, the country needs to invest in marketing and hotel superstructure identified as its weak points.

A major concern for the sector are those hotels which put SPA on their logo but fail to offer a quality service. The Bulgarian Association of Balneo and Spa tourism upholds the opinion that certification of Bulgarian balneo and spa hotels will help improve their quality of services and increase their competitiveness.

**Conclusion**

The survey aims to examine quality assurance systems of balneo and spa services provided by the hotel superstructure in Bulgaria. In the focus of study is the current state of service quality in balneo and spa hotels through a sample survey of tourism professionals active in this area.
In summary of the above, we can draw conclusions and make recommendations, as follows:

- hotel superstructure requires implementation of quality assurance systems to certify the quality of services provided by balneo and spa hotels;
- certification of balneo and spa hotels can be realized in accordance with ESPA certificates;
- the process of acquiring an ESPA certificate requires considerable investments and is carried out for specific audit fields;
- specific requirements should be raised for investment projects for renovation and construction of balneo and spa hotels, based on international quality assurance certificates, i.e. EuropeSpa Med, EuropeSpa Hotel Spa and EuropeSpa Wellness;
- specify measures and action to be taken by hotel proprietors, investors, local authorities and the state to improve marketing initiatives and infrastructure;
- information campaign to be launched by respective local authorities and the state in order to address the new requirements of the regulatory basis for certification of service quality in balneo and spa hotels in Bulgaria;
- ensure that strict control is applied by the Expert Committee on the classification and certification of tourist sites (ЕККСТО) on the introduction and implementation of the new regulatory requirements for balneo and spa hotels in terms of category symbols.

The herein drawn conclusions and proposed recommendations are intended to help investors in their decision to invest in quality assurance systems and certification of service quality in balneo and spa hotels.

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NATIONAL CLUSTER POLICY IN BULGARIA: NATURE AND MAIN CHARACTERISTICS

Irena SLAVOVA¹
Yovka BANKOVA²

Abstract

The prospects for the companies and regions to benefit of cluster formations encourage governments in different countries to implement policies to support clusters. Clusters have become an integral part of EU policy and governmental policies in different countries; already a pillar of their economic and regional development.

The main objective of the paper is to analyze the national cluster policy in Bulgaria and on this basis the main characteristics of that policy to be outlined.

To achieve the objective the current research, presented in the paper, covers three interrelated elements that characterize national policy: first, strategic planning documents that define the role of clusters as a tool to achieve strategic objectives and priorities related to the national development; secondly, national programs supporting the creation and development of cluster formations to achieve strategic objectives; third, governmental authorities responsible for the execution of programs and for the implementation of cluster policy in Bulgaria.

The results of the research are interpreted in the context of the widely accepted in economic theory and practice perception for the crucial role of clusters to increase competitiveness, innovations and economic development, and from the point of view of the recorded experience of other EU member states. National cluster policy in Bulgaria is still underestimated and its performance is limited mainly to the implementation of financial mechanisms as the main result is the extremely high number of new "clusters" that exceeds significantly the numbers in many other developed countries experienced already in cluster development. So, we can conclude that the national policy should be improved, both in terms of direct commitment and responsibility of different governmental bodies / institutions in the development and implementation of cluster policy, as well as in aspect – a clear profile of the programs supporting the creation and development of clusters to be defined in Bulgaria.

Keywords:
Clusters, policies, strategies, programs, financial mechanisms.

¹ Department of Marketing and Strategic Planning, University of National and World Economy, Bulgaria. e-mail: irena_slavova@yahoo.com
² Department of Marketing and Strategic Planning, University of National and World Economy, Bulgaria. e-mail: yovka.b@gmail.com
Introduction

Clusters are "as a rule developed spontaneously by the local business players, who wish to take advantage of the synergy of several factors existing in the geographical region: the presence of customers and suppliers, the access to skilled labour and know-how, the availability of specific natural resources and infrastructure, the low cost of transactions and communications owing to the geographical proximity, the existence of Universities, training centres and research institutes in the vicinity, as well as the presence of financial institutions and other private and public organizations" (European Commission, 2003, pp. 16-17). The initial development of clusters is based on the initiative of the members of the cluster without any support from the pursued special government policy aimed at their formation. But the proven positive effects of clusters for regional development arouse the interest of politicians, who try to collaborate with the members of the cluster. The governments at all levels support the initiatives for the creation and development of clusters through the adequate application of cluster policies (provided there do exist official cluster policies) or by means of other policies, which are not officially known as policies for the development of clusters, for instance innovation policy, industrial policy, regional policy, policy for the development of small and medium-sized enterprises, etc.

The government efforts for the development of clusters, however, do not always have a positive economic impact, and very often the financial mechanisms in support of cluster development used by the governments in a number of countries stir up the interest in the establishment of new cluster formations only in order to obtain project financing (most often financing from the European Funds). That sort of situation is observed also in Bulgaria, which raises the need for an analysis of the pursued cluster policy in this country.

The main aim of the present article is to carry out an analysis of the national cluster policy in Bulgaria and on that basis to outline its main features.

In order to achieve the research goal the following tasks have been set:

- clarification of the nature of cluster policy, its origins and development in Bulgaria;
- identification of the government authorities/national ministries, responsible for the implementation of the policy in the area of clusters;
- study of the political documents at the national level, determining cluster policy;
- analysis of national programmes connected with aiding cluster development and outlining their profile;
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- deduction of inferences ensuing from the analysis and formulating proposals regarding the future development of cluster policy.

The article is structured in the following way: first, the nature of clusters is clarified, as well as their importance on the basis of the conducted brief bibliographical overview; second, the concept of cluster policy is defined; third, the main features of the national policy in the area of clusters are outlined: the period of emergence of cluster policy and its development; government documents, describing the role of clusters for attaining the strategic goals of development of this country; focus of the implemented programmes aiding cluster development (geographical scope, life cycle of the clusters; sectoral policy, target groups); public authorities responsible for the fulfillment of the programmes and the pursuance of cluster policy.

Finally, the main conclusions and suggestions for improving the policy in the area of clusters in Bulgaria are presented. They are based on the interpretation of the obtained results in the context of the widely held view in economic theory and practice of the determining role of clusters for boosting competitiveness, innovations and economic development, as well as the experience of the other EU member states in the area of cluster development.

1. Nature and importance of clusters

Modern cluster theory is based on the ideas of Alfred Marshall (XIX century), who, in Principles of Economics drew attention to the reasons and benefits of the localization of specialized types of production in particular regions (towns). Later on, during the XXth century other researchers also worked in this field – Perroux (Perroux, F., 1950); Boudeville (Boudeville, J.R., 1968).

Cluster theory continued its development dynamically also during the 1990s with the work of M. Porter and gradually turned into the basis of a new approach to economic development (Porter, M., 2003; Delgadoa, M., Porter, M.E., Sternc, S., 2014; Delgadoa, M., Porter, M.E., Sternc, S., 2010; Porter, M. E., Claas van der Linde, 1995).

A cluster, according to Porter, is a "geographical concentration of interconnected companies and associated institutions in a particular field, that are community bound and mutually complementing. The geographical scope of the cluster can be a region, country or even a separate town, around which it could be situated, or neighbouring countries ... Being more than individual industries, clusters encompass a series of related industries and other organizations of importance for competition. They cover, for instance, suppliers of specialized items, such as components, machines and services, as well as specialized infrastructure. Clusters often broaden their
scope to include the distribution channels or consumers and producers of supplementary products, or companies, connected through experience, technology or joint deliveries. Many clusters include governmental and other institutions, which provide specific preparation, training, information, research and technical support. Many clusters also include trading associations and other collective organizations of their members."


While in the various definitions of clusters (Rosenfeld, Stuart A., 1997; Feldman, M. P., Francis, J. & Bercovitz, J., 2005, etc.) the emphasis is placed on differing aspects, the concept of clusters usually consists of three important dimensions.

Firstly, it is widely accepted and indisputable to view clusters as a geographic concentration of specialized companies, advanced skills and competences of the workforce, as well as support for institutions, which increase the flows of knowledge and their dissemination, as a result of their proximity. This grouping of different strengths is often called a prospective strategy for maintaining competitiveness on a global scale.

Secondly, clusters include a network of joint/cooperative enterprises (businesses which have official, social and economic ties between them). They offer good functions for providing a set of specialized and personalized services to a particular group of companies, such as the provision of specialized infrastructure, specific support for the business by means of consulting services or training. In that sense, clusters are a form of "self-organization", which offers competitive advantages. It is believed that geographical closeness facilitates the transfer of the flows of knowledge and unplanned interactions, which are important elements of the innovation process.

In the third place, clusters are characterized by a certain dynamic social and organizational element, the so-called "institutional attachment/fixing" – various interconnected innovation actors are attracted, such as Universities, research institutes; non-governmental and governmental organizations, public authorities - in this way the intensive interaction and cooperation between them is facilitated. H. Rocha and R. Sternberg (Rocha, Sternberg, 2005) call the third dimension of clusters a network of cooperative organizations (it is not only companies that are connected, but also various governmental and non-governmental organizations, including educational institutions).

Governmental institutions can assist the development of a cluster in various ways. M. Porter emphasizes the fact that the importance of clusters implies new roles for the governments at the federal, state and local level. (Porter, M., 1998, p. 16). But in order to be effective, economic policy should take into account the specific needs of the different groups. As far as this idea is concerned, the economic policy of the
countries ought not to emphasize direct intervention, but rather the indirect/mediated creation of incentives.

Clusters, as we have already pointed out, are the object of a great number of studies, which prove the need for their development and outline their role in several areas. Clusters are regarded as the engines/driving forces of competition, innovations and regional development (Garanti, Zvibule-Berzina, 2014); they provide the companies forming a particular cluster with easy access to important resources, reduction of transportation costs, access to consumers and labour (Marshall, 2009; Porter, 2000; P Krugman, 1993). Clusters are defined as a dominant factor nowadays (Dumais, et al, 2002), both for cutting transaction costs and access to specialized services (Scott, 1988), and for developing infrastructure and competitive business environment (Lin, et al, 2006), which leads to an increase in efficiency and productivity.

A number of authors focus their attention on the role of clusters for regional development. According to Stimson, R. J.; Stough, R. R.; Roberts, B. H. (Stimson, Stough, Roberts, 2006), today regional clusters are stimulators of regional economic development and are used in the development of the policies for regional development (Pachura, 2010). E. M. Porter, M. Delgado and S. Stern in their book Clusters and Entrepreneurship (Delgado, et al, 2010) prove that there is a positive correlation between strong regional clusters and business growth, the setting up of new enterprises and the survival of start-up companies.

The perspective of the potential advantages of the functioning of clusters for companies and regions, part of which were mentioned above, as well as many others (B. Y. 2011), encourages the governments of various countries and other public organizations to introduce policies for promoting cluster development.

2. Cluster policy in Bulgaria: main features

It is necessary to elucidate the existing difference between the empirical phenomenon of the cluster and the cluster policies and initiatives aimed at its creation or further development. In discussions the two terms are often used synonymously, which may create some confusion. When they are present/functioning active clusters leave traces, which can be statistically ascertained, for instance in terms of specialization or concentration of employment within a given sector. Cluster policy may be expressed in a strategy focused on clusters, the setting of political priorities and allocation of financial resources in order to promote innovations, regional development or other political objectives. In reality there are to be met all combinations of clusters and cluster policies: clusters created spontaneously without any political support; cluster policies, which sooner or later result in the availability/functioning of clusters,
but also cluster policies without statistically significant influence on the formation of clusters.

Cluster policies may be defined as specific government efforts to support clusters. They come in different forms and pursue various goals, such as industrial policies and policies for SMEs or policies for innovations and research. Cluster policies are in most cases supported and implemented by a specific cluster programme of the government or various initiatives. As a result of this, cluster initiatives are defined as "organized effort to increase the growth and competitiveness of clusters in a particular region, including cluster companies, government institutions and/or the research community" (Solvell, Lindqvist & Ketels, 2003, p.1).

2.1. Emergence of cluster policy

The main idea of clusters, as has been pointed out, dates many years back, but the term clusters acquired the broadest popularization with Michael Porter's 1990 book The Competitive Advantage of Nations.

After 1990 many countries of the European Union began to put into effect cluster-oriented measures for reinforcing the ability of the industry to make innovations and to increase national competitiveness. According to a survey of the European Cluster Observatory (Oxford Research, 2008) the policy on clusters in the different countries began to be accomplished in different periods – from 1990 - 1994; 1995 - 1999; 2000 - 2004 and from 2005 until now. Most countries started using the concept in the period from 1990 - 1994 and in the period 2000 - 2004. Given the fact that approximately half of the countries have carried out cluster policy for the first time in the period from 2000 till now, the policy in this area is still at an early stage in many countries, whereas in others it is in a stage of maturity.

According to a survey by S. Barsoumian, A. Severin, and T. Van Der Spek in several countries of the EU – Germany, Finland, Holland, Austria, Denmark and Spain – the policies on clusters were already made before 2000. During the period 2000-2005 the Czech Republic, France, Greece, Ireland, Luxembourg, Malta and Slovakia began building a policy based on clusters, while in Portugal and the new EU member states – Latvia, Lithuania, Estonia, Poland, Romania, Bulgaria, etc. that sort of process was observed after 2005 (Garanti, et al, 2014).

The development of a policy in the area of clusters in Bulgaria began a little late in comparison with the other European countries. The beginning is set in the middle of 2000, the first cluster being created in the second half of 2004. At that time The Council for Economic Growth with the Bulgarian government took a decision on the four key industrial sectors that are suitable for the creation of clusters. The first clus
ter is Foundation Bulgarian cluster for Information and Communication Technology and is registered at the end of 2004 as a non-profit organization. Until the first half of 2005 two more clusters are registered, and at the end of 2006 the total number of clusters is fourteen. At the beginning of this process, the public authorities at the national and regional level give a strong impetus and support for the creation of clusters, but in the following years – until 2012 - 2013 – the creation of clusters can not be defined as intensive. The emergence of the greater part of the clusters in Bulgaria (at the present stage there being a total of 260 of those) is the result of the financial mechanisms for providing support to clusters in Bulgaria, accomplished under the PHARE programme and the Operational Programme (OP) Development of the Competitiveness of the Bulgarian Economy (2007 - 2013) and will continue with the forthcoming OP Innovations and Competitiveness (2014 - 2020).

2.2. Political documents at the national level

In Bulgaria, at the national level, there is understanding with regard to the potential in view of clusters as a driving force for more innovations and for raising competitiveness. In their report of 2010, the experts of Eurobank EFG claim that Bulgaria must adopt a new model of economic development with an emphasis on competitiveness and export, rather than on foreign investment, as it did until that time (Eurobank EFG, 2010). The idea of promoting cooperation between the business, Universities, research institutions and public authorities is present in a considerable number of strategies, programmes and schemes.


Among the documents specified above the National Strategy for the Development of Clusters is the one that is directly orientated towards initiatives in connection
with clusters. Its principal goal is boosting the competitiveness of Bulgarian SMEs in key sectors by means of cluster-related activities. Regrettably, the priorities specified in the draft strategy (the only accessible version of the document) sound rather general and vague.

With regard to clusters, important strategic documents are the National Strategy for the Promotion of SMEs 2007 - 2013 and the Innovation Strategy of Republic of Bulgaria (2004). In the former there is formulated the following priority area for the actions "development of clusters in order to improve the process of innovation in Bulgarian companies". Just like the National Strategy for the Promotion of SMEs 2007 - 2013, The Innovation Strategy aims at improving the ability of enterprises to overcome the competitive pressure of market forces in the EU. One of the measures for implementing The Innovation Strategy envisages, in particular, the creation of clusters in the country and the introduction of the good practices of the EU in this area. The action plan in this measure includes the creation of suitable conditions (such as environment) for the development of clusters, the creation of consultancy centres for supporting the new clusters, the dissemination of suitable information and organization of training courses, accelerated development of research institutions, as well as the launch of pilot cluster projects (National Innovation Strategy, p.14).

In 2014 Bulgaria adopted an Innovation Strategy for Smart Specialization of Republic of Bulgaria for the Period 2014 - 2020. In order to achieve the objectives set in the strategy it is declared that "There will be promoted the cooperation for research and technological development between business and the academic circles, as well as between enterprises, including clustering and participation in networks and platforms" (Innovation Strategy for Smart Specialization of Republic of Bulgaria for the period 2014 - 2020, p. 92), whereas as a future activity the strategy envisages "support for clusters and other forms of cooperation" (Innovation Strategy for Smart Specialization of Republic of Bulgaria for the period 2014 - 2020, p. 85). The National Strategy for the Promotion of Small and Medium-sized Enterprises 2014 - 2020 and OP Innovations and Competitiveness 2014 - 2020 also have direct bearing on the creation and development of clusters in Bulgaria.

2.3. National Ministries responsible for the implementation of cluster policy

The results of the conducted analysis show that in Bulgaria there have been built both a strategic framework, and the respective institutions and organizations, which work in the area of clusters and are responsible for their development. The institution in charge at the national level is the Ministry of Economy and Energy as the managing authority of OP Development of the competitiveness of Bulgarian
Economy 2007 - 2013. (At the current stage it is the Ministry of Economy, as the managing authority of OP Innovations and Competitiveness 2014 - 2020). The other institution closely connected with the development of clusters in Bulgaria is the Executive Agency for Promoting the Development of Small and Medium-sized Enterprises in Bulgaria, which is an intermediate unit on priority axes 1 and 2 of the same OP. Since 2012 – the year the Directorate-General European Funds for Competitiveness was established, it has become the managing authority of Operational Programme Development of the Competitiveness of Bulgarian Economy 2007 - 2013 and has performed the functions of a managing authority of Operational Programme Innovations and Competitiveness for the programming period 2014 - 2020.

The two funds – the National Innovation Fund and the National Research Fund – created at the national level – constitute a financial mechanism for promoting scientific and entrepreneurship activities (Innovation Strategy, 2004).

From the above it follows that the national institutions (ministries and agencies) are responsible for the cluster policy in the area of a more general level of governance – mainly the management of OP Competitiveness, in which measures are provided for aiding cluster development, as well. In some countries – above all the countries of Western Europe (Finland, Germany, Italy) – some of the ministries are directly involved and responsible for the policy pursued in the area of clusters (Oxford Research, 2008, p. 13).

2.4. National cluster programmes

The development of clusters in Bulgaria is accomplished primarily by means of two programmes: the PHARE programme and Operational Programme Development of the Competitiveness of Bulgarian Economy (for the new programming period it is OP Innovations and Competitiveness).

Within the framework of the PHARE programme – for the purpose of raising the competitiveness of Bulgarian economy and the preparation of Bulgaria for EU membership – for the first time in this country there has been developed a strategy for cluster development (the only one so far) and several pilot cluster projects are carried out: "Introduction of a cluster approach and establishment of a pilot cluster model" and "Initiatives for cluster development – phase II", the activities under which began in July 2005 and were completed at the end of April 2009. The number of the registered and functioning clusters until 2011 is 27 (according to information provided by MEET). During that period clusters are concentrated in regions that are leading in terms of their economy - Sofia, Varna, Plovdiv and Stara Zagora, whereas in terms of specialization - the majority are in the area of manufacture.
The second programme through which a considerably greater financial resource is provided for the development of clusters is Operational Programme *Development of the Competitiveness of Bulgarian Economy 2007 - 2013* (Subpriority 4 of priority axis 2) and that will continue with Operational Programme *Innovations and Competitiveness 2014 - 2020*. Both Programmes provide for measures in support of the creation and development of clusters. The possibilities for obtaining project financing under OP *Competitiveness* instigates the creation of a large number of emerging clusters in Bulgaria, a large part of the registered associations are in the area of services (in spheres such as sport, finance, consulting, etc.). The official databases as of 01 Apr 2015 (The Companies Register and BULSTAT) show that in Bulgaria there have been registered about 260 companies and associations bearing the name "cluster", 17 of which are inactive (closed down) (Association of Business Clusters in Bulgaria).

According to information supplied by the Association of Business Clusters in Bulgaria (see ABC), as at February 2015 more than 10% of the clusters in the European Union are registered in Bulgaria and their number exceeds the number of clusters in the other member states considerably (Romania has about 50 clusters; Austria – 30, Germany – 107, France – 102). There is confirmed the opinion of some experts that the financial mechanisms in support of cluster development bring about the artificial creation of such structures. A large part of the registered "clusters" do not correspond to the widely accepted in theory and practice M. Porter's definition of a cluster: "a geographic concentration of interconnected companies and institutions in the particular area, related by common technologies and skills" (Porter, M. E., 1998, p. 80).

The analysis of the focus in the national programmes connected with cluster development provides - to some extent - an explanation of the current situation.

**Focus of the national programmes assisting cluster development**

**Geographical scope**: The geographical scope of the financial schemes connected with cluster development under OP *Competitiveness of Bulgarian Economy* is national. The main centre of the established clusters is Sofia (approximately 150 clusters), but there are such clusters also in Plovdiv, Varna, Burgas and Ruse, comments the executive director of the Association of Business Clusters Mladen Mladenov (Investor, BG).

**Cluster life cycle**: In the realized financial schemes for the development of clusters (for the period 2007 - 2014) there is no focus on the life cycle of clusters. According to ABC the lack of differentiation is one of the reasons for the emergence of a multitude of "clusters". Petar Statev, founder of *ICT Cluster* and president of the MB of the Association of Business Clusters in Bulgaria expresses the opinion that "it is
 unacceptable that there are used exactly the same scheme and rules to aid clusters differing in size, composition and degree of development" (Cluster Practices in Bulgaria, 2013, p. 18). In this regard ABC has prepared a system for the accreditation of clusters in Bulgaria, which stipulates that existing clusters are to be structured in three groups (newly created, developing and developed ones), as well as a proposal for the use of a differential approach in the allocation of financial resources, in line with the European practice.

Focus on sectoral policy: From the varying in nature registered clusters under OP Competitiveness of Bulgarian Economy (wrestling, culinary art, finance, PR activities, etc.) it becomes clear that cluster policy has no sectoral focus in contrast to the European programmes in other countries, focused on industrial policy, or research and technological policy, regional policy, SMEs (Oxford Research, 2008, p. 26).

Target groups: The scope of the target groups/beneficiaries under OP is defined too broadly. ABC has certain objections with regard to the lack of criteria for assessing the interrelatedness of the individuals, companies and their subjects of activity; which allows for the financing of "clusters", whose activity does not correspond with the goals of the programme. "It is necessary that in OP Innovations and Competitiveness and in the conditions of cluster competitions there must be a clear differentiation between clusters, which can provisionally be equalized to enterprises, and those which cannot be equalized to trade companies, such as clusters registered under The Law on the Non-profit Legal Entities (LNPLE) and the Law on Obligations and Contracts (LOC)" (ABC, 2015).

In the schemes for financing in the area of clusters executed up until now there is no emphasis on SMEs, scientific and technological development, interregional/international clusters. "In order to develop business clusters as innovation centres it is necessary to make sure that the research and development done in clusters is an eligible activity in the projects under OP Innovations and Competitiveness – points out ABC in Bulgaria" (ABC, 2015, p. 9).

The conducted study found that in Bulgaria there is no independent cluster development programme financed from the national budget, which was observed in the old EU member states. The financial mechanisms through which there are created an exceptionally large number of clusters utilize EU funds and the only form of support in the implemented programmes, connected with cluster development, is financial.

In spite of the proposals made by the ABC to the Ministry of Economy concerning the need for changes in the terms and requirements for the announcement of procedures under OP Innovations and Competitiveness, connected with the development of clusters, there can hardly be expected any kind of change in the pursuance of clus-
ter policy for the new programming period, based on the published information regarding the forthcoming scheme in 2016 (July – September) under OP *Innovations and Competitiveness* – procedure *Development of Clusters in Bulgaria*. This, too, lacks the differential approach from the point of view of the life cycle of clusters and its target group is mainly oriented towards emerging companies, which have operated on the Bulgarian market for a short period of time, or newly registered ones. "Eligible beneficiaries: legal entities or sole traders, registered under the terms of the Commercial Law or The Law on Cooperatives, which have been operative for less than 3 years before the date of promulgation of the procedure for the selection of projects (Eu consult.BG).

Whether there is going to be a change in cluster policy, or the financial mechanisms are going to lead to another "wave" of new cluster formations for the purpose of absorbing European funds remains to be seen in the future practices, as well as in the research of the authors in that area.

**Conclusion**

The results of the conducted study show that in Bulgaria there has been built a strategic framework and institutions, which work in the area of clusters and are in charge of their development. Cluster policy, which started with a certain delay in comparison with the other European countries, is embedded in a number of strategic planning documents, emphasizing the importance of clusters for raising the competitiveness, innovations and the economic development of the country.

The institution responsible at the national level is the Ministry of Economy in its capacity of managing authority of OP *Competitiveness of Bulgarian Economy* (at the current stage OP *Innovations and Competitiveness*). Unlike certain countries – mainly the countries of Western Europe (Finland, Germany, Italy) – in which several ministries are directly involved and responsible for the policy pursued in the area of clusters (Oxford Research, 2008, p. 13), in Bulgaria the government institutions (ministries and agencies) are responsible for the cluster policy in the field of a more general level of governance - primarily the management of OP *Competitiveness*, in which there are also provided measures for aiding cluster development.

The actual implementation of the policy boils down primarily to financial support under OP *Competitiveness of Bulgarian Economy*, whose main result is the extremely large number of emerging "clusters" in Bulgaria, a number considerably exceeding that of many developed countries which possess experience in cluster development. The lack of focus in the national programmes connected with/assisting cluster development shows that there are no clearly defined actions aimed at aiding
the development of clusters, which would contribute to raising the competitiveness of Bulgarian Economy, the innovations and regional development.

The conclusions drawn here show the need to improve cluster policy primarily in two aspects:

Firstly, the development and implementation of cluster policy must be the primary responsibility of the various ministries/public authorities connected with the development of innovations, science and research, the industrial and regional development.

The direct involvement and participation of the various ministries in the process of developing cluster policy is aimed mainly at improving the process of coordinating the policies pursued in the different sectors and setting specific government actions which would foster the development of clusters and increase economic benefits.

Secondly, the programmes assisting cluster development have to possess a clearly defined focus with regard to the life cycle of the cluster; sectoral policy; target groups, differentiation in respect of financing in accordance with the stage of development of the cluster, etc. In this way the financial resources (in Bulgaria it is first and foremost from the EF, in contrast to certain Western countries, in which the financing of cluster development is done from the national budgets) will be apportioned and expended on achieving the goals laid down in the strategic planning documents concerning the role of clusters for the development of Bulgarian Economy.

The European Commission has noted the growing number of artificially created clusters in a number of member states and expressed its position on the need to apply a market approach to the creation and support of clusters in the EU. "The market approach of the Commission is demonstrated also by the undertaken commitment to avoid the unsustainably large number of artificially created cluster initiatives. In other words, the purposeful policy on promoting the formation of clusters goes hand-in-hand with the preparedness to exclude noncompetitive clusters with grim prospects for the future from the circle of the potential beneficiaries of grants. In order to prevent the ineffective use of funds and even the blocking of newly created clusters, every new cluster initiative must be carefully developed and supported, not only with market foresight, but also with a solid analysis of regional competitive advantages, the available specific knowledge and specialization at the local level" (quoted from an opinion of the ABC).
End Notes

1. Established in pursuance of Council of Ministers Decree No 80 of 23 April 2012 for amending and supplementing the Statute of the Ministry of Economy and Energy.

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30. Inovatsionna strategia za inteligentna spetsializatsia na Republika Bulgaria za perioda 2014-2020


UNDERSTANDING AND IMPLEMENTATION OF THE COMPETENCY-BASED APPROACH TO FINANCIAL CONTROLS EDUCATION

Ruslana DIMITROVA

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Abstract

The Competency-based Approach lies in the heart of modern and quality tertiary (higher) education and its consistent implementation is a guarantee for effective learning process. The study aims to provide a framework of the model of this approach and its potential to improve education in financial controls. The aim is achieved through a review of scientific literature, practical experience and observations of the author in her capacity of a teacher. A competency-based model is presented and its constituent elements such as structure, level and degree of development are described. Specific recommendations to its implementation into the learning/teaching process and the assessment of students’ competences have been given. The implementation of this model will contribute to the formation of competent accounting and auditing professionals.

Keywords:
Competency-based approach, competence, competency-based model, financial controls.

The basic challenge of university education in our country is related to the quality of training and preparation of competent and competitive specialists. The studies so far are explicit in their conclusions that the requirements of the labour market are not met (Danev, 2015). The Universities are facing the dilemma whether to solve or further deteriorate the problem. The practice of countries having traditions and success in higher education shows that the competency approach forms the idea base of the strategy for its successful solution. By this approach the focus of the training process aims for the results related to the building of competent, adaptable and competitive experts who are able to work in a rapidly changing multicultural environment and possessing the inner mindset for risk-taking and life-long learning.

In this context the present study aims at introducing a framework of the competency model for financial control training which allows the development of professional and general competencies in students consistent with the business needs and their future employment as accountants and auditors. Combined with the study of the theoretical aspects of the competency approach and its possibilities for application in

1 Department of Accounting and control, University of Economics – Varna, Bulgaria, e-mail: ruslana.dimitrova@ue-varna.bg
the financial control teaching process, a model for students’ training will be introduced, too.

In order to research the possibilities of the competency approach in financial control training the scientific literature is reviewed concerning its history, basic concepts, methodology and application in the accountancy and audit training. In recent years it has been studied from different points-of-view, both in countries with long-existing practice of its application in the instruction process (Ford, 2014; Abbasi, 2013), as well as from scientists in Romania, (Andone, 2007), Russia, (Efremova, 2012) and Bulgaria (Borisov, B., M. Bogdanova, 2008; Penchev, 2011). Regardless of this, there is a lack of research concerning its application and results in financial control training.

There are different theories about the origin of the competency approach (Tonkovich, 2011). One of them states that it arose at the beginning of 90s, in order to explain the discrepancy between the societal demands and labour market and the instruction of graduates in the educational establishments. Another theory relates it to the Bologna process (Vetohin, S.S., O.V.Grablevskiy, 2014) and the TUNING project. (Gorilev, I. A, Ponomareva E.A, Rusakov, A. V., 2011). Competence-based education – CBE is established in the 70s in the USA. The authors who studied the development of this innovative approach in education classify it into three stages (Zimnyaya, 2004):

- **The first stage (1960-1970)** – within the boundaries of this period the competency approach is applied mainly in the field of language and foreign language education. The first attempts are made to discriminate between the terms “competency” and “competence”, and the concept “communicative competence” is introduced in relation to the different language competencies.

- **The second stage (1971-1990)** – in this period the terms competency and competence began to be applied in the sectors of economy, politics, management, culture and management, leadership and communication training. John Raven gives a detailed interpretation of the term competence and defines it as a phenomenon which “comprises a large number of components, many of which are relatively independent and could be replaced one another in order to cause effective behavior”. (Raven, 2002). At the same time, he emphasizes that "skills" are "motivated abilities, which add values". His idea is developed in theory and one can discriminate from 3 to 37 types of competences which began to be applied tangibly and consequently assessed in education.
The third stage (1991-2000) – the competency approach came into existence in humanitarian sciences (sociology, pedagogy, psychology and others), whereas competence as a scientific category is related to educational results. What is characteristic for this period is that the world organizations also undertake actions for changes in education and the competency approach becomes a priority. Examples, in view of the above are:

- A report from the International commission on education for the XXI century “Learning: The Treasure Within“ (Delors, 1997), in which Jacques Delors defines the “four pillars”, on the basis of which the modern education should be built: we should be learning to know; we should be learning to do; learning to live together and learning to be. In this way he determines the core groups of global competences to which the world education needs to endeavour.

- The documents from the Berne symposium in 1996 under the program of the European Council for key competencies in education reform (Vatsov, 2009);

- Lisbon Strategy; Bologna program and other materials for education modernization. (Baydenko, 2009)

According to some authors (Vatsov, 2009) a fourth stage in the development of the competency approach can be differentiated, too. They assume that it started in 2001 and continues till present days. It is characterized with the fact that the approach becomes widely applicable in the countries in the European Union, Russia, the USA and has a paramount importance in modern education all over the world. The national education standards in the majority of the countries comply with the Bologna declaration concerning its application. The period 2005 - 2014 was declared by UNESCO as the decade of “Education for Sustainable development”. The international scientific community adopts, studies and refines the competency approach as a perspective for improving the quality of the education and life of modern man.

The key concepts in the methodology of the competency approach are ”competency” and “competences”. In the western scientific literature these two concepts are often used as synonyms (Mihalkina E. V. Skachkova L. S., 2011), whereas in Russian (Hutorskoy A. V., Hutorskaya L. N., 2004; Zvedzova A. B., V. G. Oreshkin, 2010) and Bulgarian scientific literature (Ivanova, V. F., Ilieva, Y. D., Petrova, R. G., 2014) there are different interpretations which are more frequently consolidated around the definitions specified in the official documents with the introduction of European and international standards in education. In the European Qualifications Framework the competency is interpreted as a proved ability to use knowledge, skills and personal,
social and/or methodological facts in work or learning situations, both in professional and personal development. However, **competences** in the field of some activity are viewed as a complex command of specific knowledge, skills and behavior model in a flexible manner. Competence is the willingness of the individual to organize efficiently internal and external resources for reaching the goals and the ability to solve a specific class of professional tasks. In this respect the competency in certain field is viewed as a sum of competences (knowledge, skills, attitudes, experience) which are needed for effective activity. (EQF, 2009)

The analysis of the two terms shows that “competency” in its meaning is more comprehensive and it encompasses motivation and the person’s willingness to apply the acquired knowledge, skills and experience into action in order to achieve results in a specific sector. This is exactly what the main difference between competency and traditional knowledge and experience boils down to. By its nature it is integrative, has a direct relation to the qualities and personal value system and has a practical application. This justifies the attempt of the majority of researchers of this phenomenon to consolidate around the definition that “competency is a competence in action” (Homskiy, 2005).

There are different classifications of competences in scientific literature: behavioral and technical, which are consequently divided into generic and specific (M. Armstrong); general (key) and functional (specific); basic and distinctive (L. Spenser and S. Spenser); „transformational” (M. Zwell). Apart from that, a group of generic competences are united into “clusters”. The competences classification made above has a managerial purpose. (Vachkova, 2006; Tomov, 2010)

For educational purposes the competences discussed by some authors are differentiated into: social; professional; communicative; informational; academic, whereas other authors distinguish: general (universal, key, high professional) and professional (special, subject- specialised) (Zhuk, 2009). Within the frames of the international project TUNING 30 types of competences are differentiated which are further united in three groups: system; instrumental and interpersonal (Lyubimov, 2013). According to The European Qualifications Framework (EQF, 2009) the competence can be: cognitive, which implies the use of both familiar and hidden, gained by experience knowledge; functional (skills and know-how), the things one has to do in work, education or social environment; personal, which implies behavioral skills in a particular situation; ethical, which is related to the personal value system and professional ethics.

In practice it is essential to make the difference between qualification and competency because “qualification is a skill to do a job professionally well whereas com-
petency is a skill to comprehend profoundly this job and be aware of its results“. (Sokolov, 2010)

In training undergraduates in the major financial control it is advisable to take into account the comprehension of competency and competences which were set out in the International Accounting Education Standards Board (IAESB) (Labuintsev, 2007; IFAC, 2008; Fadeykina, 2008). The International Education Standards (IES) for accountants and auditors are developed by the International Federation of Accountants (IFAC). The basic idea of the standards is to define the minimal requirements for the qualification of the professional accountants in three sectors: educational and professional knowledge; practical experience; a system for constant and ongoing update of knowledge and skills. The purpose is on one hand to develop and establish the accountancy profession worldwide, and, on the other, to guarantee a high quality of the provided professional accounting services. Therefore, in them one can find defined the sector of knowledge which has to be made an allowance for in the specific program for training professional accountants but its content is not specified in details. It is advisable to harmonize the university curriculum with those of the professional institutions and develop them on a modular basis, so that the graduates are able to continue as professional accountants. The recommendations concerning the professional accountants training are set out in seven international education standards. In a separate standard are pointed out the requirements related to auditors’ training. There one can find the general requirements for education and professional level and the recommended knowledge a professional accountant has to possess. For that purpose in IES 1 Requirements for introducing curriculum for professional accounting training and IES 2 Initial professional preparation (IPP): the technical competency is proposed a three modular structure including: accountancy and the related knowledge; organization and management of business; information technologies. The structure of the curriculum is unified and concerns both accountants and auditors. The comprehension of the Anglo-American school in accounting is adopted, thinking that the accounting qualification is wider than the auditor’s one. Though, there is a difference made between the term” professional accountant who is viewed as an active participant in the managerial and tax policy of the company, and an accountant, who performs routine, operative accounting activity.

The requirements and recommendations concerning competences, competency, experience and ethics of the professional accountant are reviewed in IES 3 IPP: professional skills, IES 4IPP: professional virtues, ethics and attitude, IES 5 IPP: professional experience. The concepts for ability, competency and qualifications of the certified accountant are defined.
What is understood by ability is the personal characteristics allowing to perform the role of an accountant. They are grouped in the following directions: intellectual abilities; methodological and functional abilities; personal abilities; interpersonal and communicative abilities; organizational skills and business management skills.

What is understood by competency is the person’s ability to perform the role of professional accountant in compliance with the standards, i.e. this is a skill to demonstrate results in the working environment.

What is understood by qualification is that the person has obtained an assessment for competency. In IES 6 IPP: assessment of professional competency set out the abilities and competences which need to be assessed in order to obtain the qualification of certified accountant. The abilities which have to be assessed as a result of training are grouped in: professional skills; professional habits; professional values, ethics and attitudes.

The competencies are viewed as a result of the performance of: standard activity (functional, managerial and interpersonal); and standard behavior (ethic, professional behavior, demonstrating professional skepticism, professional development).

In IER 7 Additional professional training the concept is determined for before and after the qualification period when the recommendations are made that the national professional institutions have to develop a system for monitoring and control of the “professional accountants” with the aim to master in time the acquired professional level.

In IES 8 Professional competency of partners for audit of financial reports are discussed the minimum requirements for the professional knowledge, habits, values, ethics and attitudes, which the audit experts need to possess.

The historical and methodological review of the competency approach gives us ground to draw the following conclusions:

- Irrespective of the fact that initially it was applied in one sector only, it has quickly spread into all fields of public and social life, and nowadays it forms the basis of the new education paradigm all over the world;
- It is advisable to comply the training of the undergraduates in financial control with the recommendation of IESAA with the aim to prepare competitive, capable and adaptive experts in accounting and audit;

The application of the competency approach in the financial control training allows the planning and implementation of the instruction process to be carried out in two major trends:

- Meeting the syllabus objectives and tasks in order to develop professional competences and competencies;
- Building up universal skills and abilities such as teamwork; leadership; active social position; adapting in multicultural environment; ethical values; professional attitude for development and improvement.

In order to implement this approach helps the design of the competency training model for undergraduates in financial control. It should include: a model of structure, a level and degree of development of competences in financial control; a matrix for distribution of competences according to the thematic units in the financial control curriculum; a model of lectures and seminars techniques in financial control; a model for assessment of competences and competency of undergraduates in financial control.

Scheme 1. Competency model for training undergraduates in financial control

The matrix for classifying the thematic units in financial control is approved in the curriculum at university level and it is put in the model as a pre-defined parameter. The undergraduates’ competences are developed on the basis of professional
knowledge, skills, experience and attitude to success. They can be classified as is shown in Table 1 in such a way as to define the model frame concerning the structure, level and development of competences in financial control.

Table 1

Model of structure, level and development of competences in financial control

<table>
<thead>
<tr>
<th>№</th>
<th>Structure of competences</th>
<th>Level and development of competences in financial control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Professional knowledge</td>
<td>The Bachelor student in the subject Theory of control and Financial control should know:</td>
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<tr>
<td></td>
<td></td>
<td>- The concepts of the nature and development of financial control;</td>
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<tr>
<td></td>
<td></td>
<td>- The types and forms of financial control and their specific manifestation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The information provision and the control toolkit;</td>
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<tr>
<td></td>
<td></td>
<td>- Statutory regulations of the audit activity of the Bulgarian National Audit Office and European Court of Auditors; National Revenue Agency; Public Financial Inspection Agency; the National Customs Agency, the independent financial audit and internal audit;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The rights and obligations of the control authorities;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The system of impact as a result of implemented control;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Control of major objects: capital, assets, liabilities, earnings, costs, financial results, tax liabilities.</td>
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<tr>
<td>2.</td>
<td>Professional skills</td>
<td>The Bachelor student in the subject Theory of control and Financial control should be able to:</td>
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<td></td>
<td></td>
<td>- Differentiate the scope of various control authorities, their rights and duties;</td>
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<td></td>
<td></td>
<td>- Apply the control toolkit according to the peculiarities of the object of control;</td>
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<tr>
<td></td>
<td></td>
<td>- Use various in character sources of information in order to argue and prove conclusions;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Define the nature of malpractice and suggest an appropriate system of impact, recommendations and measures.</td>
</tr>
<tr>
<td>3.</td>
<td>Professional experience</td>
<td>The Bachelor student in the subject Theory of control and Financial control should acquire practical skills in order to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Apply the control toolkit in monitoring capital, assets, liabilities, profits, costs, financial results and tax liabilities;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Interpret and apply statutory regulations in the monitoring activity;</td>
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<tr>
<td></td>
<td></td>
<td>- Plan and carry out specific monitoring activity;</td>
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<tr>
<td></td>
<td></td>
<td>- Recognize and disclose typical malpractice related to monitored entities;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Process and apply various sources of information as evidence and appendices to conclusions drawn;</td>
</tr>
</tbody>
</table>
4. Attitude for professional development and success

The Bachelor student in the subject Theory of control and Financial control should possess the mindset to:
- Take a civil and professional stand for the social importance of the financial control in the managerial and economic process;
- Show an interest in the problems related to the organization, technology and results of the financial control;
- Apply his/her knowledge, skills and experience in a selected system for financial control;
- Apply his/her knowledge and experience in scientific research and projects in the sphere of financial control;
- Develop and enhance knowledge, skills and experience in the sphere of financial control by participation and activity in professional organizations.

The listed competences taken as a whole define competencies the undergraduates in financial control need to acquire. Their active participation in the learning process allows them to build various in character skills, which taken as a whole develop a different type of competencies which correspond to the ones recommended by IESAA. Therefore, it is advisable to classify the competencies as indicated in the Table 2 mode: functional; organizational–managerial; interpersonal and communicative; ethical values and attitudes.

**Table 2**

**Competencies in financial control**

<table>
<thead>
<tr>
<th>№</th>
<th>Type of competencies</th>
<th>Student’s ability to:</th>
</tr>
</thead>
</table>
| 1.  | Functional           | - Apply the control toolkit and the existing legal acts in implementing the specific monitoring activity;  
- Process, analyse and assess the accounting, financial and economic information for the purpose of control;  
- Implement monitoring procedures and activities complying them with the technological peculiarities of the specific monitoring activity (tax audit, inspection, internal and external audit, monitoring)  
- Draw up, set out and complete documents about the results of the monitoring activity (reports, legal acts, opinions, protocols, expert reports) |
### 2. Organization-managerial

- Plan, organize, carry out and conclude a specific control activity;
- Allocate the available resources for achieving effective and efficient financial control;
- Set out, use and archive work documents and files related to the monitoring activity;
- Assess the risk related to the controlled entity and the monitoring activity;
- Disclose and analyse the nature of malpractice and the corrupt practices related to the basic entities of financial control and the activity of the specific monitoring authorities;
- Organize activities in correspondence with the implementation of an assigned project or task.

### 3. Interpersonal and communicative

- Work in a team in order to align his/her activities with the assigned purpose;
- Build leadership qualities and take a stand without passing the threshold of tolerance and mutual understanding;
- Discuss, dispute and communicate with colleagues and lecturers without violating the adopted standard for ethical behaviour;
- Adapt to changes as taking risk and react in adequate way in competent environment;
- Work and communicate in multicultural environment by showing tolerance and understanding;
- Work and communicate in multicultural environment by showing tolerance and understanding.

### 4. Ethical values and attitudes

- Have the internal mindset to comply with the professional ethics;
- Have understanding and mindset to comply with the principles related to organization and technology of the monitoring activity;
- Understand and perform his professional duties so that he/she does not violate the frame of law;
- Develop a sense of tolerance and ethical behavior in the relations with colleagues and lecturers in the mutual work in projects, assignments, disputes and discussions.
- Improve professionally and have an internal mindset to learn from his/her own experience and the one of the colleagues.

Achieving quality and results in the instruction process in the subjects Theory of control and Financial control requires defining home assignments, projects, tasks and cases which need to be more closely connected with the practical activity of the monitoring authorities and to allow development and assessment of students’ competency. It should be noted that there are traditions and success in financial control teaching. This fact makes it easier to improve it by adequate combination of traditional and innovative technologies for carrying out the instruction process. (Ivanov,
2005). In this way the role of the lecturer changes and from a translator of knowledge he/she turns into a promoter, manager who directs teaching in correspondence with the aims set to build competences and competencies defining the profile of the accounting and audit experts. The objective is by their balanced implementation in delivering lectures and seminars to provoke students’ behavior and thinking in such a way that they become the active part in the instruction process. Before turning to the implementation of new technologies in training, it is advisable to assess knowledge, skills, experience and attitude of students; the instruction classes should be well planned, organized and well provided with resources. The dialogue, motivation, internal attitude and desire for cooperation and participation in training from the perspective of students underpin success and that is the only way to achieve results which satisfy both sides in the instruction process.

In the scientific literature (Muhina, 2013; Kirikova, 2012; Riccio, 2000) there have been researched the possibilities of the following type of lectures which are compatible with the objectives of the competency approach in the accountancy and audit training; namely: a lecture – visualization; a lecture – talk; a lecture with pre-planned mistakes; a problematic lecture; a lecture – discussion; a lecture – press conference.

The technology of financial control training can be improved if different types of lectures are used in combination and in correspondence with the thematic units included in the curriculum. The author, rendering an account of the long standing experience as a lecturer and the attitude of students to new forms of training, assumes that their consistent implementation will assist the acquisition and development of specific competences classified in Table 3.

**Table 3**

**Technology of ex-cathedra method of training in financial control**

<table>
<thead>
<tr>
<th>Type of lecture</th>
<th>Competences</th>
<th>Thematic unit in curriculum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory lecture</td>
<td>attitudes</td>
<td>- Presentation of the subject;</td>
</tr>
<tr>
<td>Summarizing lecture</td>
<td></td>
<td>- Methodology and forms of ongoing control;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Forms of assessment.</td>
</tr>
<tr>
<td>Traditional lecture</td>
<td>Professional knowledge</td>
<td>- Concepts about the nature and development of the financial control;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Types and forms of financial control and their specific manifestation.</td>
</tr>
<tr>
<td>Visualization lecture</td>
<td>Professional knowledge and skills</td>
<td>- Information provision and control toolkit;</td>
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<tr>
<td></td>
<td></td>
<td>- Legislative regulation of the monitoring activity implemented by the Bulgarian Na-</td>
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</tbody>
</table>
There are possibilities to improve the technology of training in organizing and conducting seminars. It is advisable to develop and fill with new content the following forms, presented in Table 4, assisting for the acquisition of competences in financial control.

### Table 4

**Technology of seminars in financial control**

<table>
<thead>
<tr>
<th>Type of seminar</th>
<th>Competencies</th>
<th>Instructor’s role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Course project</td>
<td>- organization- managerial;</td>
<td>clarifies: requirements, rules, limitations; criteria for assessments; possibilities for ongoing tutorials; makes recommendations.</td>
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<tr>
<td></td>
<td>- interpersonal and communicative;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- ethical values and attitudes</td>
<td></td>
</tr>
<tr>
<td>Case, casus, tasks</td>
<td>- functional;</td>
<td>Makes the required organization; defines additional requirements for team work, reporting, drawing up work documents; monitoring and control, rectifying mistakes.</td>
</tr>
<tr>
<td></td>
<td>- organization- managerial;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- interpersonal and communicative;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- ethical values and attitudes</td>
<td></td>
</tr>
<tr>
<td>Role play</td>
<td>- interpersonal and communicative;</td>
<td>Develops instructions, makes commentaries; monitoring of play and</td>
</tr>
<tr>
<td></td>
<td>- ethical values and attitudes</td>
<td></td>
</tr>
</tbody>
</table>

National Audit Office and the European Court of Auditors; National Revenue Agency; Public Financial Inspection Agency; The National Customs Agency, independent financial audit and internal audit;
- Rights and obligations of the monitoring authorities.
At the competency approach what is important is the triad of competences, technology of training and assessment of results as a guarantee of the instruction process quality. The competency is a result and has to be evaluated in an indisputable, impartial, transparent and reliable way. The competences assessment is complex in its nature and is related to the implemented activities by the student in the process of learning. Its main characteristics are validity, reliability, fairness, timeliness, focusing, effectiveness and holisticity. (Efremova, 2012). In financial control it can be implemented on two levels: mastering the educational material in the training subjects and evaluating the students’ competency. It is advisable that it should be complex and have different forms of ongoing and final assessment such as: written exam and ongoing control by testing; preparation and presentation of a course project; solving cases and problems; participation in role plays. Therefore, the model of assessment and monitoring of competences in financial control should include: criteria for assessment, rules and procedures, which are implemented gradually during the whole semester and in sitting the exams in the subjects Theory of control and Financial control. The proposed competency model allows allocation of thematic units in the curriculum in such a way that the instruction process should be directed to building competencies. For that purpose it is required to:

- balance the implementation of the traditional and innovative approaches for delivering lectures and seminars in the subjects Theory of control and Financial control;
- develop textbooks and training aids which allow students to acquire and defend various competence levels in financial control;
- use adequate criteria and assessment system of competence and competency development of students in financial control;
- motivate students and lecturers to participate actively in the training process;
- take actions for cooperation in implementing the competency method on the level of lecturer, department and university;

In conclusion it should be noted that the implementation of the competency method in teaching financial control will actively assist the development of profes-
ional and general competencies in Bachelor students from the majors “Accountancy and Audit” and “Accountancy and Finances” at the University of Economics- Varna. The acquisition of the competency model in financial control training of students guarantees effectiveness and quality of the instruction process and their successful performance in practice as professional accountants and auditors.

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LEGAL REGIME OF THE BULGARIAN HIGH SCHOOLS FROM THE LIBERATION UNTIL PRESENT DAYS

Darina DIMITROVA

Abstract

The article researches the legal regime of the Bulgarian higher schools from the Liberation until present days in historical and comparatively-legal aspect, in order to systematize the legislative amendments. The legal regime of the higher schools is not being researched from juridical point of view, what provokes the interest of the author to an article in this direction. The author makes a periodization and analysis of the legislation in the area of the higher education in Bulgaria, and on basis of this analysis she makes important conclusions about the Bulgarian system of higher education. The development of the higher education is directly connected to the scientific researches and innovations and is a guarantee for high-qualified graduates/specialists, who are of importance for the whole European Community (European Union).

Keywords:
Higher education, establishment/opening and closure of Higher schools, state and private higher schools.

Introduction

In 2015, the National Assembly adopted a Strategy for Development of Higher Education in the Republic of Bulgaria in the 2014 - 2020 period (State Gazette (SG) 18/2015), prepared after a detailed study of Bulgarian and European legislative acts related to higher education. Nowadays the development of higher education is directly linked to research and innovation and is essential to the training of highly qualified individuals needed by the European community. In Bulgaria, the establishing of higher education institutions and adoption of laws and regulations governing higher education started relatively late; nevertheless, Bulgarian higher education has its deep historical roots (Tsanev, 1988) (Panayotov, 1999) (Popov, 2007).

A number of research publications deal with the management of higher education institutions (Dimitrov, 2003) (Vutsova, 2015), the quality of higher education (Dimitrova, 2013), the higher education policies (Pilev, 2003), the economic outlook for higher education (Dimitrov, G. et al, 2001) (Dimitrov, G. On the European prospects of Bulgarian higher education institutions, 2005) (Berberova-Valcheva, 2010). As the legal regime of higher education institutions has not been studied from a legal

1 Department of Legal Studies, University of Economics - Varna, Bulgaria. e-mail: darina@ue-varna.bg
point of view, this gap in our literature provoked the interest of the author in a paper on this subject. The paper constitutes an overview of the legal regime of higher education institutions and is part of a future monographic study, which will explore these issues in detail.

The aim of this paper is to examine in historical and comparative terms the legal regime of higher education institutions in Bulgaria with a view to systematize the legislative changes carried out so far and make de lege ferenda recommendations for the modernization of higher education. The periodization of the stages in the development of higher education is the basis for analyzing the level of relevance of the existing laws and regulations to higher education institutions. The object of study is the national legal framework of higher education, and the subject of study is the legal regime of higher education institutions in Bulgaria. To achieve the aim of this study, two main tasks will be carried out: a periodization and a critical analysis of the legislation in the field of higher education in Bulgaria. The research methodology used in this study involves a scholarly analysis of the legislation, implementation of the comparative method, and the use of formal logic.

We can distinguish three main periods in the development of legislation on higher education, which coincide with major periods in the historical and socio-political development of the Bulgarian state. The first period is from the Liberation to 1944, the second from 1944 to 1989, and the third from the democratic changes of 1989 until today. A comparison of the legislation on higher education and the legal status of higher education institutions during these periods was made using the following criteria: 1) the legal regime of the establishment and closure of higher education institutions; 2) attribution of legal personality to higher education institutions; 3) the ratio of state and private higher education institutions to the total number.

1. Legal regime of the establishment and closure of higher education institutions

Typical of the period from the Liberation to 1944 is the lack of unified legislative framework in the field of higher education. The legislative practice was such that the legal status of each institution was regulated by a separate legislative or even administrative act. The laws on national education, which governed all levels of education, contained provisions related to higher education. Pursuant to Art. 179 of the National Education Act (SG 17/1892) higher education institutions are established and managed under separate laws passed by the National Assembly. The next National Education Act (SG 49/1909) did not prescribe which state authority had the power
to establish and close higher education institutions. Meanwhile, another education law was passed, namely the Commercial Education Act (SG 2/1906), whose Art. 2 read "Higher, secondary and primary commercial education is obtained in schools of commerce whose level, curriculum and name shall be determined and approved by princely decree at the suggestion of the Minister of Commerce and Agriculture." The amended and supplemented National Education Act (SG 87/1921) laid down the establishment of special higher education institutions. Pursuant to Art. 222 of this Act, the Academy of Commerce (Higher school of commerce in Varna, A/N) was indicated as a special higher education institution. The establishment of other special higher education institutions was made by acts of legislature. In its Art. 217, the next National Education Act, as amended and supplemented (SG 79/1924) also prescribed that special higher education institutions were established by acts of legislature. A subsequent act, the Law Decree on Private Higher Education Institutions (SG 80/1938), stipulated in its Art. 1 that: "Private higher education institutions are established by act of legislature". In the period up to 1944 eight higher education institutions were opened in this manner in Bulgaria. The majority of them were established by laws passed by the National Assembly. Only two higher education institutions were established by a ministerial order and a circular letter, respectively.

A law for the establishment of a higher education school in Sofia was promulgated in SG 2 of 1889. However, classes began a year earlier and until the adoption of the law of 1889, the legal regime of the institution was governed by two regulations. These were the Regulation on the Higher Education Pedagogical Course in Sofia (SG 3/1887) and the Interim Rules on the Higher Education Pedagogical Course in Sofia (SG 110/1888), adopted by the Ministry of National Education. Apart from the school in Sofia, five more higher education institutions were established by laws passed by the National Assembly in the period up to 1944: Music Academy and Art Academy (the amended and supplemented National Education Act, SG 87/1921); Higher School of Commerce in Svishtov (Law Decree on the D. A. Tsenov Higher School of Commerce in Svishtov, SG 200/1936); Higher Technical School in Sofia (the Higher Technical School Act, SG 126/1941); Higher School of Physical Education in Sofia (the Higher School of Physical Education Act, SG 2/1942).

Two higher education institutions were established by ministerial orders: Higher School of Commerce in Varna, by Order No. 7177 of 28.09.1920 of the Minister of Commerce (Bliznakov, 2001), and the Balkan Institute of Middle Eastern Studies (Free University), by Circular Letter of 22.11.1923 of the Minister of National Education (Boyadzhieva, 2003). However, these institutions too had their status confirmed by laws adopted by the National Assembly. Thus, Art. 222 of the amended and sup-
plemented National Education Act (SG 87/1921) indicated the Academy of Commerce (Higher school of commerce in Varna, A/N) as an already established special higher education institution, and in 1924 was passed the Act for recognition of the Free University of Political and Economic Sciences (the Balkan Institute of Middle Eastern Studies) in Sofia (SG 34/1924).

In general, in the period before 1944 higher education institutions were established by acts of legislature, with the exception of the two institutions mentioned above. The National Education Acts and the other laws and regulations on higher education from this period did not contain provisions on the closure of institutions. Two examples of closures in this period can be mentioned. In 1907 the University in Sofia was closed for six months. This was done by Decree No. 2 of the head of state (SG 48/1907). The Free University of Political and Economic Sciences (the Balkan Institute of Middle Eastern Studies) was closed in 1938 (Parvanov, 2012). Two years later the closed Free University was reopened and transformed from a private to a state university. This was done with the law on the State Higher School of Finance and Administrative Sciences in Sofia (SG 126/1940). The reason the legislation did not specify procedures for closure of higher education institutions was probably the fact that until 1944 such institutions were few in number, and if some of them were closed down, it was for a brief period, with their activities resumed soon after.

As regards the establishment and closure of higher education institutions from 1944 to 1989, characteristic of this period was the passing of separate laws on higher education: a total of three such laws were adopted in 1947, 1948 and 1958, respectively. The first Higher Education Act was passed in 1947 (SG 153/1947). With this law higher education and its institutions were for the first time regulated separately from the other levels of education. According to Art. 1, new higher education institutions were established by acts of legislature. But in the spirit of the old legislative traditions, the Higher Education Act of 1947 regulated in unnecessary details all existing institutions. Instead of regulating in typical and general terms their legal status, the Act laid down in its different chapters and sections the structure, length of education and assessment of students separately for each institution. A positive characteristic of the Higher Education Act of 1947 was that it was the first unified legislative act on higher education. However, it was quite voluminous and hence ineffective, so a new Higher Education Act was passed in 1948 (SG 224/1948). According to its Art. 2, the establishment of new higher education institutions and the closure of existing ones was done by decree of the Council of Ministers (CoM), affirmed by Decree of the Presidium of the National Assembly (1).
The next Higher Education Act was passed in 1958 (SG 12/1958). Pursuant to its Art. 2, higher education institutions were established and closed by Decree of the Presidium of the National Assembly. After the amendment of the Act of 1972 (SG 65/1972), higher education institutions were established by the National Assembly. The Higher Education Act of 1958 remained in force until 1995, when the Higher Education Act (SG 11/1995) currently in force was passed.

In summary it should be pointed out that during the period from 1944 to 1989 the power to establish and close higher education institutions belonged to the Presidium of the National Assembly (after 1972 – to the National Assembly). During this period higher education expanded and many higher education institutions were established. “During the 1985/86 academic year there were 30 higher education institutions in Bulgaria” (Popov, G., 2001, p. 217). In the 50s and 60s of the twentieth century, many new higher education institutions were opened in Bulgaria, and existing ones were reorganized and renamed, but no example of closure can be found. The Higher Education Acts of 1947, 1948 and 1958 did not specify the grounds for closing higher education institutions. The reason for this was probably the fact that during the period from 1944 to 1989 Bulgaria had a socialist socio-political organization (Metodiev, 1990), educational institutions were state-funded and education was free in all its types and levels. All spheres of public life were under the monopoly of the state and it is difficult to imagine that a state educational institution could commit such violation of the law that would lead to its closure.

With respect to the establishment and closure of higher education institutions after 1989, the following should be pointed out. Just one year after the democratic changes of 1989, the National Assembly passed the Academic Autonomy of Higher Education Institutions Act (SG 10/1990). With this law the State granted the higher education institutions autonomy of education, research and other related activities. The Academic Autonomy of Higher Education Institutions Act and the Higher Education Act of 1958 were repealed in 1995 with the adoption of the current Higher Education Act (HEA) (SG 112/1995). The current law regulates comprehensively all matters pertaining to the structure, functions, management and funding of higher education in the Republic of Bulgaria, including the academic autonomy. Pursuant to Art. 9, Para. 2, item 1 HEA, higher education institutions may be established, reorganized, renamed and closed by decision of the National Assembly, where the establishment and reorganization is contingent upon a project that has received a positive evaluation by the National Evaluation and Accreditation Agency (Art. 15 Paras. 1 and 2 HEA). Pursuant to Art. 16, Para. 2 HEA, a higher education institution becomes a legal entity after the decision of the National Assembly for its establishment is prom-
ulgated in the State Gazette. The power to close is also vested in the National Assembly (Art. 18 HEA). This may occur: 1. when the higher education institution violates the Higher Education Act or other laws and regulations governing higher education; 2. when the higher education institution has received two consecutive institutional accreditation refusals or has failed to request such accreditation within the prescribed deadlines; 3. at the request of the founders of a private higher education institution; 4. at the proposal of the Council of Ministers, in the case of a state higher education institution.

After the entry into force of the Higher Education Act of 1995, many higher education institutions were established by decision of the National Assembly, all of them private (2). Examples of closures can also be found (3). Thus, at present the higher education system in Bulgaria comprises 51 higher education institutions (37 state-funded and 14 private) (4). In summary it should be noted, that in the period since 1989, the power to establish and close higher education institutions has been vested exclusively in the National Assembly.

2. The legal personality of the higher education institutions

This issue is important, because a higher education institution with legal personality is an autonomous legal entity that can independently acquire, exercise and perform rights and obligations, and also enter into legal relations with other entities in its name and on its behalf. The nature of the legal personality is dealt with in greater detail in the civil law studies (Vasilev, 2000) (Ilieva, 2015). During the period from the Liberation to 1944, some higher education institutions were given legal personality in the legislative act for their establishment, others acquired it afterwards, when their legal status was transformed through subsequent laws, and still others had no legal personality at all.

The following institutions were given status of legal entities already in the legislative acts for their establishment: D. A. Tsenov Higher School of Commerce in Svishtov (5), Higher Technical School (6), Higher School of Physical Education (7). Whereas the Higher School in Sofia, which was established as early as 1888, acquired legal personality much later. In 1889, a special law for its opening was passed, and in 1895 another law was adopted, the Higher School of Sofia Act, but none of these laws gave the school the status of legal entity. It was not until 1904 that the state-funded Higher School of Sofia was renamed and reregulated as a University, and finally attributed a legal personality (8). Similarly, a subsequent law passed in 1924 (9) recognized the legal personality of the Free University of Political and Economic Sciences (the Balkan Institute of Middle Eastern Studies) in Sofia, which "began to
function as a higher education institution in the autumn of 1920” (Boyadzhieva, 2003, p. 108). The Higher School of Commerce in Varna, established in 1920, had no legal personality (Tsonev, 1988). It was created on the initiative of the Varna Chamber of Commerce and Industry, which provided the funds for the support of the school. The Music Academy and the Art Academy also lacked legal personality, even though these were state higher education institutions funded by the state.

In the period from the Liberation to 1944 some higher education institutions were given legal personality, others not. As shown above, this was not determined by their being state or private institutions or who funded them. Rather, the reason lay in the fact that during this period the legislation on higher education was scattered across multiple laws and regulations and also in the lack of a unified state policy on higher education.

This situation changed dramatically in the next period, from 1944 to 1989. Already with the first Higher Education Act of 1947 the principle was adopted that all higher education institutions were legal entities (10). The same legislative solution was accepted in the next two Higher Education Acts of 1948 and 1958: higher education institutions are legal entities (11). In summary, the period from 1944 to 1989 was characterized by the following. The socio-political organization of Bulgaria was socialist in nature and the state’s intervention in the management of higher education institutions was very tangible. However, the legislation on higher education evolved: all higher education institutions were given legal personality.

Such has also been the legislation after the democratic changes of 1989. Pursuant to Art. 6, Para. 1 HEA, a higher education institution is a legal entity with the following scope of activity: 1. educate specialists capable of developing and applying scientific knowledge in the various fields of human activity; 2. improve the qualifications of specialists; 3. develop science, culture and innovation. The current HEA, besides reaffirming the status of legal entities of higher education institutions, supplements their legal framework by indicating their specific activities. This is an important individualization attribute of legal entities. "Scope of activity means a specific kind of tasks that the legal entity will carry out and the rights and obligations it will acquire in connection therewith” (Tadzher, 1973, p. 86). In summary, it should be noted that the improved present framework of higher education institutions is the result of the many years of experience and longstanding traditions of our legislation in the field of higher education.
3. Ratio of the number of state and private higher education institutions to the total number of higher schools

In the period after the Liberation, the very first National Education Act of 1892 adopted the principle that schools were divided into "national" (meaning "state", A/N) and "private". National were those "supported" by the state, districts or municipalities. Private were those "supported" by religious communities, societies, fraternities or individuals (12). This legal framework applied to all levels of education, including the higher education (13), as in this period the laws on public education governed all levels and types of education collectively. As already mentioned above, there were no laws on higher education exclusively. The principle to distinguish between state and private schools, depending on who funded them, was preserved in the next National Education Act of 1909: "Schools are general and special in terms of their purpose; primary, secondary and higher in terms of their level of education, and national and private in terms of their relation to the state. National schools are funded by the state, districts or municipalities, and private schools only by the individuals, societies and communities that established them". (14)

As already pointed out, during the period from the Liberation to 1944, eight higher education institutions were established in Bulgaria. The majority of them were state-funded. Private were only the Higher School of Commerce in Varna, which was funded by the Varna Chamber of Commerce and Industry; the D. A. Tsenov Higher School of Commerce in Svishtov, which was provided for by the fund created with the acceptance of the donation and testament of D. A. Tsenov, and the Free University of Political and Economic Sciences (the Balkan Institute of Middle Eastern Studies) in Sofia. But in 1940, the former Free University in Sofia became the State Higher School of Finance and Administrative Sciences (15). Thus, by 1944 only two of a total of eight higher education institutions were private.

In the period from 1944 to 1989 there were only state schools. The legislation did not allow the existence of private schools at any level of education. The first Higher Education Act of 1947 explicitly and unambiguously stipulated that all higher education institutions were state-run (16). But the process of nationalization of private higher education institutions began earlier. In 1945 was enacted the Law Decree on the St. Cyril Slavyanobalgarski State University in Varna (SG 191/1945). This law reorganized the Higher School of Economic and Social Sciences (formerly the Higher School of Commerce, A/N) as a state university.

The second Higher Education Act of 1948 also stipulated that all higher education institutions in Bulgaria were state-run (17). The next Higher Education Act of
1958 did not contain provisions indicating higher education institutions as state or private. But given the provisions of the two socialist Constitutions of 1947 and 1971 and the principles underlying the educational system, it is clear that all educational institutions in this period were state-run. Thus, during the period from 1944 to 1989, there were no private higher education institutions. All existing ones were state-run, in view of the socialist socio-political organization.

After the democratic changes of 1989, a significant number of private higher education institutions have been established. Art. 12 HEA reads that higher education institutions are state and private. The law provides equal opportunities for establishing a higher education institution, whether it is state or private, subject to the requirements thereof. The difference is in their funding. State institutions operate on the basis of allocation of state property and transfers from the state budget. The founders of private institutions must own the land, buildings and movables needed for the carrying out of educational and research activities, as well as a project for their financial support (Arts. 13 and 14 HEA).

As noted, at present the higher education system in Bulgaria comprises 51 higher education institutions, including 37 state and 14 private ones. It is obvious that state institutions are a significant part of the total number in the country (over 2/3 of all higher education institutions are state-funded). The reasons for this cannot be only that from 1944 to 1989 there were no private higher education institutions in Bulgaria. The comparative historical analysis shows that even in the period from the Liberation to 1944 state schools were predominant and private ones were rather the exception. The reason there are more state higher education institutions than private ones lies in the fact that through these the state implements its higher education policy and enables the citizens to exercise an important constitutional right: the right to education enshrined in Art. 53 of the Constitution.

"Western Europe also stands out with a relatively limited presence of the private sector, although private education in some west European countries has deep historical roots." (Slancheva, 2005, p. 13). The state institutions are a determining factor in higher education and private higher education has complementary functions mainly in the following cases: 1) when the demand for higher education exceeds the supply provided by the state, and 2) when certain groups of people are seeking different types of educational institutions than the already existing (Slancheva, 2005).

Conclusion

Based on the legal analysis performed, three important conclusions about higher education institutions in Bulgaria can be drawn. First, the procedure for establish-
ment and closure has always been a prerogative of supreme state bodies: the National Assembly, the Presidium of the National Assembly and the Council of Ministers, and subject to a single administrative regime. **Second**, higher education institutions have legal personality, i.e. they are independent legal entities with specific scope of activity. **Third**, although the legislation envisages the equal existence of state and private higher education institutions, the state ones have the leading role. This is an expression of the state policy in the field of higher education seeking to carry into effect the constitutional right of citizens to education, including higher education, which should be made available to the citizens precisely through state institutions.

Initially the legislation on higher education was scattered across multiple laws and regulations and there was no uniform state policy on higher education institutions. The legislation gradually evolved and improved due to the many years of experience and longstanding traditions. Based on the relationship between social development and the legal framework it is necessary to make a recommendation regarding the legislation, namely that measures need to be taken to update the activities of higher education institutions in Bulgaria. Bulgarian legislation in the field of higher education must adapt to the objectives and activities of the Strategy for Development of Higher Education so that the legal status of the higher education institutions provides enough flexibility to integrate the Bulgarian with the European higher education.

The specific recommendations are along the following lines. **First**, a suggestion de lege ferenda: a thorough modernization of the legal framework of higher education by introducing the principles of European legislation, tailored to the national particularities and traditions. This will require the coordinated actions of the competent state bodies determining the legal status of higher education institutions, i.e. coordination between the Legislature (the National Assembly), the Executive (the Council of Ministers) and the special competence body (the Ministry of Education) in a unified state policy. **Second**, in this process the responsibility of higher education institutions for providing quality education in compliance with European requirements is very important. The internal regulations of the individual institutions should reflect the specifics of the institution itself in accordance with its educational profile. In this sense, the specific recommendation to the higher education institutions is: based on the Higher Education Act, the Strategy for Development of Higher education in the Republic of Bulgaria and other laws and regulations in this area, the individual institutions should also draw up their own development strategies. A good practice example in this regard could be the development strategy for the 2015-2020 period adopted on 8.10.2015 by the Academic Council of Varna University of Economics.
End Notes

2. Decision to establish the International College of Albena (SG 44/1999); Decision to establish the European Polytechnic University in Pernik (SG 46/2010); Decision to establish the Higher School of Insurance and Finance in Sofia (SG 75/2002); Decision to establish the Luben Groys Theatre College in Sofia (SG 20/2002); Decision to establish the College of Economics and Administration in Plovdiv (SG 97/2003); Decision to establish the European College of Economics and Management in Plovdiv (SG 80/2001); Decision to establish the College of Tourism in Blagoevgrad (SG 93/2003); Decision to establish the private College of Telematics in Stara Zagora (SG 75/2002).
3. Decision to close the Slavic University (SG 24/1999); Decision to close the private College of Telematics in Stara Zagora (SG 42/2010).
5. Pursuant to Art. 2 of the Law Decree on the D. A. Tsenov Higher School of Commerce in Svishtov (SG 200/1936)
6. Pursuant to Art. 2 of the Higher Technical School Act (SG 126/1941)
7. Pursuant to Art. 1 of the Higher School of Physical Education Act (SG 2/1942)
8. Pursuant to Art. 1 and Art. 4 of the University Act (SG 19/1904)
9. The Act for recognition of the legal personality of the Free University of Political and Economic Sciences (Balkan Institute of Middle Eastern Studies) in Sofia (SG 34/1924)
11. Pursuant to Art. 3 of the Higher Education Act (SG 224/1948); pursuant to Art. 2 of the Higher Education Act (SG 12/1958)
12. Pursuant to Art. 6 of the National Education Act (SG 17/1892)
13. Pursuant to Art. 5 of the National Education Act (SG 17/1892), national education includes primary, secondary, special and higher education.
14. Pursuant to Art. 4 and Art. 6 of the National Education Act (SG 49/1909)
15. Pursuant to Art. 1 of the State Higher School of Finance and Administrative Sciences in Sofia Act (SG 126/1940)
17. Pursuant to Art. 3 of the Higher Education Act (SG 224/1948).
References


IMAGE EFFECTS RESULTING FROM BRAND EXTENSIONS OF NICHE AUTOMOBILES

Senior Assistant Prof. Vladimir Zhechev, PhD
University of Economics – Varna

Academic supervisor: Prof. Evgeni Stanimirov, PhD
Educational institution: University of Economics - Varna
Date of defense: 20.04.2015

Rationale and topicality of brand extensions and associated effects

The topicality of this study stems from the fact that the review of extant literature exhibits scarcity of research works in the field of downward brand extensions of niche luxury cars. While some studies examine potential differences between consumer evaluations of brand extensions (defined as functional and luxury), recent studies emphasize that the mere distinction between functional and luxury brands may be inadequate as the latter vary widely on the basis of perceived prestige and price. In view of this it is important to determine the influencing factors and trends predisposing downward extensions of luxury automobiles.

This study of class F automobiles on the consumer market for new cars in Bulgaria is build on factors related to the extension of the brand and the resulting forward and feedback effects. The focus of the research differs geographically and in terms of scope from previous investigations in the field. An important point in this paper is not only studying the nature of the impact, but also identifying and sizing the image effects stemming from brand extensions. From marketing point of view, such technological and image evolution represents both an attention-grabbing practical challenge and an interesting business transformation resulting from brand extensions and detailed market segmentation.

Subject matter and scope of the dissertation

Niche luxury automobiles in Bulgaria are purported to entail higher social status, exclusivity and positive self-image, which determines the researcher’s interest for studying the extensions’ influence on parent brands. In particular, the scope of this research covers customers of niche luxury automobiles (class F) on the consumer market for new cars in Bulgaria. The subject matter encompasses the image effects
(desirable, undesirable, and factual) from downward brand extensions of class F automobiles over the image of the parent brands in the research country. The desirable effects may include positive transfer of: exclusivity, social status, reputation, emotional bonds with the brand, perceived value, brand awareness, brand trust, and synergy between the parent brand and the extension (and vice versa). The undesirable effects may involve, but are not limited to: transfer of negative image from the extension to the parent brand (according to the abovementioned variables), loss of control over brand trust and synergy, and others. The factual effects are intended to reflect the practical results on the image of the parent brand as a result of the downward brand extension(s) of niche luxury automobiles of class F in Bulgaria.

**Research thesis, aim and objectives of the dissertation**

The thesis of this research is that the detailed segmentation of the consumer market for niche luxury automobiles (class F) is a significant reason for downward brand extensions targeting higher sales, but this phenomenon may cause undesirable brand dilution effects to the parent brand(s).

The aim of the dissertation is through scientifically-reasoned analysis, theoretical concepts and study of the strategic orientation of class F companies and the respective customer reactions to design and test a methodology for analysis and evaluation of the image effects of downward brand extensions of niche luxury automobiles and in this regard – to highlight some practical aspects (that can serve the needs of companies from various business areas) and to formulate conclusions and recommendations for minimizing the potential negative feedback effects. Particularly, the dissertation sets out the following research objectives: (1) to identify, analyze, classify, and summarize different conceptual frameworks of niche and extension strategies and the factors determining the possible brand dilution effect resulting from downward brand extensions; (2) to identify, describe, analyze, evaluate, reconcile and further adapt the relevant factors that determine the effects of downward brand extensions; (3) using the established conceptual and methodological basis to develop and test methodology for measuring the effects of downward brand extensions of niche luxury automobiles in Bulgaria.

**Major theoretical findings in the dissertation**

The following conclusions can be made after the theoretical examination of extant literature: (1) market niches are limited in scope; (2) niche marketing requires specialized skills that help achieving differentiation and added value; (3) niche markets can be protected through establishment of barriers to entry (product quality,
customer relationships, etc.); (4) brand extension is a strategy whereby the same name is applied to different products in order to increase the value of the brand and it is important to observe similarity and congruence with parent brands (Pina et. al., 2010). Despite the proven benefits of this strategy, companies must try to strike the balance between organizational reasons for extending the brand and the desires of customers who are advocates of the parent brand and the proponents of the downward extensions; (5) Brand extension can be motivated by the potential profitability in the new segment, while under nichemanship the emphasis is on individual clients rather than homogeneous groups of such. Brand extension strategy is normally applied to markets that are developing dynamically and attract multiple competitors. Conversely, niche companies target markets with little or no rivalry where customer needs are unmet.

Niche luxury automotive brands that have broad product portfolio can potentially engender low levels of customer disapproval, but not when it comes to those models which differ greatly from the companies’ core products. Therefore, this study focuses on associations and characteristics of the parent class F niche luxury brands and juxtaposes them to those of downward extensions.

**Summary and conclusions about the branch**

The analysis of the characteristics and specificities of “Trade of lightweight and commercial vehicles up to 3.5 tons” branch in Bulgaria allows making the following inferences: 1) demand for new automobiles has been fluctuating over the past five years (the highest selling class being "C"). On the other hand, the demand for used cars is dominant despite the high average age of the fleet in the country. Experts are predicting a slow revival of the market in the future; (2) almost all world automotive brands are represented on the new cars market in Bulgaria. Due to the "downsizing" trends in demand, supply is concentrated on models from lower classes; (3) the analysis of micro-environment shows that the participating experts share the opinion that the branch is unattractive at the moment, which is caused by the high fixed costs, low customer switching costs and fast counter-reactions of main rivals in the country. Specialists also confirm and established tendency of imposing and adopting European positioning strategies in Bulgaria; (4) the analysis of the macro-environment reveals negative demographic trends, but demonstrates positive economic forecasts. The latter can contribute to the expectations of experts for growth in sales of new cars in Bulgaria; (5) Upon examination of the known world and European automobile classification schemes and placement of the classification adopted by the ACM in this context, it becomes obvious that the change in the model range of major producers is
taken into account with considerable time lag in the country. A partial reason for that may be the fact that a large number of unsold models still remain at the premises of dealerships that (in some cases) even went out of production; (6) The trends in the development of niche luxury automobiles reveal a blurring of the boundaries between classes and a general focus on downward extensions by premium brands.

**Methodological framework of the study of the image of effects from brand extension**

In order to distinguish the main structural contexts related to image effects of downward brand extension the conceptual model is divided into three fields: *(Field 1)* includes six general variables affecting customer attitudes (affective, behavioral and cognitive) and henceforth exerting influence on the parent brand image: (1) relationship with the self-image; (2) social needs; (3) need for uniqueness; (4) fashion trends; (5) conformism; (6) customer experience with automobiles. *(Field 2)* incorporates another six general variables related to image of the parent brand and the extension: (1) exclusivity; (2) status; (3) reputation; (4) affective bond; (5) customer value; (6) awareness. In this field the researcher also juxtaposes the abovementioned variables with the security and trust variables. *(Field 3)* examines the image effect of downward extensions of niche luxury (Kim et. al., 2010) brands and their possible projections on the image of the parent brand(s).

Target respondents have been reached in through: (1) pre-selection, using personal contacts in different regions of the country and (2) authorized dealerships of niche luxury automobiles in Bulgaria. The predominant array of respondents has been secured at the discretion of the dealers as the latter have demonstrated interest in the results of the study and have therefore actively participated in the distribution of questionnaires. A range of general and specific variables is applied for studying each included construct, underlying in the conceptual model. The researcher uses 5-point Likert scales across the questionnaire.

For sizing the effects of downward extension the researchers uses a combination of quantitative and qualitative methods. The results are entered and processed in the statistical software SPSS. They are also analyzed and critically examined in the context of the extant literature in the field. The reliability of the applied scales for the variables set out in the conceptual model is tested using the Cronbach’s Alpha estimate. Dependences between variables are tested through the $\chi^2$ analysis (Zhelev, 2000).
Research results and some practical aspects

The analysis and approbation of the designed methodology gives reason to conclude that downward extensions exert influence on the image of the parent brands in the studies class of automobiles. Alternatively, the researcher has found two-way influence between the main brand and the extension (and their respective general and specific variables). The existence of differences in the average estimations of some specific variables and the results of the regression and correlation analyses allow to make the inference that there is little evidence of feedback brand diluting effects (Milberg et. al., 1997; Pullig, et. al., 2006) from the extensions to the parent brands.

On the basis of the manifested relationships between the constructs in the conceptual model the researcher sums up that the effects from downward brand extensions should not only be analyzed and evaluated. They also need to be systematically managed especially given the aforementioned marketing and financial restrictions of the authorized dealerships in Bulgaria. Provided the dynamically developing market environment, this can create prerequisites for establishing balance in the relationships between suppliers and customers with regard to the unambiguous understanding of image of evolution of class F brands. The process of managing some of the effects can only be successful if it is perceived as an integral part of the activities of authorized dealers. In this respect, some of the basic principles that must be followed when deciding on whether to launch extensions or not in industries like the automotive, consumer electronics, IT, designer products, etc. are the following: (1) brand extensions are not reasonable in case the parent brand does not boast good awareness and reputation among the users on the new market; (2) brand extensions must be logical and consistent with customer expectations; (3) extensions should provide opportunities for transfer of distinguishing characteristics from the parent brand to the new product (category) so as a competitive advantage can be established; (4) marketers should avoid launching extensions that can cause confusion or affect negatively both their own image and the image of the parent brand; (5) extending into multiple categories carries the risk of brand dilution in the long run.

Conclusions

The dissertation can serve as a methodological framework for the study of downward brand extension projections over products from distinct classes / categories in different geographical regions. The inclusion of experts and real respondents helps avoiding the shortcomings of some previous studies. Classifying the practices and strategies of nichemanship and brand extensions as well as the designed and
approbated methodology for measuring the image effects of downward extension can be used both for marketers of premium brands and researchers who may conduct a replica-study for other automotive classes and/or industries like: consumer electronics, IT, designer products, etc.

References

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- **Key words** – precise and sufficient, not more than five.
- **Introduction** – it should state the objectives of the research and the relevance of the scientific problem; it should review the condition of the issue and review references; it should also give the theoretical framework of the research, lead to research questions and hypotheses.
- **Methodology and data** – the methods used should be correct and include also appropriate references on similar, already published methods. The data shown must come from reliable sources.
- **Results and outcomes (conclusions)** – the results should be presented clearly and elaborated correctly; they must show a better way of using the data. Conclusions must be significant, valid and supported by proofs.
- **Bibliographic sources (references).**

Formatting:

The papers suggested for publishing must meet the following technical requirements:

- Manuscripts typed in Word for Windows, font - Times New Roman, font size – 14 pt, line spacing – 1.5 lines.
- Size of tables and charts – not larger than A4. The numeration of tables and charts should be consecutive in the wording of the paper. The use of colour charts, graphs and pictures are not accepted. All tables, figures, charts and images should be editable.
- Margins in cm: top – 2.5, bottom – 2.5, left – 2.5, right – 2.5.
- The title should be typed in caps, without abbreviations (font - Times New Roman, font size - 14 pt, line spacing - 1.5 lines, Bold – Center).
- At the right top corner above the title it is typed EconLit index in JEL (Journal of Economic Literature) classification system.
- After the title articles must include an abstract (10-12 lines) and up to 5 key words. The abstract and the key words should be written in Bulgarian and English (for articles in Bulgarian) and only in English for the articles submitted in English.
✓ Listing the used sources and citations is done in compliance with the Harvard short reference system (See examples of description and citation). The Quoted sources of a scientific research paper should be at least 20 and transliteration is obligatory. Footnotes are not recommended, except when necessary. If so-called “notes” need to be used, they should be indexed with Arabic numerals and are explained at the end of the article, before the references.

✓ The papers should be written without any handwriting and crossing out words, in good Bulgarian and, respectively, English.

After the article is received, it is edited language- and style-wise. As for the Language the editor makes insignificant corrections since it is supposed that the papers are written in goof Bulgarian and English. The articles in English can be returned for another check by the author. Authors confirm the suggestions for changes in style or mark what they disagree with.

Acceptable size of manuscripts:

- for articles – from 16 to 20 pages;
- for micro articles, reviews and abstracts of dissertation papers - up to 10 pages.

Articles submitted for publishing must be original and not published before or in the process of reviewing and preparation for publishing in other publishing houses. Editors have the right to make insignificant editing corrections on the manuscript. After an article is accepted, authors must declare an agreement and give the publishing house the exceptional right for publishing. Authors can use the article or part of it in their future work without permission from the publishing house, but this would require citing the original article.