

# ***ПРЕДПРИЕМАЧЕСТВО***

**Югозападен университет “Неофит Рилски”**

**Стопански факултет**

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# ПРЕДПРИЕМАЧЕСТВО

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## **MAIN CHARACTERISTICS OF THE MODERN ENTREPRENEUR**

**Daniel Yordanov<sup>1</sup>**

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### ***Abstract***

*Modern entrepreneurs and entrepreneurship play an indispensable role in achieving economic success of individual businesses, as well as the high growth of the economy as a whole. In addition, entrepreneurship is at the heart of the innovative economy: bigger companies have the opportunity to show initiative and creativity. The paper presents a retrospective analysis of entrepreneurship theory and the state of scientific knowledge. On the basis of analyzes in the specialized literature and practical studies in this paper, some generalizing characteristics of contemporary entrepreneur and entrepreneurship as a process are structured according to different signs.*

**Keywords:** *entrepreneur, entrepreneurships, entrepreneurial activity, business*

**JEL Codes:** *L26*

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## **INTRODUCTION**

Private business initiative is one of the most important factors for growth in the market economy. Human creativity, the desire to prove abilities and prosperity have no economic limit and an alternative. For this reason, entrepreneurship has a leading role and has particular responsibilities towards other market players. In this connection, topics related to continuity in business, entrepreneurship education, entrepreneurial culture, improvement and development of entrepreneurial activity are constantly discussed.

Entrepreneurship development is particularly important in achieving the goals set out in the Lisbon Strategy "To make the European Union the most competitive and dynamic knowledge-based economic space in the world capable of achieving sustainable growth while creating more and more attractive jobs and to strengthen social solidarity".

Social sciences generally have two different approaches to entrepreneurial theories. Most often in literature, in the first approach,

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<sup>1</sup> University of National and World Economy, Economics of Transport and Energy Department, Chief Assist. Dr., dyordanov@unwe.bg



entrepreneurship is variable, entirely dependent on economic factors and is almost neutral to the overall socio-cultural context. Under the second approach, entrepreneurship is seen as a variable, rooted deep in culture. In his works, Kiril Todorov, apart from economic and sociological theories on entrepreneurship, he divides them into classical and modern theories (Todorov, 2001, pp. 69-102).

## **EVOLUTION OF THE TERM "ENTREPRENEUR" AND "ENTREPRENEURSHIP"**

In the many literary sources written about the role and essence of the entrepreneur in the economy, there is a wide variety of definitions of who he is and what makes him relevant to the progress of the economy. Many consider the entrepreneur as the creator, owner and chief executive of the business enterprise. Some focus on financial risk as a leading feature. Other authors pay attention to unused opportunities, and therefore the entrepreneur is an explorer who expands the limits of knowledge.

Table 1 shows the basic definitions of entrepreneur over the years.

*Table 1. Evolution of the term "entrepreneur"*

<b>Author</b>	<b>Definition</b>	<b>Comments</b>
Richard Cantillon (1680-1734)	A person, acting in a risk-taking environment, taking decisions to meet his needs	The focus is on the risk and the look of the future
Jean-Baptiste Say (1772-1823)	An entrepreneur is a person who transfers economic resources from an area with lower productivity and higher income and organizes the production process by combining production factors (capital and labor) with information and experience	The focus is on the leadership qualities
Joseph Schumpeter (1883-1950)	An entrepreneur is an innovator who imposes changes in markets by using new combinations	The focus is on the new opportunities (innovations)
Friedrich August von Hayek (1899-1992)	... is a person who, in conditions of absoluteness and competition, strives to achieve the highest market efficiency, combining its unique knowledge with the market situation	The focus is on ethical relationships

Israel Kirzner	The entrepreneur recognizes and acts according to market opportunities. He is essentially an arbitrator.	The emphasis is as an engine that drives the economy
Peter Drucker (1909-2005)	...the entrepreneur is constantly seeking change, adapts to it and uses it as an opportunity	The focus is on innovation
Kiril Todorov	An entrepreneur is an individual with unique personality characteristics and abilities that takes risks, invests resources to create something new - a new product, a technical system, a technology or a new way of producing something that already exists or to form a new market	The focus is on innovation
Hristo Parvanov, Nataliya Loginova	The entrepreneur is a vigorous person showing an initiative, driving productive socio-economic mechanisms, working in a risk-bearing environment and bearing full responsibility for failure	The focus is on the driving force

*Source:* The table was developed by Loginova, N., Hr. Parvanov (2011). Organization of Transport Operational Activities, JS, GCGGEU and is completed by Todorov, K. (1997) Entrepreneurship and Small Business. Sofia: Martylen

As a summary of the definition entrepreneur, we can say that he is a person who organizes, manages and assumes the risks of a business. In order to be successful he must have the necessary personal qualities and relevant professionalism and skills (Yordanov, 2013, p. 21).

Very close to the concept of "entrepreneur" is the notion of "entrepreneurship".

Entrepreneurship is one of the most active forms of business activity. Entrepreneurs in the process of entrepreneurial activity risk incurring loss of property, reputation, money, stability, etc. The entrepreneur is not sure if all the goods and services will be realized and when, and therefore he deliberately takes risks, as similar goods and services or other entrepreneurs enter the market.

On an evolutionary level, the understanding of entrepreneurship is presented in Table 2.

Table 2. Definitions of entrepreneurship

Author	Definition	Comments
Ludwig von Mises (1953)	„Entrepreneurship - realization of a person's abilities, which is expressed in a rational combination of production factors based on an innovative risk approach.“	The focus is on the style of management
Friedrich August von Hayek (1980)	“Entrepreneurship - one of the resources of the economy, along with land, labor, capital, information and knowledge to save time by reducing transaction costs.”	The focus is on the style of management
Robert Hisrich (1985)	Entrepreneurship - the process of creating something new that has value.	The focus is on the process of organizing and performing activities in the market conditions
Sinelnikova S.M. (1992)	„Entrepreneurship - an initiative, an independent activity of a citizen aimed at realizing a profit or income, carried out on his behalf, on his own financial responsibility, or on behalf of and under the legal responsibility of a legal entity ".	The focus is on the process of organizing and performing activities in the market conditions
Kononova G.A. (1995)	Entrepreneurship - an activity carried out by individuals, firms or organizations to extract natural resources, the production or acquisition and sale of goods or the provision of services in return for other goods, services or money for the mutual benefit of the persons or companies concerned" .	The focus is on the interaction of market participants
Rondegate R. (1989)	Entrepreneurship is a dynamic process that creates growing wealth.	The focus is on wealth
European Commission (1998)	Entrepreneurship is a dynamic process where people constantly find economic opportunities and act to develop, produce and sell goods and services. This process requires qualities such as self-confidence, risk-taking, and personal responsibility	The focus is on perseverance
Hrisova V. (2009)	Entrepreneurship is a dynamic process of creative search and realization of the identified opportunities by performing independent and independent activity at risk and responsibility for the actions	The focus is on the dynamics and personality

	taken and obtaining the resulting personal remuneration	
Howard Stevenson	Entrepreneurship is pursuing opportunities beyond the limits of controlled and limited resources.	The focus is constant demand in a limited environment

*Source: The table was developed by Loginova, N., Hr. Parvanov (2011) Organization of Transport Activities, SP, SPBGGEU and is supplemented by Kanev, P.V. Hristova. (2009) Fundamentals of Entrepreneurship. V. Tarnovo: Abagar, pp. 34-36; Marinov, Velez, Geraskova (2009), Economics and Competitiveness of the Entrepreneurial Process, C. Information Intelligence; Eisenmann, Thomas R., "Entrepreneurship: A Working Definition". January 10, 2013, Harvard Business Review Magazine, pp.1-2*

Kiril Todorov (2001) binds entrepreneurship mainly with the forms of small business or with its innovative function in terms of economic parameters.

The European Commission (1998) defines entrepreneurship as "... a dynamic process in which the participants constantly find economic opportunities and initiate activities for the development, production and realization of goods and services. This process requires qualities such as self-confidence, risk-taking, and personal responsibility. "

In the transition to a market economy in most literary sources, entrepreneurship is seen as synonymous with the private business or only associated with small business. These assertions have been very strong in our country at the beginning of the transition to a market economy and very quickly became necessary in the minds of the people. In our view, it is inappropriate to make a conjunctural concept a basic approach.

If we focus on the definition of "entrepreneurship" used at the Harvard Business School (HBS), which was formulated by Howard Stevenson, Founder and Dean of the HBS Theme Studies (Eisenmann, 2013, pp. 1-2), "Entrepreneurship is pursuing opportunities beyond the limits of controlled and limited resources. "

"Persecution" implies exclusivity, relentlessness, and obstinacy. Entrepreneurs often see only a small time window of opportunity. They must act specifically, have tangible progress to attract the necessary resources. The short period of time requires a rapid response and consumes limited cash resources. Consequently, entrepreneurs have a sense of urgency and urgency, which is rarely seen in well-established companies, where every opportunity is part of an already established portfolio and resources are more easily accessible.

"Opportunities", on the other hand, relate to proposals that are new and original in one of four ways. The opportunity should lead to: 1) Introducing a

truly innovative product; 2) Developing a new business model; 3) Creating a better or cheaper version of an existing product; or 4) Target an existing product to new customer groups. These possibilities are not mutually exclusive. For example, a new venture can use a new business model to introduce an innovative product. Likewise, the above do not exhaust all the opportunities of organizations. Many profit-raising opportunities are not new - in this way they are not entrepreneurial - such as raising the price of a product or, once the company has a scalable sales strategy (the more you sell, the more you climb) hiring more representatives.

With the phrase "Beyond Controlled and Restricted Resources", resource limitations are considered. At the very beginning of the new venture, its founders only control their own human, social and financial capital. Many entrepreneurs keep spending to the absolute minimum while investing only their own time and, if necessary, their own resources. In some cases, this is enough to bring the new venture to the point at which it becomes self-sustaining from an internally generated cash flow. However, for companies with the highest potential, founders need to mobilize more resources than they control personally. The enterprise will eventually require production facilities, distribution channels, working capital, etc. (Burgstone, Murphy, 2012).

Due to the fact that they are pursuing new opportunities in the absence of access to the necessary resources, entrepreneurs face a significant risk, which is manifested in four main forms. The demand risk is related to the willingness of potential clients to accept a solution envisaged and proposed by the developer. Technological risk is high when engineering or scientific discoveries are needed to implement and implement the entrepreneur's decisions. The executive risk refers to the entrepreneur's ability to attract employees and partners who can implement his plans. The financial risk relates to whether external capital will be available under reasonable and acceptable terms. The entrepreneur's job is to manage this uncertainty, while realizing that certain risks cannot be influenced by his actions.

Entrepreneurs face a real "Paragraph 22". On the one hand, it can be difficult to reduce the risk without the necessary resources. On the other hand, it may be even more difficult to persuade resource owners to engage and participate in a project when the risk is still high.

## **CHARACTERISTICS OF THE MODERN ENTREPRENEUR**

Besides the retrospective analysis of the theory of entrepreneurship, the present state of scientific knowledge is of interest. In the specialized literature there are many qualifications and characteristics of modern entrepreneur and entrepreneurship as a process, structured according to various signs.

Taking into account the above mentioned arguments, the following features of modern entrepreneurship can be derived:

- Independence and independence of business entities - each employer is free to decide on a particular problem.
- Economic interests - an opportunity to get big profit.
- Economic risk - entrepreneurial activity implies the existence of risk and possible losses
- Liability - implies the assumption of duties within the activity.

The presented features of modern entrepreneurship are interconnected and work together (Loginova, Parvanov, 2010)

For the development of entrepreneurs, the same case studies are developed and resolved, which also apply to other market participants. In the specialized literature there are many classifications and the main characteristics of the modern entrepreneur, structured according to various signs. Taking into account the above mentioned arguments, the following characteristics of the contemporary entrepreneur can be derived (Loginova, Parvanov, 2010):

- Entrepreneurship - manifests itself in the ability to find non-standard, creative solutions, to bring the profitable work to the end and the ability to take risks;
- Power - Ability to show the strong and bright features characteristic of the process of performance;
- Ingenuity - an opportunity to use both positive and negative development trends for your own benefit;
- Ingenuity - the ability to find the new as a significant difference in each area;
- Business activity - manifested in hard work and ability to rationalize entrepreneurial activity;
- Savings (economy) - the ability to find a rational distribution and saving of available resources;
- Responsibility - manifested in the honest word and correctness in dealing with partners, workers and society.

These characteristics define entrepreneurial culture that is part of the economic culture of society as a whole (Loginova, Parvanov, 2010). Owners of these qualities are an important part of intellectual potential and national wealth. Velikova also points out that competition, the race for ideas, the development of new technologies, the tendencies in the perception of the surrounding world and the surrounding space, as well as the aspirations of people to cultivate and seek the beautiful and aesthetic in all their manifestations are only part of the challenges that modern entrepreneurs face (Velikova, 2018, pp. 64-65). Furthermore, the entrepreneur must strictly observe business ethics in accordance with the well-known code of conduct. We will emphasize that business ethics are being respected in developed countries, and the entrepreneur is threatened by exclusion from the business community.

## **CONCLUSION**

In conclusion, it can be said that entrepreneurship is hardly predictable and easily avoided by economists. That is why it is very important to be encouraged during economic recessions. In its job, the entrepreneur wants to be self-sufficient and therefore risks and is part of a complex communicative process in which entrepreneurship becomes a product of culture in part, and the entrepreneur is the most important because he is the innovator - insightful and knowing, able to "read" the thoughts of others.

The development of entrepreneurship plays an indispensable role in achieving economic success of the individual enterprises, as well as the high growth of the economy as a whole. In addition, entrepreneurship is at the heart of the innovative economy: bigger companies have the opportunity to show initiative and creativity. There is little difference between potential and actual results, both for individual enterprises and the economy as a whole. Achieving innovative economic growth is impossible under artificial barriers to creative elements, the freedom of business initiative and the necessary prerequisites for the mobility of all production resources. Entrepreneurship also promotes competition and increases the so-called "openness" of the national economy and the development of capital imports and exports, and therefore creates a coordination mechanism, a market development strategy and competition between businesses.

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## COMPETITION AND COMPETITIVENESS – GENERAL THEORETICAL CONCEPTS

Nikolay Logodashki<sup>1</sup>

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### Abstract

*Competition and competitiveness have been a hot topic since ages. Currently, it has become more and more modern considering the fact that we live in times of fierce competition on international, regional, corporate and personality basis, times of fierce fighting for competitive advantage at both macro- and microeconomic level. The main aim of this report is to systematize and draw concepts for competition and competitive power. The major research methods used in this work are content analysis, comparative analysis, intuitive and systematic approach, method of analysis and synthesis.*

**Keywords:** entrepreneur, entrepreneurships, entrepreneurial activity, business

**JEL Codes:** L26

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## INTRODUCTION

There have been many authors, statements and laws of competition since ancient times up to nowadays. This is a subject that will gain further actuality as we are living in a world of incessant technological renovation, a world of innovations developing all the time, parallel with the growth of consumers' needs and whims. We are living in an age of limited resources, ideas for conquering new markets, and times of continuous fighting to prevail over competitors. Times of a material world led by the pursuit of power and increase of wealth. These are prerequisites predetermining the future actuality of the subject of competition and competitiveness.

It is important to study competition and competitiveness, as:

- It is a natural regulator of a series of economic phenomena;
- It sifts out the economic subjects offering at the market the highest quality at the best price, and those who best meet the social needs;
- It is one of the major factors for wholesome economic growth.

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<sup>1</sup> SWU "Neofit Rilski", Management and Marketing Department, PhD student, nikoay.logodashki1985@gmail.com

Based on the study of the bibliographic sources on competition and competitiveness, it can be established that competition is studied at three levels – at the level of a product, at the level of an enterprise, and at the level of an economy. It is worth noting that each of these levels is directly related to the other two levels, i.e. every change of competitiveness at each of these levels shall inevitably affect the other two, either positively or negatively.

## **DISCUSSION**

Data of competition could be found even during the 1<sup>st</sup> millennium B.C. in ancient Rome. “During this period many settlements became cities known as commercial-agricultural poleis distinguished by a primitive social life and first signs of social class stratification of society. The trade competition between these cities often resulted in armed conflicts” (Bekyarova, Veleev, Pipev, 2000, p. 61). During the 17<sup>th</sup>-18<sup>th</sup> C. an educated Frenchman Pierre Le Pesant de Boisguilbert came across the subject of competition. Boisguilbert drew the conclusion that „after studying the laws under which prices change, one notes that competition is the natural regulator of prices, it regulates prices and market relations” (Bekyarova, Veleev, Pipev, 2000, p. 138). He studies competition as a natural regulator of prices and assumes that to a certain extent competition on the market inevitably influences the price of a particular product or service. The free competition allows a larger number of participants to access the market, and hence there is a more dynamic development of the market itself, resulting in sifting out those offering better quality and having greater profitability. James Mill assumes that “determining the shares of the worker and the capitalist is a subject of a business deal, of bargaining between them. Every free business deal is regulated by competition and the terms of the deal change depending on the change between demand and supply” (James, 1823, pp. 35-36).

Studying the market system Frédéric Bastiat proves that “the subjective experiences of economic subjects are equivalent, bent though the other main source of harmony – the free competition. It is under the conditions of a free competition that there is nothing making the subject enter into unprofitable deals” (Pipev, 2002, p. 326). At developing the theory of salary John Stuart Mill analyses that competition appears to be “the main regulator of wage.” (Mill, 1980, p. 41). “At times of starvation, people as a rule are in a too fierce competition for employment accepting conditions of the workforce market that are unfavourable for them” (Mill, 1980, p. 45). Vladimir Milyutin sees “that free entrepreneurship and competition determine a higher economic growth of

industry“ (Milyutin, 1946, p. 354). His view is that “the producers’ independence and their unrestricted rivalry bring to the quick multiplication of people’s wealth“ (Milyutin, 1946, p. 354). At the development of his “Theory of Elastic Economy”, Alfred Marshall states that the “issue of elasticity is derivative from Marshall’s understanding of competition and monopoly. It is the sharpest when consumers come across the so-called “monopolistic price”. If on a global scale there is only one company producing motor cars, it could impose the prices upon lacking competition on the market. A particular actuality at a certain time is gained by the issue when the products are for people’s urgent needs – for example, the production of life-saving medication, energy production and provision of water for the population” (Pipev, 2002, p. 500). In his opinion, “the exact meaning of the term of “competition” lies in the fact that a man compete with another man, especially in purchasing and selling anything” (Marshall, 1983, p. 60). At the development of his theory of the distribution of income, John Bates Clark comes to the conclusion that “a main motor of equilibrium remains the power of competition. It makes the economic system elastic and provides an opportunity for a continuous trend to equilibrium (Bekyarova, Velev, Pipev, 2000, p. 554). He wrote his work “Distribution of Wealth“(1899), regarding his theory on the distribution building it onto the hypothesis that “the economy is in a static state or at least the trend is such. This is, however, possible upon perfect competition“ (Pipev, 2002, p. 519). „The general conclusion drawn by Clark is that everybody receives an income equal to the end product of its productive factor. Within this sense, the economic quantities always incline to equilibrium owing to the perfect competition. Such a competition between the firms and companies bring to a final productivity of production factors depending on their different consumption, which in various combinations actually determine the harmony in the production process. In addition, it is the basis on which the economic system functions as an internally coordinated mechanism“ (Pipev, 2002, pp. 519-520).

Friedrich von Hayek develops the idea that “societies relying on competition would be more successful in the implementation of their goals because through competition things become better and more qualitative” (Pipev, 2002, p. 648). According to him, “free competition means that everyone is free to deal without being restricted by the state or other institutions, at nonstandardized prices” (Pipev, 2002, p. 648). Rayna Dimitrova defends the statement that “competition belongs to the most important elements of the market mechanism. The interaction between the market subjects is secured through competition and a more efficient economic development is stimulated

by competition” (Dimitrova, 2014, p. 13). Mariya Stankova assumes that “competition is a kind of relationship between people occurring at the pursuit of a common goal. In a world of unlimited needs and scarce resources, competitive relations shall inevitably occur. On the markets of goods and services, producers all the time compete among themselves to attract new customers. The only way to increase one’s profit is to achieve an advantage compared to the competitor. And such a pursuit always establishes prerequisites for the better use of resources and satisfaction of more needs” (Stankova, 2008, p. 94). In her opinion, “competition stimulates the invention of new technologies and innovations, in general. However, the access to technologies is restricted and depends on money and even the “known” technologies are, in fact, known only to particular individuals and entities. Competition creates stimuli for discovering the best utilization of existing technologies” (Stankova, 2008, p. 95). M. Stankova states that “apart from stimulating innovations in general, competition underlies the variety and increase of the wealth of society. At that, it is no prerequisite for the occurrence of a utopic society, but it rather provokes outright or concealed confrontations” (Stankova, 2008, p. 95).

There is an interesting view of Traycho Spasov on competition, and namely that “in a general plan, competition is a process, a procedure of a purposeful advance creation and use of certain competitive advantages for conquering larger market territories and maximizing the outcomes of the economic process” (Spasov, 2006, p. 131). According to him, “full competition is an economic model or a system of principles for the organization of the economic (market) order” (Spasov, 2006, p. 236). Manol Ribov assumes that “the theory of competition can be defined as a systematical reflection of the interaction between the economic subjects, at which each of them strives at achieving its interests regardless of the other subjects. On a particular market on which a particular product is offered, competition occurs as a presence of two or more producers and consumers. Contradictions between the different producers and consumers are manifested in the form of a competitive fight between the sellers of homogenous product, between the buyers, and between the buyers and sellers. As the competitive fight happens in relation to the range of a product, its quality, price and sales condition, the internal contradiction is to be sought in the contradiction between the consumer value and the cost of the product, the source of which is the contradiction between the concrete and abstract labour. Through competition these internal contradictions find their external expression and are resolved to the benefit of those producers who offer a product of higher quality for the production of which minimum costs are spent” (Ribov, 1997, pp.

5-6). Philip Kotler comes to the conclusion that “the closest competitors of a company are those pursuing the same target markets with the same strategy. The strategic group is a group of companies following the same strategy on a particular target market” (Kotler, 1996, p. 279). Further on “a company should all the time keep an eye on the strategies of its competitors. Competitors hold resources and revise their strategies in the course of time. ... Companies must look out for the changes in the demands of customers and the competitors’ strategies for satisfying such demands” (Kotler, 1996, p. 281). “The companies maintaining a good balance in their policy towards consumers and competitors have a proper market orientation” (Kotler, 1996, p. 296). According to Michael Porter, “the structure and development of global economy and the way in which the company reaches its competitive advantages determine the trends and essence of the modern theory of competition” (Porter, 2001, p. 16).

After a careful study of bibliographical sources it can be assumed that competition is a continuous fight of the interested economic subjects for prevalence over their competitors through the proper and economically grounded use of the available resources, knowledge and factors a particular economic subject has. In order to stand steadily on the market, the enterprises should position themselves in a way enabling them to obtain a competitive advantage as compared to the other participants on the market in the particular branch. In M. Porter’s opinion, “in order to achieve a competitive success the companies in the country must possess a competitive advantage in the form of lower costs or differentiated products imposing higher prices” (Porter, 2001, p. 23). After summarizing the same sources we can distinguish that the proper positioning and the pursuit of its improvement parallel with obtaining a better competitive advantage as compared to the competitors is compulsory because “if an enterprise drops behind its competitors in the productivity of labour, it shall start laying off its staff; if its products are worse and more expensive than the products of its competitors it will gradually go bankrupt” (Marinov, Velez, Gerasimova, 2001, p. 143). “Competitive positioning is to be understood as the place a particular business takes among its immediate rivals, while standing acceptable positions or acquiring new ones in the process of juxtaposing its actions to those of its competitors. The market share measured through the volume of sales of homogenous goods at comparable prices is of a key significance for its measurement” (Nenov, Minkov, 2015, p. 143). To that regard, Vyara Kyurova specifies that “the study of competitors is one of the important factors enabling the enterprise to become a leader in the branch and to take the best market position” (Kyurova, 2015, p. 198). Ph. Kotler assumes that

the competitive advantage is “an advantage over the competitors earned based on supplying a greater value either at lower prices or with greater benefits justifying the higher prices” (Kotler, 1996, p. 431). M. Porter writes “industry is an arena on which the competitive advantage is won or lost. Through their competitive strategies the companies aim at defining and establishing an approach to competing in their industry, which is to be both winning and sustainable” (Porter, 2004, p. 58). R. Dimitrova considers “the competitive advantage a particular positive quality of a particular subject or object, by which it excels and with which it distinguishes itself in a positive aspect from its competitors” (Dimitrova, 2014, p. 41).

Based on the studied bibliographical sources it can be summarized that the proper positioning of an economic subject inevitably brings to a competitive advantage. Proper positioning is understood as a purposeful and detailed setting of all the distinguishing features presented in the most appropriate manner regarding a specific situation, which would make the target group (buyer, public) prefer us to the other competitors in the sector. We dare state that by achieving such a task (that is not easy at all), we already have a competitive advantage over the other competitors and we obligatorily have to endeavor to keep it but also to continuously take efforts to increase it. Against the background of a profound study of bibliographical sources, we can distinguish that the competitive advantage is an aggregate of benefits, which if applied in the best way given the particular situation, shall bring to superiority for the economic subject. In order to have a steady competitive advantage once achieved, respectively to keep it and increase it compared to the competitors in the branch, attention is to be paid to competitiveness. It is competitiveness that distinguishes the economic subjects in a branch from one another. The economic subjects exceling their competitors are more competitive. Filipova and Yuleva state that the “concept of competitiveness is closely related to the competition on the market. It is the major concept under market economy and is an expression of a more effective and efficient function of a particular business regarding the other subjects in business” (Filipova, Yuleva, 2018, p. 223). They also assume that “competitiveness is among the most important internal factors for company functioning and is implemented through communications with the other subjects of external environment. Within the broad sense this means an option to win the victory in some rivalry” (Filipova, Yuleva, 2018, p. 223). Besides that, they consider „competitiveness a fundamental complex indicator, a concentrated expression of economic health of each company, summarizing the efficiency of functioning of its economic, social, financial, institutional and

other subsystems” (Filipova, Yuleva, 2018, p. 224). According to T. Spasov, “the achievement of competitiveness is a constant intensively developing and upward process of creating competitive advantages” (Spasov, 2006, p. 219). Stefan Kirilov states that „In order to have a clear market competitiveness the public and private sectors need to work closely together and support each other“ (Kirilov, 2018, p. 250).

M. Ribov assumes that “the ability of a company to win against its competitors is a reflection of the attractiveness of the product offered by it; it is what makes the consumer prefer its product to the many alternatives offered” (Ribov, 1997, p. 11). Georgiy Yakovlev defines that “competition is to be understood as the characteristic of the product that reflects its difference from the competitor’s product, both by the degree of compliance to the particular need and by the cost of its satisfaction” (Yakovlev, 2010, p. 26). R. Dimitrova defines competitiveness as a “dynamically controlled property of the object of assessment determined by the competitive advantages and weaknesses, and expressed in the ability to withstand the competition within the system of market relations during the studied period of time” (Madgerova, Karashtranova, Kyurova, Stavrova, Dimitrova, 2012, p. 7). V. Kyurova assumes that “competitiveness is manifested through competitive advantages” (Kyurova, 2018, p. 111). At the same time according to Dilyana Yaneva, “the achievement of a steady and high-quality employment rate and the increase of productivity of labour influence the efficiency of competitiveness of the companies” (Yaneva, 2013).

It is significant to note that the “development of the theory of competition is accompanied by the formation of diverse views on its essence and contents” (Dimitrova, 2014, p. 21). “At the same time competitiveness is explored in many aspects and at various subjective levels” (Dimitrova, 2013, p. 77). “A fundamental moment at studying competitiveness is the fact that every enterprise functions in a specific competitive environment” (Dimitrova, 2012, p. 3). „The evaluation of the competitive advantages of a company is the basis for the development of marketing strategies” (Yaneva, 2017, p. 51). Michael Porter, in his book “The Competitive Advantage of Nations”, states: “it is not clear at all what the concept of “competitiveness” means in terms of a nation” (Porter, 2004, p. 15). In his opinion, “the only sensible conception of competitiveness at a national level is the national productivity” (Porter, 2004, p. 19).

Based on the bibliographical sources of competition and competitiveness it can be defined that it is not only competitiveness that brings to a competitive advantage, but the opposite is also true, a competitive advantage brings to

competitiveness. A competitive advantage does bring to competitiveness, and on its part, the competitiveness does bring to new competitive advantages. It can be also summarized that competitiveness is a mirror reflection of the economic subject thus providing information of the position and situation in which an economic subject is placed and which it faces with regard to its competitors. It also provides information of everything that could be done, of the direction, strategy, and way to do it, regarding the place, situation, objectives, and resources available to the economic subject. With regard to a product competitiveness, a conclusion can be drawn that it is comprised of all its properties enabling it satisfy consumers' needs and preferences, and regarding the competitiveness of an enterprise (or a company), it is to be realized that this is its capability to conquer new markets while unprecedentedly preserving the old markets parallel to the growth of profits, satisfaction of needs and domination of the product (service) it supplies on the market. Competitiveness at a national level (of a national economy) is a synchronous action of all the components contained in it for the achievement of a competitive advantage, which is to attract more and more investors (domestic and foreign). The more investors are, the more competitive the economy is.

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## BASIC THEORETICAL STATEMENTS FOR THE COMPETITIVENESS OF SMALL AND MEDIUM-SIZED ENTERPRISES

Radostina Yuleva<sup>1</sup>

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### Abstract

*The modern world is characterized by a high degree of economic activity in its various manifestations and high dynamics of various changes affecting the socio-economic development of our society. Competition creates an increasing incentive for innovation and the introduction of technology, creates entirely new needs, causes buyers to search and buy. All this requires the enterprise to be competitive with other companies on the market. Competitiveness is an opportunity to maintain high levels of labor and capital productivity, and to achieve sustainable economic growth, coupled with an increase in real incomes of the population, through systematic innovation.*

*For an in-depth understanding of the causes and origins of the current economic system, it is important to analyze the characteristics of competition and competitiveness covering small businesses. The main objective of this article is to clarify the nature of the competitiveness of enterprises and to identify its stages and characteristics. The main research methods used in the development are content analysis, method of analysis and synthesis, intuitive and systematic approach.*

**Keywords:** competition, competitiveness, governance, manager, innovation, economy.

**JEL Codes:** L20, M10

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## INTRODUCTION

The business of small and medium-sized enterprises is determined by the market, which defines the needs of society as a whole. This is where the quality of the production of each enterprise comes to be competitive. Competition needs to be addressed in today's dynamic business as an important incentive to increase business efficiency both domestically and internationally. According to Dimitrova, competition refers to the most important elements of the market

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<sup>1</sup> SWU "N. Rilski", Management and Marketing Department, PhD student, yuleva@gmail.com

mechanism. Competition ensures synergies between market actors and stimulates more efficient economic development. (Dimitrova, 2014, p. 13) in order to accelerate scientific and technical progress, to introduce and create innovations and technologies, to the economic growth of the enterprise, one of the most important factors is competition, and from there competitiveness itself.

Competition is, in fact, competing between undertakings in a single market segment, in order to achieve pre-established objectives in the event of freedom of exchange with consumers. Dimitrova mentions that competition is also a driving force for the development of sites and actors of government and of society as a whole (Dimitrova, 2014, p. 17). The substantive matter of competitiveness is reflected in the increasing degree of well-being of the nation and individual citizens (Stankova, 2013, p. 9) and the notion of competitiveness is closely linked to competition in the market. It is a basic concept in the economy and is a diction of the more efficient and efficient functioning of an enterprise in terms of its own.

Yaneva notes that in his daily activities the organization faces many competitive situations. Successful management of these situations requires the company's attention to be directed on the one hand to determine the state of competition and, on the other, to its own competitive advantages (Yaneva, 2017, p. 47). Competition is a universal tool for preserving the effectiveness of different companies and stimulating the most efficient ones. The most important feature that competition possesses is that it is a process that enables the use of experience and knowledge in a way that leads to maximum economic performance. According to Timofeeva opinion, the formation and realization of an adequate competitive strategy of the enterprise is an essential condition for its prosperity in the modern conditions of deepening competitive rivalry and unsustainable economic environment (Timofeeva, 2015, p. 17). The competitiveness of producers, traders and entrepreneurs depends to a large extent on innovation and innovative potential, financial opportunities and access to the international and European markets. In a globalized economy, innovation policy is associated with accelerating economic development and boosting competitiveness by transforming creative ideas into real products, services, processes and technologies. In the same way Ivanova describes in his work competitiveness and innovation (Ivanova, 2014).

## **DEFINITIVE AND MEANINGFUL COMPONENTS OF COMPETITIVENESS**

The economic category "competitiveness" is an element of the conceptual apparatus that determines the success of the economic activity of enterprises on the market, as well as the focus of scientists. According to Timofeeva, competitiveness as a concept is used in many industries of industry and in various types of objects: products, branches of the economy, and spheres of human life (Timofeeva, 2015, p. 17). The development of the competitiveness theory is followed by the formation of different views and opinions about the nature of the competition and what its content is. A significant contribution to the theory of competitiveness brings Porter, which identifies competitiveness as "... property, characteristic of the product, the service through which market participants are entering the market on an equal footing with the analogous products, services and competitors present there (Porter, 2005, p. 588). Competitiveness is the ability to create sustainable development through the production of goods and services that successfully pass the verification of an unrestricted market and educated demand under normal conditions. Competitiveness is a relationship between high-demand markets, companies – leaders and durable investments in human capital. An economy in which even its own consumers do not buy what it produces is doomed to decline. However, competitiveness is a quality of individuals, entrepreneurs and corporations, not peoples, countries or economies. The notion of competitiveness is closely linked to competition and the market. It is the main concept of a market economy and is an expression of a more efficient and efficient functioning of a business vis-a-vis other business entities. Competitiveness is one of the most important internal factors for the functioning of the company and is realized through communicate with other entities in the external environment. In a broad sense, this means an opportunity to win some rivalry. The essence and content of competitiveness is revealed at several levels, namely: level of products, level of organization, and level of national economy. Competitiveness in modern conditions depends on four interrelated elements:

1. Conditions for the functioning of the company in the country.
2. The nature of the internal market.
3. Status of related and supportive industries.
4. Characteristic of the main production factors.

Velev examines the competitiveness of the enterprise as its ability, through continuous renovation and improvement, to create and sustain competitive advantages leading to high business performance in the long term. (Velev, 2004) in a number of scientific developments and scientific works, various properties of competitiveness are discussed, which underpin its complex and multidimensional nature.

In his perceptions of the nature of the company's competitiveness, some authors put the emphasis on the economic parameters and the effectiveness of its activities, Porter says here that in order to achieve competitive success, the country's enterprises must Have a competitive advantage in the form of either lower costs or differentiated products that impose high prices. The author takes the view that, in order to maintain the advantage, over time, businesses need to achieve more advanced competitive advantages by providing higher quality products and services or through more efficient production. This is directly transformed into productivity growth (Porter, 2004, p. 125).

According to Dimitrova, the level of competitiveness of the product, respectively of the products, as well as the prospects and potential for its enhancement are among the main factors of the company's competitiveness (Dimitrova, 2013, p. 77). Filipova points out that the competitiveness of a product depends on the extent to which it satisfies the needs of consumers and the effectiveness of the processes that produce and sustain it (Filipova, 2005, p. 111). In addition, Kyurova considers that the competitiveness of the product can be seen as an expression of the positive relationship between product characteristics and consumer preferences, i.e. its satisfaction with these characteristics (Kyurova, 2018, p.101). In this regard, it is important to note that the continuous improvement of the product and its specificities or characteristics, increase its competitiveness among other products on the market, and from there improve the competitiveness of enterprise. The definition of competitiveness can be formed as the ability of a company to "fight" the market with rivals in the production and sale of goods or services and, likewise, the ability of a party to maintain a relatively high Standard of living for its citizens through trade on international and own markets.

## **PILLARS INHERENT IN COMPETITIVENESS**

Competitiveness is a fundamental complex indicator. It is a concentrated expression of the economic health of each company, summarizing the efficiency

of the functioning of its economic, social, financial, institutional and other subsystems.

Competitiveness is always a comparative category, has the potential for intensive sustainable growth with its inherent pillars:

- Economic, social and environmental;
- Productivity of the factors of production;
- Factor costs for the production of the final product unit;
- Quality (technical level) of the manufactured products;
- Reliability of products and services;
- Structural features of the economy in the broadest sense of this concept;
- The imitation and innovative potential of the economy;
- Strong sensitivity to market signals and expeditious response; potential for rapid absorption, dissemination and commercialization of technical and other innovations;
- Loyal partnership in business relationships;
- Combining private, public and public interests.

Therefore, the competitiveness of the enterprise can be defined as the ability of the enterprise, through continuous renovation and improvement, to create and sustain competitive advantages leading to high business long-term results (Savelyeva, 2009).

Competitiveness encourages the manager to think and plan new innovations to be introduced in the company so that it can bring it to the other companies on the market. When the company manages to market innovation or a new product/service, it gradually gains greater competitiveness and gets a chance for faster growth among other companies. We can note that in order to develop the company, it must be flexible, creative and innovative.

## **BALANCED SCORECARD FOR COMPETITIVENESS**

Many authors analyze competitiveness more as one-sided: it emerges as a key factor and, on the basis of it, develops the whole model of competitive behavior. The concept of competitiveness, based on a comprehensive set of key factors, began to emerge in economic literature. One of the clearest examples is the concept of the balancing map for the results of Norton and Kaplan. In their work, these scientists try to model the level of competitiveness based on a complex of factors (Kaplan, 2003, p. 214). The objectives and indicators are formed depending on the strategy of the Company and consider its activity on

four criteria: financial, client relations, internal business processes, as well as training and development of staff. As Norton and Kaplan have pointed out, BSC is a balanced map concept that combines a characteristic for evaluating the activities of experienced and interested participants in the value-creation process with financial perspectives for both short-term projects and for successful long-term activities in the context of fierce competition.

The balanced reporting card tries to systematize the competitiveness factors and to build an indicative enterprise management algorithm based on a set of interrelated indicators. The undoubted merit of BSC is the methodological message for establishing an indicative enterprise management system based on a set of interrelated indicators.

At the same time, the excessive "openness" of the method, the absence of constant indicators and their functional relationships is its disadvantage and in fact turns it into a "sketch" containing only general guidelines without specific indicators and relationships between them. Moreover, the composition of the activity criteria is not exhaustive enough to examine the competitiveness of large business units and integrated structures whose activities are characterized by many forecasts and the result of the activity is due to the synergistic effect of their constituent units. As can be seen, the history of economic thinking shows a transformation of views on competition and competitiveness, due to the increasing complexity of economic relations between economic actors and the practical identification of new factors for competitive advantages. It should be stressed that the transformation of economic relations is encouraged by the competition itself between undertakings, which forces them to seek new opportunities for exclusive development, while the existing resources have been exhausted and established "Equality of opportunity" on the market. Accordingly, approaches to assess competitiveness are constantly being influenced by a dynamically evolving market, as well as intense transformations in various areas of the socio-economic life of people.

As the economy itself is a "relative" science, i.e. based on the comparison of competitors, the angle of views on competition often plays far from its last role in competition: a vivid example of price, structural and behavioral interpretations of Competition and the respective competing strategies that result from them. At the same time, regardless of the new approach to the assessment of competitiveness, and no matter which key factor it points out, it should not be absolute its influence in the development of measures aimed at increasing competitiveness, but rather Quantify the effect of the event and correlate with the cost of its implementation. The development of the theory of

competitiveness is accompanied by the formation of diverse views on its nature and content. Many scientific developments consider different competitiveness properties that form a complex and faceted character. According to the opinion of Dimitrova, the perception that overall competitiveness is manifested as a steadily sustained increase in productivity, resulting in increased incomes and improvement of living standards, and that it is Formed on the basis of the creation of a higher value, by increasing productivity, improving the quality of the offered products and innovations, appears to a large extent unifying in the scientific literature in this subject area (Dimitrova, 2015, p. 14).

## **THE MAIN FEATURES OF COMPETITIVENESS**

Filipova points out that in today's market conditions it is very difficult to achieve a stable success in business if its effective development is not planned, if the information about the prospects and opportunities of the company is not studied and analyzed, the state of Position of competitors and their own competitiveness (Filipova, 2004, p. 81). According to Kyurova, the study of competitors is one of the important factors enabling the enterprise to become a leader in the industry or to lend the best market position (Kyurova, 2015, p. 198). In addition, based on the analysis of competitors, the business has the opportunity to determine its market positions, to receive information on the State and future development of the market, to establish the objectives, strategies, strengths and weaknesses of the competitors (Kyurova, 2014, p. 102).

In this regard, it is appropriate to summarize the views of different authors on the most important characteristics of the economic category competitiveness (see Dimitrova, Zavylov, Fahutdinov, Savelyoeva, Safullin):

- In order to maintain and increase the level of competitiveness there is a need to carry out an objective quantitative assessment of competitiveness (Zavylov, 1992).
- Competitiveness has a faceted character which derives from its assessment, respectively from the presence of an entity, object, objectives and criteria of its assessment (Fahutdinov, 2000).
- Competitiveness is contradictory, as it needs to combine the interests of producers and consumers (Savelyoeva, 2009).
- Competitiveness occurs in the presence of competition, i.e. when comparing different competing sites and entities, which determines its relative nature (Dimitrova, 2015).
- Competitiveness has a dynamic character and changes over time.



- Competitiveness is predicated on the totality of competitive advantages and weaknesses.
- Competitiveness is a complex category, which is formed at many levels (Safullin , 2002, p. 111).
- Competitiveness is specifically manifested under certain conditions, including on a specific market over a specific period of time.
- Competitiveness is manageable.

Therefore, according to the opinion of Dimitrova, the study of the substance and the content of competitiveness must be bound to the specific level to which the analysis relates. At a subjective level, competitiveness is manifested and investigated as:

- Macro-competitiveness – national competitiveness of a country;
- Meso - competitiveness – competitiveness of the region, industry, sub-sector, cross-industry complexes and corporations;
- Micro-competitiveness – competitiveness of individual enterprises and individual entrepreneurs.

On the object level the competitiveness of individual products is studied; technologies, information and infrastructure, etc. (Dimitrova, 2014, p. 23).

According to Angelov, competitiveness shows the opportunities of the economy to increase national productivity quality and compete with other economies of the regional and global market. The author argues that competitiveness is a fundamental indicator, a concentrated expression of the economic health of each country, summarizing the efficiency of its economic, social, financial, institutional and other Subsystems (Angelov, 2005). Velev mentions that the company's competitiveness is its ability, through continuous renovation and improvement, to create and sustainably maintain competitive advantages leading to high business performance in the long term Plan (Velev, 2004, p. 15). According to Filipova opinion, in order to be competitive, companies in Bulgaria need to build their strategies on a completely new basis, based on new technologies, uniqueness of processes and products, satisfaction of all Consumer requirements and high quality of the products offered (Filipova, 2005, p. 53). Kirilov, examining issues related to the sustainable management of tourism, states that "... To make the destination competitive on the market should work to uncover all the elements that take it out at a level, starting from the reasons (the reasons) why tourists would take a trip to a

sustainable tourist destination and the appropriate visitor services that support tourism" (Kirilov, 2018, p. 247).

## CONCLUSION

In modern conditions of intense economic and political transformations, a dynamically changing market environment, achieving the competitiveness of small and medium-sized enterprises is one of the strongest means of preserving and expanding existing successful positions, for financial stability, development and progress. An enterprise must hold a high collocation position on the products or services it creates so that it can be more forward than other companies in the same market. Innovation, technology and staff can contribute to better competitiveness. Market conditions require a new approach to solving the problem of company competitiveness-developing its own strategy for increasing competitiveness and stable economic growth.

The well-founded competitive strategy of the company predetermines the promising directions in its activities, determines the type of competitive advantages and provides resources for its realization.

Several main conclusions can be made on the topic:

*First:* Competition is the only tool for preserving the performance of different companies, stimulating the most active and capable of the market.

*Second:* Competitiveness is an economic category, appearing as an element of the conceptual apparatus, which determines the success of an enterprise in the market and its development.

*Third:* Competitiveness is a synergy between high-demand markets, companies – leaders and secret investments in human resources and capital.

*Fourth:* Competitiveness depends on the nature of the internal market, the state of the sectors, the production factors and the conditions for the development of companies in the country.

*Fifth:* Competitiveness has a dynamic, faceted and contradictory nature. It is always a comparative category, has the potential for intense sustainable growth.

*Sixth:* Competitiveness is a fundamental indicator, showing the opportunities for the economy to change – increases or fails, national productivity and competes with the regional and global markets.

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## COMPETITIVENESS IN THE PHARMACEUTICAL INDUSTRY: A HISTORICAL OVERVIEW

Yulia Nedelcheva<sup>1</sup>

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### Abstract

*The aim of the paper is to present the key periods of competitiveness dynamics in pharmaceutical industry. The historical overview covers the emergence of modern pharmaceutical industry. Given the role of pharmaceutical industry in healthcare, particular attention is paid to the impact of state supervision on dynamics.*

*The results of the paper determinate ten periods in the dynamics of competitiveness. Both internal factors of competitiveness and external factors are presented. Competitiveness of pharmaceutical industry marks a dynamics that is similar to that of other sciences and at each period, a new factor is added from the external environment.*

**Keywords:** state supervision, competitive advantage, path dependence

**JEL Codes:** D24, L65, N80

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## INTRODUCTION

Modern pharmaceutical industry begun since the early 20th century by using of scientific approaches for discovery, trial, manufacturing and distribution of pharmaceutical products. Notwithstanding the fact that specialized literature determines some new pharmaceutical products as a „random discovery“ or a „lucky accident“, we can point out that scientific approaches have been used in their discovery as well as a systemic methods for treatment with new pharmaceutical products. The competitive advantages based on mysterious ingredients and secret nature of manufacturing are replaced by wide range of pharmaceutical products on synthetic basis. The society go through a cultural transformation due to substitution of obsolete pharmacists and pharmaceutical products with new ones (Nedeltchev, 2004).

Another distinguishing feature of modern pharmaceutical industry is involvement of the state in all processes of the complex value chain: discovery,

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<sup>1</sup> South-West University „Neofit Rilski“, Management and Marketing Department, yulia.nedelcheva@abv.bg

trial, manufacture and distribution of pharmaceutical products. The first form of state regulation is in setting of standards for production of established pharmaceutical products. The adoption of the first pharmacopoeia in Florence in 1498 (*Nuovo Receptario*) and the imposition of the Latin language as a basic for the scientists provide the basis for state control over the systematization of pharmaceutical products in their unify manufacturing. Following the differentiation of pharmaceutical products, the state controls their production through the second form of state control - the patents. The last form of state control dates back to 1902, when in the USA began licensing of pharmaceutical products after clinical trials. Since 1906 it is mandatory to describe the ingredients of pharmaceutical products and the packaging, in addition to its commercial function, acquires a new one – an informational function. The packaging is first form of modern competition when Eli Lilly, a USA manufacturer, has advertised its pharmaceutical products as safe due to their reliable packaging at own plants. The safety of pharmaceutical products becomes a leading factor in determining of competitiveness.

The third feature of modern pharmaceutical industry is the contribution of other sciences to discovery of new pharmaceutical products. For a long time, pharmaceutical industry has grown on a small scale, primarily on a family basis, for a direct sale to patients (Madgerova, Kyurova, 2014). Keeping the process of manufacturing and ingredients of pharmaceutical products in secret leads to family competitiveness as well as to rumors about the effects of treatment. With the development of other sciences (chemistry, biology, genetics and computer systems), number of both the pharmacists and pharmaceutical products are expanding. The discovery of new pharmaceutical products, mostly on a synthetic basis, gives transparency about the effects of treatment as well as a new way of distribution through sales points. At the core of competitiveness is the effectiveness of pharmaceutical products.

## **DYNAMICS OF COMPETITIVENESS IN MODERN PHARMACEUTICAL INDUSTRY**

Competitiveness is expressed in the adaptability to dynamics of external environment (Filipova, 2004). Our research on the competitiveness dynamics of pharmaceutical industry is shaped by the modern visions of humanity development:

*The Great Depression.* The effects of the Great Depression (1930s) have an impact on all aspects of society, including pharmaceutical industry. Limited scientific knowledge applied in pharmaceutical industry, in combination with single cases of mass production; explains the limited range and the relatively high cost of pharmaceutical products (Houbenova-Delisivkova, 2012). The established distribution practice contains delivering of pharmaceutical product by a doctor directly to a patient and the pharmaceutical companies provide to a small number of doctors with the formula for ingredients of pharmaceutical product.

The competitiveness in pharmaceutical industry is expanding and already incorporates biology, and in particular - microbiology, as a factor (Rowberg, 2001). A complementary factor is the use of biochemistry knowledge for discovery of new pharmaceutical products. Such a combination of research areas determines why pharmaceutical companies are include in their infrastructure a research unit. Since that period, a constant competition for pharmaceutical products research has been introduced in the pharmaceutical industry.

The combination with other sciences and establishment of their own research centers, identify the efforts to find synthetic substitutes for natural substances (Kettler, 2000). The first attempts to innovate in pharmaceutical products have resulted in the discovery of antibiotics, and the period has been identified as the „Golden Age of Antibiotics“ (Wernicki, 2013).

The publication of treatment effects with new pharmaceutical products gives to the society a new attitude towards a science and the pharmaceutical industry is a transparent already (Borisova, 2017). The rumors of randomize discoveries lapse and the health care culture is rising for new pharmaceutical products beyond traditional herbal therapies.

*State interventionism.* In the 1940s, in the society is raised the question for ethics, given the scale and profits of pharmaceutical companies. The state intervenes proactively through a patent protection and there are incentives for investments in new pharmaceutical products. Research centers are funded and protected by the state, and the first cases of oligopoly and monopoly arise. The trade brand is already a factor of competitiveness and a motive for maintaining innovation.

The pharmaceutical teams are expanded and included biotechnologists for discovery and manufacturing of therapeutics. Attention is directed towards the knowledge gained over decades about the symptoms and origin of the diseases. Government programs develop the leading part of new pharmaceutical

products. For a competitiveness begun a focus on marketing for increasing of sales.

*New World Order.* Since the 1950s, efforts to discover vaccines and to reduce pandemics were globalized. The need for co-ordination among countries and the accumulation of significant financial resources lead to establishment of the World Health Organization. The Marshall Plan has invested more than USD 130 billion for restoration of industry in Western Europe and created a prerequisite for outsourcing USA production abroad, including knowledge sharing among leading pharmaceutical states. While in Germany the military ban on new pharmaceutical products as a means of regulating pharmaceutical manufacturers continues, in the USA the laws are being liberalized and over-the-counter pharmaceutical products are being sold, increasing the specialization of the pharmaceutical industry and reaching higher profit levels. Another USA competitive advantage over Europe is the development of health insurance, which reduces the importance of pharmaceutical products' prices for both patients and doctors. Finally, the USA supervisory authority is authorized to approve generics without additional clinical trials, and pharmacists are allowed to advise patients when purchasing over-the-counter pharmaceutical products.

A process of harmonization of national laws is taking place, which continues to this day. The results achieved are in the field of international good practices, which reflect the ethical standards and accountability to pharmaceutical supervisory authorities (Todorova, 2019).

At the initiative of the EU, the USA and Japan, the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use has been established. Its main purpose is to provide public confidence in the safety, quality and efficacy of approval and authorization of new pharmaceutical products for the three major countries (USA, Japan and the EU). For other countries, World Health Organization guidelines apply.

Competitiveness is determined at a macroeconomic level by the country of registration where international good practices have been adopted. Companies outside these countries may participate as subcontractors and lose their competitive advantages. Begun a process for offshoring in countries with „location advantages“ - a large population and lower production costs (Hymer, 1976).

Competition at a micro level is determined by human potential - establishing a link between pharmacy and life sciences (Petrova, 2014). Expectations are for cost reductions due to introduction of biotechnology and, accordingly, a higher return of pharmaceutical products. In production list a reduction of the number of pharmaceutical products derived from natural



substances and from organic compounds. The number of pharmaceutical products safety and efficacy tests is increased.

The economic situation is characterized by increasing market needs for pharmaceutical products. In response, pharmaceutical companies began to invest in research programs to discover and improve medicines. The political environment creates conditions for reduction of barriers from national borders, which facilitates the exchange of experience and the creation of opportunities for increasing the production of pharmaceutical products. As a balance of the situation, large investments in research work are being launched (Keremidchiev, 2013). Pharmaceutical manufacturers are rapidly adapting to mass production and reaching competitive prices.

The exchange of information between countries raises the need for new treatments and, above all, the effects of treatment. A competitive advantage is the access to database of information about the origin and effects of individual pharmaceutical products, which is facilitated by the development of computer equipment.

A major change has been made in marketing and, more specifically, in distribution. Country laws allow pharmaceutical products' advertisements for doctors who prescribe a treatment to patients, and patients receive pharmaceutical product from pharmacies. Pharmaceutical industry begun to become personalized and transformed into professional service for doctors and patients. The regulatory powers of the state are extended to the advertising of pharmaceutical products. Public attention is centered on pricing policies and unfair marketing practices, including huge mark-ups and generating colossal profits.

*State regulation.* Since the 1960s, regulatory requirements for safety of pharmaceutical products have increased. Following a series of unfair practices, the control for clinical trials to determination the efficacy of new pharmaceutical products is given to a state authority. The state began the control over pricing and reimbursement in pharmaceutical industry (Stoimenova, et al., 2014).

The supervisory authority standardized and controlled clinical trials in the USA. In Europe, a flexible marketing regime is allowed - the prescribing doctor carry out observations about side effects of pharmaceutical product.

There are significant changes in the competitiveness of pharmaceutical industry due to state regulation on pharmaceutical products:

- Reducing the number of new pharmaceutical products approved to market leads to an expanding range towards perfumery and cosmetics. The process of diversification includes optics, food products and infant products. The trade brand is a competitive advantage already and attention focuses on brand loyalty.

- Strict control gives a comparative advantage of pharmaceutical products being competitive on international markets. There is a positive relationship between the degree of state supervision and the position in international trade of pharmaceutical products.

- Differences in national regulations give reasons for new trials or repeat trials in overseas laboratories. Standing teams of scientists are emerging instead of ad hoc groups to verify results according to national requirements in imported country.

- Using of computers is introduced for creation of databases with new formulas, as well as to analyze the results of clinical trials. We can assume the computers will find new formulas themselves for next generation of pharmaceutical products.

- A new profession is established - an internal auditor. With the process of outsourcing, the internal audit is separated as an activity from the external audit (World Health Organization, 2011). Internal audit is a part of quality control of pharmaceutical products. Given the social and economic importance of pharmaceutical industry, most countries adopt national policies under which manufacturers undertake to have a quality system, including an internal audit. Manufacturers of pharmaceutical products have the right to control suppliers and distributors, with the latter creating new structural units for internal audit.

State regulation of pharmaceutical products has the following effects on competitiveness:

- Diversification of pharmaceutical products is transformed into concentration on certain therapeutic categories. Individual pharmaceutical companies specialize in standardized products such as antibiotics and vitamins (Kirilov et al., 2011).

- Competitiveness, apart from researches, is characterized by a new factor – the distribution. Revenues from sales were invested in researches for new pharmaceutical products.

- Obtaining a patent on a medicinal product by a competent authority gives relative advantages to the patent holder. There is a narrowing number of pharmaceutical companies with financial opportunities for investment in researches.

- The biotech companies have a leading position due to their specialization and use of new technologies in the USA. In order to preserve competitiveness, research activities are carried out in academic laboratories. In Germany and Switzerland, pharmaceutical companies purchase the results of external researches or enter into agreements to access scientific bases. The French strategy is a merger, for example between Rhone Poulenc and Rorer, to gain access to research facilities of both companies (European Commission, 1996). The maturity of the venture capital market in the UK defines a pharmaceutical industry of small pharmaceutical companies that remain

conservative to innovation and maintain a contractual relationship with local research institutes.

- Unlike other industries, the backward integration strategy in pharmaceutical industry is successful (Georgiev, 2013). The justifications for positive results are the existence of a patent for a new pharmaceutical product and the possession of a manufacturing authorization by a competent authority.

*Venture capital.* Stagflation in the 1970s, along with the oil shock and the crisis of US dollar, have changed the pharmaceutical industry. The escape of state from funding research results in entry of a venture capital. The ultimate effect is a quality change in the composition of pharmaceutical companies by entering new competitors mainly outside the USA.

Genetic engineering is at the heart of competitiveness. Knowledge of man and diseases determines the level of competitiveness and the direction of „rational design“ of pharmaceutical products (Daemmrich, Bowden, 2005).

*Inorganic growth.* The development of enzymology in the 1980s changed both the innovation process and the composition of research teams. To preserve their competitive advantage on the research market, pharmaceutical companies focus on marketing and sales on international markets. Exhaustion of organic growth opportunities for pharmaceutical companies has led strategies to inorganic growth in horizontal (mergers and acquisitions) and vertical (strategic alliances and franchise). Additional factors for the new direction are regulatory requirements, distribution options and increased healthcare costs. Reached closed production cycle brings the pharmaceutical product to ultimate user and isolates the pharmaceutical company from the impact of the market environment, which explains the anti-monopoly authorities' measures for transparency and good practices.

The market adapts to the resulting environment through the restructuring of wholesale and retail sales. With increasing scale of pharmaceutical companies, research spending is decreasing (Congressional Budget Office, 2006). State subsidies contribute for entry in market niches of new small companies specializing in genetics and genomics which taking on research into new pharmaceutical products. A competitive advantage is automation of production.

The wave of offshoring is observed in clinical trials and production, while process with large capital investment (discovery of new pharmaceutical products) remains in home country, i.e. in the country that has made the investments. A modern look at the action taken indicates that outsourcing enhances creativity in home country and reduces innovativeness in host country.

Maintaining the competitiveness of the national economy is a leading goal, and for first time the state regulation and safety requirements are seen as

contributing factors through discovery of new pharmaceutical products and marketing for increasing sales. A new point in competition is the management of stocks, wrongly called as a „logistics“.

*Globalization.* Since the 1990s, discovery of new pharmaceutical products has been separated from the complex value chain as a stand-alone process. Relatively small companies specializing in genomics focus on discovering new pharmaceutical products and selling the license to large companies that have resources and teams to carry out clinical trials. The contractual relations are directed at scientific achievements in university and government laboratories, which later commercialize the product for the retail chain. Competitive advantages are determined by the allocation of resources and, to large extent, the determination of patent rights. The cost of licensing agreements are increasing and the pharmaceutical industry falls in spiral of specialization.

There is a parallel process of outsourcing to subcontractors. These activities are not related to investments in the discovery of new pharmaceutical products - clinical trials, laboratory services, biostatistical analysis, clinical packaging, relations with regulators and start of bio-production (Findlay, 2007).

Competitiveness is determined by the outsourcing of processes. The benefits of globalization are related to cost reductions by carrying out part of the activities in countries with relative advantages where, in addition to cheap labor, there is a large population for clinical trials and sales (Glickman, et al., 2009). For example, China and India have begun a process of adopting international good practices as well as progress in protecting intellectual property. Additional factor for competitiveness of these countries is related to their acceptance as members of international organizations, such as the GATT, as well as a change in the policy of host state regulators.

Parallel to the integration of the Far East into international good practices and participation in the complex value chain, a new process begins - a transition to a market economy in Eastern Europe. Offshoring becomes attractive in closer countries and begins a process of nearshoring. The basis of the new form of competitiveness is the level of quality, the reduction of duplication of trials and reporting, similar supervisory policies and the protection of copyright. In addition, a new risk, a reputational risk, associated with the trademark is reduced.

*Global financial crisis.* The years of liberalization (2000s) increase mergers and acquisitions beyond national borders. The upturn in the economy is reflected in the standard of living. The Far Eastern countries reach the technical achievements of the leading pharmaceutical states. Strengthening the middle

class internationally leads to an increase in health care costs, including for pharmaceutical products.

The withdrawal of the state from the market is offset by a quasi-supervisory entity - the stock exchange. A large number of new companies are entering the practice, whose speculative capital strengthens the number of patent applications filed. The public status of new entrants provides an additional source of data for the development of pharmaceutical innovations. The annual reports declared in stock exchange and the participation of research staff in the boards are considered as competitive advantages. The importance of auditors for the results is growing and the first scandals with unfair practices from leading audit companies are noted. The global financial crisis begins and the attention of the whole society is on the new challenges.

Enhancing competition in the pharmaceutical industry is a consequence of reducing red tapes globally. Adopting international good practices creates a unique landscape where certain pharmaceutical companies receive additional competitive advantages for easy location and relocation of business processes. The center of gravity directed on to the discovery of new pharmaceutical products and starts hunger for investment in research activities. In order to maintain the profit level, mergers between the 20th leading pharmaceutical companies were held in response to the expiry of patents (Ministry of Health, Labor and Welfare, 2007).

*New reality.* At the beginning of the 21st century, the global financial crisis had an impact on the pharmaceutical industry. Pressure is mainly on R&D, the cycle of which becomes longer, more expensive and more risky. The increased requirements for reveal of data by supervisory authorities and taxpayers have obliged pharmaceutical companies to carry out more trials. The patient organizations demand greater burden of proof not only for the safety of pharmaceutical products but also for cost-effectiveness. New investments are needed to offset reduction of national health budgets. The competitiveness of a product depends on the efficiency of the processes that produce and maintain it (Filipova, 2005).

Successful offshoring strategies are being revised. The backshoring is a new strategic decision following offshoring due to changes in macroeconomic environment in host countries. Labor cost equalization in Far East reduce competitive advantages and business processes are return in the home country. Cross-border R&D, which was on a contractual basis with universities in the host country, is integrated already into the home country of pharmaceutical companies. National health insurance authorities are competent for competition in local markets. To preserve competitive positions in 2012, the European Commission adopts a re-industrialization strategy based on backshoring, reshoring and nearshoring (European Commission, 2012).

## CONCLUSIONS AND RECOMMENDATIONS

Contemporary competitiveness is defined by external factors and, to a greater extent, involving the state as a supervisor and the contributions from other sciences. There is a path dependence in the dynamics of competitiveness in the pharmaceutical industry - spillover effects from each development period. We can say that the competitiveness is similar in terms of the importance of the chemical element Mercury (Hg 80), a metal in a liquid form, which is either useful or harmful, depending on the historical period of use.

The essential role of the pharmaceutical industry in health care determines its responsibility to society. The interests of pharmaceutical companies are subordinated to patients' interests. The social contract in the new reality calls for a new look at competitiveness: in the pharmaceutical industry is applicable J. B. Say's law\* (producer's decision takes priority over buyer's need) and not that the views of A. Smith and D. Ricardo (the buyer's demand determines manufacturer's supply). The countries' absolute advantages (A. Smith) and comparative advantages (D. Ricardo) are not appropriate for the competitiveness in the modern period - *Industry 4.0*.

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\* „Supply constitutes its own demand“, Jean-Baptiste Say (*Traité d'économie politique ou simple exposition de la manière dont se forment, se distribuent et se composent les richesses*, 1803)

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## FEATURES OF FUNCTIONING AND REGULATION OF THE SECURITIES MARKET IN GEORGIA

George Abuselidze<sup>1</sup>

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### Abstract

*The paper presents discussions of peculiarities on securities market formation and functioning in the post-independence period of Georgia. It provides assessment of the legislative acts of regulation and the ways of their perfection.*

**Keywords:** securities, stock exchange, regulation

**JEL Codes:** D53, E22, E44, G10, O16

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### INTRODUCTION

Securities market development is an important task and is treated with utmost priority by the Government. Securities markets become integrated when economies strongly depend on one other. This process not only reduces transaction costs, but also improves the efficiency of information sharing. However, although financial integration increases overall market efficiency, it reduces the diversification benefits available to prospective investors. Thus, investigating the dynamic process of formation and regulation Securities market allows us not only to measure the interdependence of economies, but also to provide useful information for investors. Georgia has a great potential, to become a regional financial center.

### LITERATURE REVIEW

This research is based on the methods (quantitative qualitative, synthetic, component and comparative analysis of scientific literature) and practical approaches, which are in practice and generalized in the Georgian and foreign economic writings and specially touch on the matters of budget relations and budgetary policy. Informational background of this research includes legislative and normative acts adopted by the government of Georgia in the modern day, in

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<sup>1</sup> Batumi Shota Rustaveli State University, 35. Ninoshvili street, 6010, Batumi, Georgia

particular: the National Statistics Office of Georgia, the Economic Development and Finance Ministries, the National Bank of Georgia, the Georgian stock exchange.

The study of the existing literature on the development of the securities market as a result is considered that they address the peculiarities and problems associated with the development of the capital market were mainly considered in the context of accelerating economic growth (Abuselidze, 2018; Mirkin, 2002; Dementyev, 2009; Bessarabova, 2013), as well as from the point of view of the development of certain segments of the securities market, regional markets or market development in foreign countries (Abuselidze et al., 2018; Majewska & Olbryś, 2017; Kudinova, 2005; Vakhrushin, 2009). The problems associated with the regulation of the securities market were considered mainly in the context of the regulation of the entire financial system (Fabozzi et al., 2009), as well as from the point of view of self-regulation mechanisms in financial markets (Ilyin, 2012) and the regulation of the services of professional securities market entities.

## **SECURITIES MARKET FORMATION AND REGULATION**

The functioning of the market economy requires the creation of the securities market. Both securities and the securities market are constantly developing areas. They develop from the period of origination and gradually achieve perfection, at the same time increasing their scale in different countries of the world.

The development of securities market in Georgia can be divided into two stages:

- I. It covers the period from 1990 to August 1997;
- II. It covers the period from August 1997 to present.

The regulation on "Release, Placement, Circulating, Registration and Payment of State Treasury Bills of the Ministry of Finance" was approved on the order of 194/45 of the Ministry of Finance of Georgia and the National Bank of Georgia issued in 1997. In December of the same year, the amendment was made in the regulation #288/72.

In August 1997, a new structure of inspection was approved. It was separated from the Ministry's central staff and currently, the organization is closely cooperating with the Ministry of Finance.

The purpose of the inspection establishment is to accelerate the formation and development of organized securities market in Georgia. A consultative council of experts in the field of securities market is established within the inspectorate including in itself the Ministry of Finance, National Bank, employees of the Ministry of State Property Management, representatives of Commercial Banks, Exchanges, Lawyers and Independent Experts.

The primary function of the Inspection is not only promoting the formation and development of the securities market, but also its regulation and control.

On the basis of the Law of Georgia on Securities Market, adopted on 24 December 1998, a unified regulatory service of securities market was established in the country - a joint commission of securities of Georgia (Abuselidze, 2013, p. 9).

The only organized market for securities in Georgia is Georgian Stock Exchange. It was formed in 1999. A normative legislative base was developed, the regulatory body was established - the Securities Commission, securities central depository, brokerage companies, the securities registrar, or in other words the entire system required for the functioning of the stock market, though it is still at the condition of initial stage development.

At the end of 2006, the most important event was held on the Georgian securities market- the National Bank's securities and financial corporation embedded corporate bonds. It's hard to estimate its role in the financial market stability and general economic processes, but one thing is clear, it activated the melting process in the securities market.

2007-2014 was hard for Georgia's equity market. In 2007-2008, there were three events that prevented the possibility of realizing the possibility that this market was already in the process of construction. In our opinion, the following three events are: a) Global financial crisis, b) a war with short-term but long-term effect of the August 2008 Russia-Georgia and c) "third event", which took place before 2007, a short period before the Securities Market About the Law of Radical Changes Package. Despite the fact that the changes were made in the context of "liberalization", the adoption adopted a dramatic decline in trade transparency (Abuselidze, Surmanidze, 2018, p. 339).

Interestingly, the weakest sphere of the Georgian economy and the most important one for the rest of the world - the securities market is characterized by the peculiarity and development of the specificity in Georgia. What are the peculiarities and characteristics of its development in Georgia? What kind

processes are going on in the stock exchange, which is now the official exchange market for securities in the country? How actively the state or private organizations use financial instruments such as bonds.

*Table 1. Georgian stock exchange, securities*

A Listing								
Ticker	Issuer	Type of Security	Volume	Nominal Currency	Nominal Value	Trading Currency	Charter Capital	ISIN
#BSB03L	Black Sea Trade and Development bank	Bond	50	GEL	500,000	GEL		GE8790603616
#BSB04L	Black Sea Trade and Development bank	Bond	240	GEL	500,000	GEL		GE8790603640
#BSB05N	Black Sea Trade and Development bank	Bond	100	GEL	500,000	GEL		GE8790603624
#EBR03L	European Bank for Reconstruction and Development (EBRD)	Bond	107	GEL	1,000,000	GEL		GE8790603384
#FM001N	Netherlands Development Finance Company	Bond	160	GEL	1,000,000	GEL		GE8790603665
#SLK01M	Silknet JSC	Bond	34,000	GEL	1,000	GEL		GE2700603527
GEB	Bank of Georgia JSC	Stock	27,821,150	GEL	1	GEL	43,308,125	GE1100000276

B Listing								
Ticker	Issuer	Type of Security	Volume	Nominal Currency	Nominal Value	Trading Currency	Charter Capital	ISIN
#CRS01J	MFO Crystal JSC	Bond	100	GEL	100,000	GEL		GE2700603592
#NKR02L	Nikora Trade JSC	Bond	5,000	GEL	5,000	GEL		GE2700603675
\$GLC02K	Georgian Leasing Company LTD	Bond	10,000	USD	1,000	USD		GE2700603535
\$GLC03L	Georgian Leasing Company LTD	Bond	5,000	USD	1,000	USD		GE2700603659
\$M204J	M2 Real Estate JSC	Bond	25,000	USD	1,000	USD		GE2700603436
\$NKR01J	Nikora JSC	Bond	1,000	USD	10,000	USD		GE2700603493
BANK	Liberty Bank JSC	Stock	5,502,254,354	GEL	0.01	GEL	75,000,000	GE1100000300

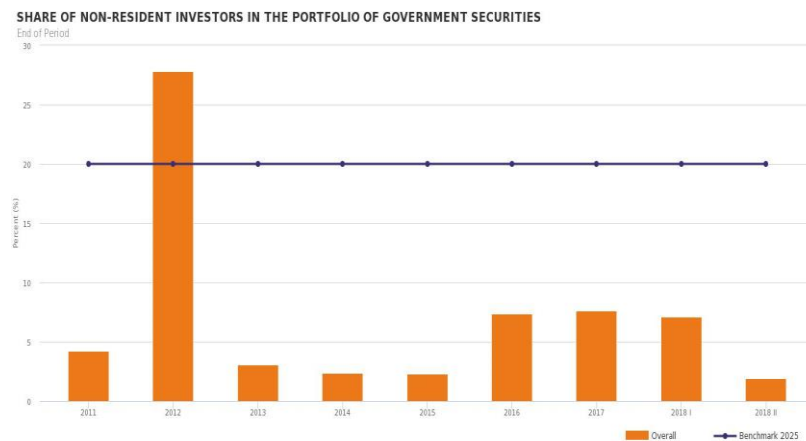
Source: <http://www.gse.ge/en/securities>

In Georgia, public securities buying and selling process is implemented through the brokerage companies licensed by the Georgian Securities National Commission. According to the law of Georgia “On Equity Market” commercial banks participate at equity market through subsidiary brokerage companies. Six subsidiary brokerage companies are established by means of the whole shares of commercial banks. “TBC Broker”, “SB Invest” and “Galt & Targart Securities” are the leaders in transactions quantity among the brokerage companies participating in exchange trade. These companies have concluded 738, 171 and

151 exchange transactions respectively. “Bona”, “TBC Broker”, “Duka” are the leaders in quantity of transmitted shares; “Oden”, “TBC Broker” and “Georgian Fund Company” are leaders in transactions volume. Volume of transactions concluded by these latests at the stock exchange made up about 66% of total volume of exchange transactions. The owners of Brokers companies are not only physical and legal residents of Georgia but also investors from Great Britain, Ireland and the United States. From the list of the Brokerage Companies 33 are Limited Liability Companies, 2 Joint Stock Companies (“Kabargina” and “Industrial-Invest”). “Industrial-Invest” is an accountable enterprise and its securities are allowed to trade in the “Georgian Stock Exchange” Trading System (Abuselidze, 2013, p.10).

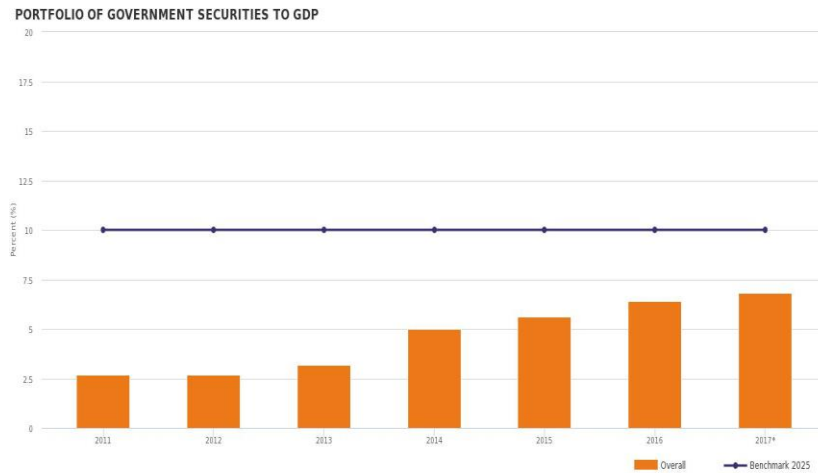
Public offer of state bonds is carried out via auction of state bonds. Commercial banks and resident and non-resident (This can be seen from the Figure 1) physical and legal persons with the support of commercial banks have the right to participate in auction. Issuance of state bonds is made in national currency (Abuselidze, 2018, p. 32).

*Figure 1. Share of non-resident investors in the portfolio of government securities*



Unfortunately, the absence of a functioning capital market in Georgia is clearly visible, and it is absolutely clear that the low level of trade with its main instruments on the Georgian stock exchange (Abuselidze, 2018). This can be seen from the Figure 2.

Figure 2. Portfolio of government securities to GDP



Currently, the Ministry of Finance is considered to be the state body implementing management, regulation, licensing and registration functions in the field of securities market. The Ministry of Finance is guided by the regulations „On the Issue, Circulation, Registration and Redemption of Treasury Bills and Treasury Notes Issued by the Ministry of Finance of Georgia“ (Ministry of Finance, 2018). This function is carried out through securities and stock exchange inspections.

According to regulation, the settlement price of one Treasury Note is calculated as follows:

$$P = \frac{F}{\left(1 + \frac{i}{n}\right)^w} \left[ \frac{R}{n} \times \frac{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)^N}\right)}{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)}\right)} + \frac{1}{\left(1 + \frac{i}{n}\right)^{N-1}} \right]$$

Where:

P – settlement price,

F – the nominal value of the Treasury Note,

i – expected rate of return (yield),

n – number of coupon payments,

W – the difference between the purchase date of the Treasury Note and the next coupon payment date, divided by the number of days between coupon payments,

R – the annual coupon rate divided by 100,

N – the number of remaining coupon payments.

Whereas, the coupon payment that is to be made is calculated as follows:

$$Q = N \left( \frac{P}{2} \right)$$

Where:

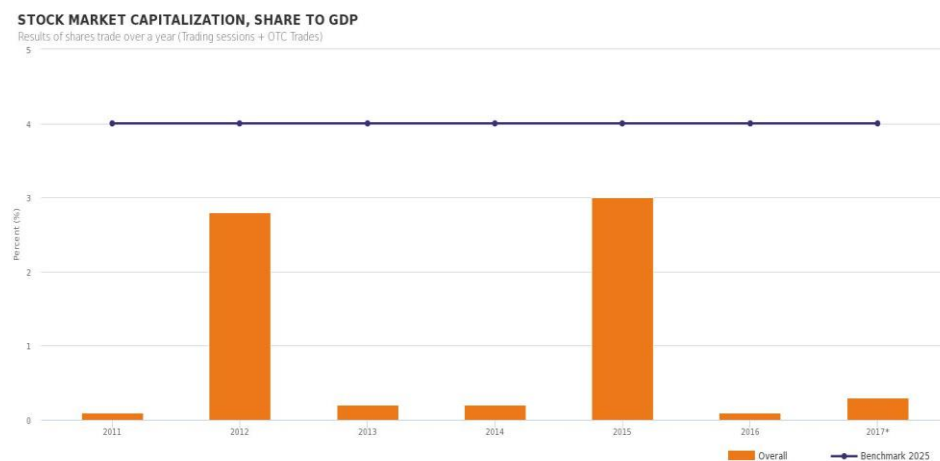
Q – amount of the coupon,

p – coupon rate

N – the nominal value of a Treasury Note.

The low level of awareness of the masses of the society in this area is the nihilistic attitude of the population and the business adds to the fact that the state does not take sharp and principled steps in this direction due to various objective and subjective reasons, which, in the end, still affect our country's economic situation.

Figure 3. Stock market capitalization, share to GDP



## CONCLUSION AND RECOMMENDATIONS

It is important to maintain the operated securities market functioning and regulation in terms of attracting alternative investments. If investors are convinced that the system is fair and non-discriminatory, they begin to invest in temporarily free money securities. This is essentially the source of attracting cash resources for companies, playing an important role in economic activity stimulation .

According to the above mentioned, it is important to improve the legislative regulation of the securities market. In particular, improvement of Georgian legislation should happen despite the level of securities market development, in order to be prepared for the increased role of the capital market. In Georgian legislation, regulating the securities market, should be defined a small investor category and specific norms should be elaborated for the protection of investors that are listed in this category.

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## DEBT FINANCING OF LOCAL AUTHORITIES IN THE EU MEMBER COUNTRIES

Katerina Zhegova<sup>1</sup>

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### Abstract

*The present paper is intended to study the debt financing of local authorities in the EU member countries for the period of 2013-2016. The empirical estimations have been done via OLS method on a simple regression model. Local debt is a dependent variable. Revenues from local taxes, local expenditures, local budgetary balance as well as the number of municipalities, average municipality's population and GDP per capita in a country are used as independent variables. The results confirm that local debt was really affected by local taxes, local expenditures and number of municipalities.*

**Keywords:** local debt, local taxes, local budgetary balance, local expenditures, number of municipalities, average population and GDP per capita, regression analysis

**JEL Codes:** H62, H71, H72

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## INTRODUCTION

The activity of analyzing the indebtedness of local authorities has increased in recent years. The problems of municipal finance are increasingly becoming a focus of attention in many countries. For example, in EU countries, local authorities have more and more powers with the corresponding increase in the functions they perform and, as a result, higher levels of spending are being observed. This leads to high levels of indebtedness in most local administrations (Lopez-Hernandez et.al., 2012, pp. 631-645; Zafra-Gomez et al., 2013). Long-term funding helps to overcome time differences in revenue collection and spending and allows optimization of budget management (Vladimirova, Naidenov, 2011, p. 219). The reasonable use of debt instruments enables local government to actively manage the territorial reproduction process and the development of a municipal capital market is a prerequisite for efficient interregional capital movement, acceleration of the investment process in the

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<sup>1</sup> SWU "Neofit Rilsky", Faculty of Economics, PhD Student, katerina\_ivanova\_jegova@abv.bg

municipality, infrastructure renewal, attraction of private financial resources to the municipal economic development (Stoilova, 2005).

This paper aims to check whether there is a link between changes in local tax revenue, the local budget balance, the number of municipalities, the average population in one municipality, GDP per capita - on the one hand, and local debt - on the other. The methodology of regression analysis is selected. The timeframe of the survey covers the period 2013-2016.

## LITERATURE OVERVIEW

Literature examining the debt financing of local authorities in the EU is not particularly large, although some of the contributions are relevant. Studies between countries are practically non-existent, which creates some difficulties in reviewing international literature. Guillaumon (2011) provides a summary of literature focusing on various aspects of municipal debt. Marija Teresa Balaguer-Coll, Diego Prior and Emily Tortosa-Ausina (2013) make a detailed overview of the existing evidence of the factors affecting the size of the local debt. Among the reviewed studies, there are several major country-specific surveys, namely those of Cropf and Wendel (1998) which deal with the practice of the UK, Ashworth (2005) and Bastiaens (2001), which analyze the Flemish municipalities or Baber and Gore (2008) that focus on local governments in the United States.

There are more sophisticated surveys on the state of local debt such as that of J. Ashworth, B. Geys and B. Heyndels (2005), in which government weakness is related to the development of local public debt in Flemish municipalities.

## METHODOLOGY OF EMPIRICAL ANALYSIS, DATA AND SOURCES

This study analyzes the local tax revenues, the local budget balance, the number of municipalities, the average population in one municipality, GDP per capita - on the one hand, and local debt - on the other. In this way, information on the impact of the analyzed indicators on debt will be obtained. A multiple regression model has been built. Its specification is as follows:

$$(1) \quad LD_{it} = c + b_1 LTR_{it} + b_2 LGE_{it} + b_3 LBB_{it} + b_4 NM_{it} + b_5 ANP_{it} + b_6 GDPpc_{it} + \epsilon_{it}$$

Where:  $LD_{it}$  is local debt for each country and year,  $LTR_{it}$  are local revenue per country and year,  $LGE_{it}$  are local costs per country and year,  $LBB_{it}$  is the balance of the local budget for each country and year;  $NM_{it}$  is the number of municipalities per country and year,  $ANP_{it}$  is the average population per country and year,  $GDPpc_{it}$  is gross domestic product per capita. The random component in the equation is  $\epsilon_{it}$ , which is the deviation of the dependent variable deviation that is not explained by the factors included in the model. The regression equation parameters are  $c, b_1, b_2, b_3, b_4, b_5, b_6$ .

To find the regression coefficients is adopted the least squares method. The econometric software product "E-Views 7" was used. The information on the quantitative data on the values of the variables by years and countries is taken from the Eurostat database.

The computational procedure in the empirical analysis is based on a panel of annual data for the countries of the European Union. The regression equation parameters are calculated for the EU-28 countries using the smallest squares method.

## DESCRIPTION OF THE SURVEY RESULTS

Table 1 presents the correlation coefficients between local debt, municipal revenues, municipal expenditures, the balance of the municipal budget, the number of municipalities, the average population of the municipality and the GDP in the EU-28.

Table 1. Correlation coefficients between analysed variables for EU-28 countries

	LD	REVENUE	EXPEN	DEFICIT	MUN	SREDNO	GDP
LD	1.000000	0.942277	0.957540	0.231436	0.797035	-0.046839	0.227232
REVENUE	0.942277	1.000000	0.912931	0.357158	0.789918	-0.146141	0.224136
EXPEND	0.957540	0.912931	1.000000	0.146637	0.628591	0.065220	0.264214
DEFICIT	0.231436	0.357158	0.146637	1.000000	0.349360	-0.358528	-0.081147
MUN	0.797035	0.789918	0.628591	0.349360	1.000000	-0.254419	0.069241
SREDNO	-0.046839	-0.146141	0.065220	-0.358528	-0.254419	1.000000	0.037540
GDP	0.227232	0.224136	0.264214	-0.081147	0.069241	0.037540	1.000000

Source: Author calculations based on Eurostat data

When the correlations between the variables included in the model are less than 0.2, then there are no serious consequences for the subsequently calculated regression results. Among the variables included in this model,

higher values of the calculated correlation coefficients are also observed. The correlation between local debt and municipal spending is the highest, followed by the correlation between local debt and local revenue. The lowest correlation is observed for GDP and the average population of the municipality. There is a correlation with the average number of municipalities and local debt, local incomes, the balance and the number of municipalities. This indicates that the calculated regression dependencies that are calculated in this model will not be free of multicollinearity.

*Table 2. Parameters of the regression model with annual data*

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Constant	-1706.53 (-1.34)	-1507.55 (-1.00)	-1908.71 (-0.93)
Local tax revenue^2	2.28E-06** (2.66)	2.25E-06** (2.55)	2.24E-06** (2.53)
Local costs	0.42*** (17.47)	0.42*** (16.55)	0.42*** (16.10)
Local Budget Balance	-0.32 (-0.63)	-0.35 (-0.66)	-0.34 (-0.63)
Number of municipalities in one country	1.64*** (5.20)	1.64*** (5.13)	1.64*** (5.09)
Average population of the municipality		-0.01 (-0.26)	-0.01 (-0.24)
GDP per capita			0.02 (0.29)
R-squared	0.98	0.98	0.98
Adjusted R-squared	0.98	0.98	0.98
Durbin-Watson stat.	0.07	0.07	0.07
Akaike info criter.	20.69	20.73	20.76
Schwarz criterion	20.87	20.94	21.01
F-statistic	709.90	557.55	456.12
Prob(F-statistic)	0.00	0.00	0.00
Observations	56	56	56

*Source: Author calculations based on Eurostat data*

*Note: result of t-test in brackets*

*\*\*\* Significant at level 1%; \*\* Significant at 5%; \* Significant at 10%*

Table 2 presents the parameters of the regression model with annual data. The high values of the R-squared can be explained by the fact that the variables included in the model explain almost entirely the variations in the annual values of the variables. Another explanation for the high coefficient of determination is the presence of a positive serial correlation. In all models, the Durbin-Watson values are positive and are significantly lower than the benchmark of 2.00.

The result obtained in the analysis of the impact of tax revenues does not support the postulates of theory and expectations of conventional economic logic. The coefficients are statistically significant for all regression models. The probability of error for the three models is between 5% and 10%. The result can be considered as reliable evidence because the level at which the coefficients are significant is between 5 and 10%. This means that the probability that the analyzed case will not lie on the regression line, i.e., not to be explained by it, which in essence means a misallocation error, does not exceed ten per cent.

In the course of examining local costs, the coefficients are statistically significant in all regression models, with t-test values being highest in the first model - 17.47, followed by the second model - 16.55 and the third model - 16.10. For all models the probability of error is less than 1%. The present results are consistent with those obtained from Brusca and Labrador (1998).

When analyzing the balance of the local budget, the results obtained are not significant in any of the models. The probability of error for all models is greater than 10%. This indicator is not significant and has no significant impact on the debt condition. In contrast to this result, some authors such as Benito and Bastida (2004) and Cabasés (2003) found a positive link between the balance of the local budget and the municipal debt.

The next parameter analyzed is the number of municipalities in one country. The number of local authorities is usually related to the size of the public sector. That is why the present study is at the beginning of the discussion on the attitude of the number of local authorities to the amount of debt. The odds are statistically significant in all models, with the probability of error being less than 1% and the result can be considered as reliable evidence.

The average population of the municipality is not a significant factor and has no significant impact on the state of the debt. The result obtained by the present study is consistent as far as an indication of an unclear and unsustainable attitude of the population to the indebtedness of local authorities is obtained.

The next indicator analyzed is GDP per capita. Regression coefficients are statistically insignificant. A positive link between GDP and municipal debt in Chinese municipalities was found in the Yanwui Wu study (2011).

## CONCLUSION

The conclusions that we can make from the empirical analysis do not fully support standard economic expectations. The results confirm that local debt has indeed affected local taxes, local spending and the number of municipalities. When analyzing the balance of the local budget, the results obtained are not in line with those of other studies on the issues under consideration. The odds are not significant in any of the models. The coefficients obtained by examining the average population of the municipality, GDP per capita and the average population of the municipality are not statistically significant.

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## POSSIBILITIES FOR FINANCING OF SMALL AND MEDIUM ENTERPRISES THROUGH THE "GROWTH MARKET" - "BEAM" OF BSE-SOFIA

Daniel Yordanov<sup>1</sup>

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### Abstract

*The article discusses issues related to financing the activity of small and medium-sized enterprises, by using the opportunities for listing their companies on the stock exchange and raising funds from the capital markets.*

*The main points in the article will be aimed at eliminating companies' inadequate knowledge of the opportunities that the capital market provides; increasing the expertise in the companies by simplifying the available information to show the available opportunities for raising capital through the BSE; to try to overcome the existing prejudices regarding a possible public status of a company and especially the related administrative commitments.*

**Keywords:** BSE-Sofia, BEAM, capital market, financial markets, financing policy, capital and ownership structure

**JEL Codes:** G10, G32, D53

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## INTRODUCTION

In order for an investment project or an entrepreneur to start an economic activity, they need financial resources to form their capital. There are many definitions of capital in the theory, but from a financial and accounting point of view, capital is an aggregate expression of all the means that a given economic entity holds for use in various spheres of its business. Capital includes not only material but also non-material economic goods that can be acquired and used in economic activity.

Funding for the company can generally be defined as cash assets that can be used as an investment resource and can be seen as part of the company's financial strategy.

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<sup>1</sup> University of National and World Economy, Economics of Transport and Energy Department, Chief Assist. Dr., dyordanov@unwe.bg

The choice of source of funding for the company depends not only on its viability, but also on the distribution of final income as well as on the effective use of invested funds and financial sustainability.

Analyzing different sources (Alexandrova, 2001; Petrov, 1997; Nile, Pike 2006; Bodi, Kane, Marcus 2000; Pinches, 1987; Gitman, 2005) helped to develop the next classification of sources of financing for companies.

- *Internal sources of funding* - these are own funds generated by the company to ensure its development.
- *External sources* - they characterize the part of the financial resources that is formed outside the company.
- *National funding sources* - formed at the expense of national capital and differ in a variety of forms and are usually more accessible to small and medium-sized businesses.
- *Foreign sources of financing* - formed at the expense of foreign capital and mainly guarantee the realization of large real projects in the company related to their restructuring, reconstruction and technical retrofitting.
- *Own sources* - they represent a certain amount of attracted funds in the company, securing their investment activity and entitling them to ownership.
- *Loan sources* - financial liabilities of companies subject to return under pre-defined conditions.
- *Attracted sources* - this is funding the company through a free grant.
- *Risk sources* - these are borrowed and attracted funds that are related to expense and obligation to pay.
- *Riskless sources* - these are the means of retained earnings and depreciation.
- *State funding sources* - they are at the expense of the state.
- *Collective sources* - are collective investors, private equity, insurance companies and private pension funds.

Under the dynamic economic conditions there are four main forms of financing the company's activities: 1) self-financing through undistributed profits, 2) shareholder financing, 3) debt financing, 4) financing through leasing.

Possible sources of funding to a large extent depend on the organizational legal status of the enterprise. The sole trader relies heavily on own funds and less on loans and has fewer opportunities in choosing sources of funding. On

the other hand, the activity carried out by brokerage companies has a wide range of financing opportunities.

Small and medium businesses still rely entirely on bank lending because they do not know what growth opportunities the capital market can give them. In this regard, we will try to bring a little more clarity about the fact that it can finance its business, make it more recognizable, attract a strategic investor, sell part or all of its business with better judgment, and etc., through the opportunities provided by the Bulgarian Stock Exchange.

For this purpose, the article will examine in detail the financing opportunities for small and medium-sized businesses through the new trading segment approved by the FSC on the Bulgarian Stock Exchange or the so-called Bulgarian Enterprise Accelerator Market (BEAM) on which small and medium-sized companies will now be able to raise capital under more mild conditions.

In this respect, in 2016, the responsible state institutions together with business representatives developed a Capital Market Development Strategy and launched a voucher scheme for the provision of Securities Issuance Services on Capital Markets aimed at providing access for Bulgarian small and medium - sized enterprises (SMEs) to financing from capital markets by providing incentives to connect with service providers in the field of securities issuance.

The voucher scheme is a grant of BGN 50,000, which serves to cover the costs of conducting the listing process on the Bulgarian Stock Exchange or abroad. Expenditure on this procedure outside of Bulgaria, of course, could not remain within the stated subsidy. The envisaged funds would eventually cover the fees of the institutions with which the process is related - the Bulgarian Stock Exchange, the Central Depository and the Financial Supervision Commission, as well as the advisory service from a licensed investment intermediary.

For the start of the application, which is the first stage of the scheme, a total budget of BGN 1.661 million is planned, with a grant of at least 30 SMEs. Any SME that will claim a voucher will have to increase its capital by at least BGN 500,000 and the public offering process should take place over a period of 9 months so that after the successful listing, the voucher will be "redeemed". Since the documents state that the subsidy is intended to lend securities, this means that SMEs can increase their capital by issuing a number of new shares or issue a corporate bond issue. An important moment of the process is the selection of a licensed investment intermediary.

Micro, small and medium-sized enterprises that belong to certain economic sectors can apply for a voucher with a listing grant which are

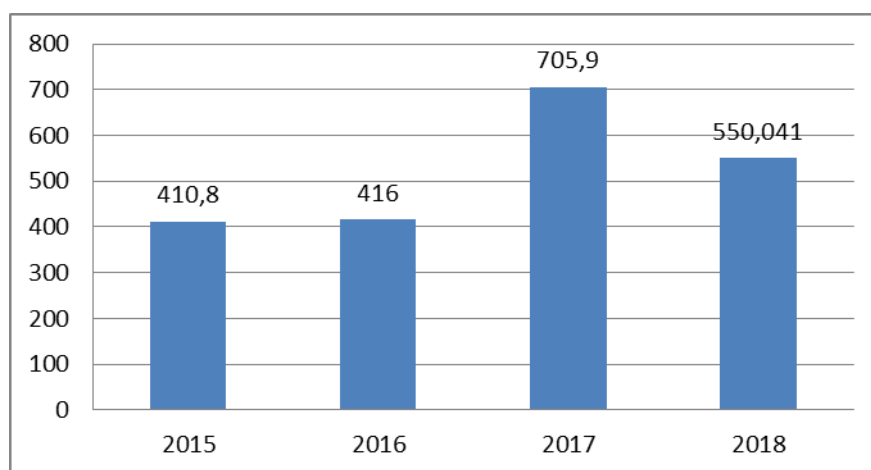
priorities according to the national policy for promoting SMEs: production (without agriculture), information and communication technologies (ICT), publishing, media production.

The Bulgarian technology company BIODIT is the first company approved under the "Voucher scheme for the provision of securities market services on the capital markets". BIODIT develops and implements biometric identification products used to control access to hotels, manufacturing enterprises, cars and ATMs. It also operates in markets outside Bulgaria - in Spain, Belgium, Sweden.

### **A BRIEF ANALYSIS OF THE CAPITAL MARKET IN BULGARIA**

In Bulgaria the issue of securities is conducted on the stock exchange in Sofia. Without deepening the analysis as to whether the Bulgarian capital market fulfills its assigned functions, which are inherent in such a market in the developed economies, it can generally start with the observation that Bulgaria fits into the overall picture of the region of a relatively more profound, underdeveloped financial sector. What is characteristic of Bulgaria, however, is that, even on this low basis, the share in the capital market is quite small.

*Figure 1. Presents data on the total annual turnover on an official market of BSE for the period 2015-2018*



*Source: BSE Sofia and own calculations*

The total turnover with shares on the regulated market in 2018 is slightly above BGN 550.00 million, decreasing compared to 2017, slightly below BGN 200.00 million.

This is a 2017 year-on-year increase when the growth rate is significantly higher than in 2016, reaching just over 700 million leva, with growth of over 80%. However, this is not enough to compensate for the general drop in share trading

The total realized turnover cannot reach the levels realized in 2008 - BGN 2 129 million and is very far from the levels before the global crisis - BGN 8 310 million in 2007 and over BGN 3 300 million in 2005 and 2006. In 2015 the lowest realized turnover on the official market was registered slightly over BGN 400 million.

*Table 1. Market capitalization on GDP at BSE Sofia*

<b>Indicator</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2018</b>
<b>Market capitalization (mln. lev)</b>	8 587	9683	23 621	26 765
<b>GDP by BNB (million lev)</b>	84 236	88 939	101 043	103252
<b>Market capitalization / GDP</b>	10,19%	10,89%	23,38%	25,92%

*Source: BSE Sofia*

The positions that were acquired before 2008 were lost under the influence of the global financial crisis. The rapid growth of stock market capitalization from 10% of GDP in 2004 to 51% in 2007 was severely reduced and reduced to 10.19% in 2015. In 2018, it was 25.92% and substantial growth over the previous three years.

According to data from the World Bank (Strategy for Development of the Bulgarian Capital Market, 2016, p. 1) in 2013, the growth of the market capitalization in terms of GDP every 10 percentage points leads to an increase of approximately 2500 dollars of GDP per capita. In 2018, BSE capitalization is 25.92% of GDP, in developed countries in Europe it is 60-100% and in the United States and Great Britain - 120% of GDP (Strategy for Development of the Bulgarian Capital Market, 2016, p. 1). This shows that with a proper state policy towards the development of the capital market and the stock exchange as a channel for attracting investments, it can be a prerequisite for the future development of the Bulgarian economy.

In total, 41 new emissions of securities are listed for trading on the stock exchange, of which one is the initial public offering of shares, 16 are emissions of bonds.

For comparison, a total of 43 new emissions of securities were registered for trading in the stock exchange, of which 2 were secondary public offering of shares, nine bond issues.

In 2016, we have one primary public offering, 3 secondary public offerings, and eight bond emissions of 23 new emissions. In 2015, we have 18 new emissions. Despite the low levels of new emissions during the analyzed period, the financing through the emission of shares and bonds through the Bulgarian capital market would be possible for realization.

Increase in capital stock registered for trading on the BSE-Sofia for the period 2015-2018, especially for the SPVs, except for the cases of the mandatory initial capital increase, is in the range 7-12 emissions. One of the most important indicators showing the development and market situation is liquidity. The limited liquidity (by individual positions or aggregated) is traditionally defined as one of the major problems of the Bulgarian capital market. In theory and practice, there are different approaches to measuring and investigating this indicator. Very often in our country liquidity is identified with turnover, and less often with trade volumes (CED, 2005, p. 13).

For the purposes of this analysis, we assume that liquidity is measured by the ratio of turnover / capitalization in percentage terms (CED, 2005, pp. 9-14).

*Table 2. The annual stock market liquidity ratio*

towards 31.12	2015	2016	2017	2018
Liquidity ratio - %	4,78	4,30	2,99	2,06

*Source: BSE Sofia, Own calculations*

## **CHARACTERISTICS OF THE "BULGARIAN ENTERPRISE ACCELERATOR MARKET" (BEAM) ON THE BULGARIAN STOCK EXCHANGE – SOFIA**

The goal of the SME Growth Market is to reduce the administrative burden for small and medium-sized companies that seek to register for stock market trading and issue securities.

This market can also be seen as an intermediary on the path of a company to the regulated market.

In order to become a public company and to start trading its shares on the stock exchange, there are a number of requirements on the one hand, the requirements of which must be met before its listing, such as audited financial statements, drawing up a prospectus for capital increase. On the other hand, there are strict regulatory requirements that lead to a significant increase in the administrative burden (the publication of three monthly reports, the appointment of an investor contact person, etc.) to businesses, especially when it comes to small and medium-sized companies.

The SME-BEAM growth market foresees considerably lower requirements for traded companies. Reliefs are both in the process of admission to trading and their subsequent life as listed companies. The most significant are the reliefs for companies to raise capital up to EUR 1 million or to raise capital by up to EUR 1 million on already admitted to trading on a market. For SMEs BEAM does not need an approved prospectus for an initial public offering by the Financial Supervision Commission. A prospectus is required only to raise capital over EUR 1 million (up to a maximum of EUR 20 million) and to increase the capital of more than EUR 1 million to a BEAM company already admitted to trading. Companies are not obliged to publish three monthly reports, they are obliged to publish only annual and half-yearly financial statements (BSE-Sofia, 2019, Part III Rules for Admitting Financial Instruments to the SME Growth Market).

In the case of an increase in capital, there is no legal obligation for each shareholder to acquire a portion of the new shares, which corresponds to its share in the capital before the increase. The governing bodies of companies traded on this market may carry out disposals of fixed assets over a certain amount and transactions in which claims or liabilities arise above a certain amount without the prior approval of the general meeting of shareholders.

Under mitigated requirements compared to public companies traded on the BSE main market, they may convene their general meetings and are not obliged to draw up and maintain a list of persons who have permanent or incidental access to the essential information for them, are not obligated and to appoint a special investor liaison person to the employment contract. Shareholders in companies are under no obligation to disclose their shareholding after passing a certain threshold and/or the acquisition of a certain percentage of the company's voting shares and are not under an obligation to conduct tender offers for the redemption of shares of minority shareholders after

acquiring a certain percentage of the voting shares and the passage over a certain threshold (BSE-Sofia, 2019, Part III Rules for Admittance of Financial Instruments to the SME Growth Market). In order to be admitted to the growth market for SME BEAM, companies must meet certain requirements, the main ones of which are registered as joint-stock companies in Bulgaria or abroad, in their articles there should be certain texts related to admission to trading on a market BEAM, which are related to the purpose of protecting investors, as well as explicit powers of the General Meeting of Shareholders. At the same time, financial instruments that are registered for trading must be dematerialized or immobilized; no restrictions or conditions are foreseen for their transfer and they have not been registered for trading on the main market of BSE (BSE-Sofia, 2019, Part III Rules for admission of financial instruments to the SME Market Growth).

The document to be admitted to trading is a template and contains detailed information about the company and its management and supervisory bodies.

At the same time, as part of the admission document, the company must present an audited financial statement for the preceding financial year and have a contract with an Advisor approved by the Bulgarian Stock Exchange for a period of at least 2 years.

The first company, approved by the Bulgarian Stock Exchange as SME Advisor for "Bulgarian Enterprise Accelerator Market" is IP Aval In AD. The counselors' task is to actively participate in the preparation of the necessary documents for admission to the BEAM market so that the companies comply with the rules of the market and with the applicable legislation. Active interaction between counselors and companies continues after consultation with disclosure and financial reporting obligations.

Any company that wants to raise capital on the BEAM market needs to sign a contract with an advisor approved by the BSE for at least two years. Counselors have serious requirements regarding their competence and experience in financial market operations.

Upon registration in the BEAM market, companies are required to disclose any relevant information relating to them or their financial instruments within 3 days of its occurrence - e.g. changes in the statutes, invitations and materials for general meetings, protocols of general meetings held, decisions on dividend distribution or capital increase (BSE-Sofia, 2019, Part III Rules for Admittance of Financial Instruments to the SME Growth Market). The market is attractive for ambitious and innovative companies with an existing business



who are looking for additional funding to develop their business, increase publicity of the products and services offered, and expand their shareholding base. At the same time, according to Ivan Takev, CEO of BSE, "The BEAM Market" would have a key role to create jobs and the economic prosperity of the Bulgarian economy.

### **WHY SHOULD AN SME BECOME PART OF THE "SME GROWTH MARKET - BEAM"?**

In order to start a new business, the owners of SMEs need at least a perspective idea and the corresponding financial means. The idea is not the subject of this article, the interest is the question of the means. The importance of the financial factor doubles when it comes to new science-intensive (projects for innovation and innovation) developments. Such projects are usually estimated for several years, require many preparatory work and investments, which, unlike commercial operations, do not bring returns immediately (usually after several years of tense work in a new direction).

But even if the entrepreneur has enough financial resources, he must diligently consider and account for all the consequences of the unsuccessful completion of the project, as the implementation of any major project, especially related to the implementation of scientific and technological innovations, it always has a high risk. As a risk-sharing option, as an opportunity to provide the necessary financial security for the successful development, listing of the company on the stock exchange can be accepted.

Publicity enables the company to broaden its spectrum of shareholders that can provide additional know-how, increase their capacity, become more competitive and more sustainable, and other strategic advantages, while at the same time providing the majority shareholders with control over the business of the company.

### **CONCLUSION**

When a company becomes part of the capital market, it falls into the field of investment, both local and foreign, giving it the opportunity to present its business and prospects to a broader investor circle. In this way, companies generate interest in themselves not only at the investment but also at the product level. The general economic theory and practice shows that the positioning of a well developed and functioning capital market is generally perceived by

investors as a signal of maturity of the company and positive prospects. At the same time, investors in SMEs in the SME Growth Market have adequate protection provided through the application of EU rules, in particular the Market Abuse Regulation, the Prospectus Regulation or MiFID II. As well as the opportunity for the companies to be transferred to the main market on the BSE at a later stage with mitigated requirements.

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## INTEGRAL SOCIONICS IN ENTERPRISE ENVIRONMENT

Dimitar Kenarov<sup>1</sup>

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### Abstract

*The goal of this article is to acquaint the reader with the possibilities of practical application of integral Socionics in enterprise environment. The author assumes that the reader is familiar with the fundamentals, terminology and concepts of Socionics as well as Jungian theory. Proposed methodology for management of psycho-informational exchange is based on the Socionic theory and real data obtained by the author's research on the integral psycho-informational structure of a Bulgarian telecommunication company. Considering the diversity of informational metabolism in different company units, is illustrated a method of increasing the efficiency of the internal communication, reducing the level of conflicts in the organization and harmonizing of the working environment.*

**Keywords:** management, organization, socionics, informational metabolism, psycho-analysis, psychotype, Myers-Briggs Type Indicator

**JEL Codes:** A12, A14, L20, L29, Z13

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## INTRODUCTION

The management of modern corporations faces a number of challenges related to a complicated business environment and exacerbated competition. Factors such as globalization, burgeoning technological developments, continuous changes and transformations further affect the efficiency of the management and the in-company climate.

The improvement of organizational management is focused on continuous search and development of new tools and methods to meet the growing demands of the environment.

Socionic analysis, by virtue of its well-developed theoretical apparatus, is a tool that can be applied in parallel with the best business practices. At the same time, the socionic approach is able to regulate organization's internal information metabolism, minimize conflicts between different units and increase the integrity of the organization.

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<sup>1</sup>SWU "Neofit Rilski", Faculty of Economics, PhD candidate

During the last 30 years, the Socionics has experienced a rapid development, coming out of the personal psyche and focusing on integral and transpersonal problems. Elevated by A. Bukalov (1998) the theory of the integral Socionics, assumes that each group of people (collective, ethnic, nation, state) can be considered as an "integral super-organism" possessing its characteristic culture and its own informational metabolism. Based on this concept, each organization can be seen as a psycho-information system and its elements - as integrated units having specific informational metabolism, determined by the 16 psycho types (Augustinavichute, 1996).

Modern business often talks about corporate culture and corporate values, which are perceived as global for the entire organization. On the other hand, practice shows that each unit in the organization (e.g. teams, departments) has its own sub-culture (rules, norms, rituals, myths, jargon, folklore, etc.), its own values, views and goals which are unique within the organization. This specific team identity is a product of the integral informational metabolism, shaping the group concept of reality.

Following common corporate goals and directives, each one of the company units breaks the set tasks through its own values and perceptions. Since behavioral, value, motivational, and communication stereotypes are isomorphic to the types of information metabolism, they vary widely within the different functional units in the organization. The difference in the cognitive process creates conditions for exacerbating the conflict of the working environment and complicating relations within it.

Through the application of Socionics theory (Augustinavichute, 1995) in management, this process can be guided, communication between departments could be facilitated and the conflict level could be reduced.

In order to have effective interaction between two psycho-information systems it must be done in an appropriate and understandable language for both sides. The number of possible "languages" for communication between the various types of information metabolism is limited by the Jungian cognitive functions (Jung, 2005), known in the Socionics as "Information Aspects" (Augustinavichute, 1995).

The formation of the integrated informational metabolism of each team is a complex process, depending on various factors:

1. **Company strategy.** The structure of each organization is a function of its strategy, which determines different requirements for each functional unit within a company. Hence, units with similar activity in companies with different management structures would differ in their integral psycho-type.

2. **Company culture.** The organizations attract their employees with their specific cultures. Each of the 16 temperaments would prefer a firm and a working environment that matches personal values and internal motivators.

3. **Specific activity of the unit.** The professional orientation is directly dependent on information metabolism, so each psycho-type has characteristic areas of career realization.

4. **The psycho type of the head of the department.** This factor has an important role in recruitment process. When selecting employees, it is customary to seek a high level of communication and psycho-compatibility. Even when selection process does not include psychological tools and tests, the choice is predetermined by natural laws in human relations.

5. **Different cyclical phenomena** affecting the development of the team and the organization. Each company goes through its natural development stages (Adizes, 2015), each of which has different specific requirements to the psycho-information structure. In the lifecycle of functional units, these processes are significantly more prominent and dynamic and are conditioned by reorganizations, transformations and even on a project basis.

It is necessary to note that the modern corporate environment is extremely complex and dynamic, that's why the psycho-information profile of a team cannot follow strictly sudden changes in requirements of the organization.

A survey conducted by the author in 2017, in a Bulgarian telecommunication company, shows the following integrated psycho-information profile:

*Table 1. Psycho-informational profile of Bulgarian Telecom*

Functional Unit	Type	Ego block	Jungian functions	Motivation drivers	Communication styles	Goals
Top management	ESTP	●□	<u>SeTi</u>	prestige	business	strategic
IT department	INTJ	□▲	<u>TiNe</u>	self sufficiency	cool-headed	strategic
HR department	ESFJ	■○	<u>FeSi</u>	prestige	passionate	tactical
Financials	ISTJ	□●	<u>TiSe</u>	wealth	cool-headed	tactical
Customer support	ENFJ	■△	<u>FeNi</u>	uniqueness	passionate	strategic
Marketing	ENTJ	■△	<u>TeNi</u>	uniqueness	business	strategic
Sales department	ENFP	▲□	<u>NeFi</u>	uniqueness	passionate	tactical

For each element of the organizational structure, the semantic sense of the information aspects is filled with a specific content corresponding to the activity being performed. Therefore, the same aspect may have different appearance in various functional units of the organization.

**Top management:**

- ● power, authority, decisive action;
- □ hierarchy, formal rules, system;

**IT department:**

- □ logic, structural analysis, classifications;
- ▲ ideas, innovations, principles of action, problem solving;

**HR department:**

- ■ open and emotional communication;
- ○ consensus, a harmonious working environment;

**Financials:**

- □ structure, rules, formal laws;
- ● respect, endurance, straightforwardness;

**Customer support:**

- ■ intensive communication, attention to customer;
- △ sense of events development, prediction of consequences;

**Marketing:**

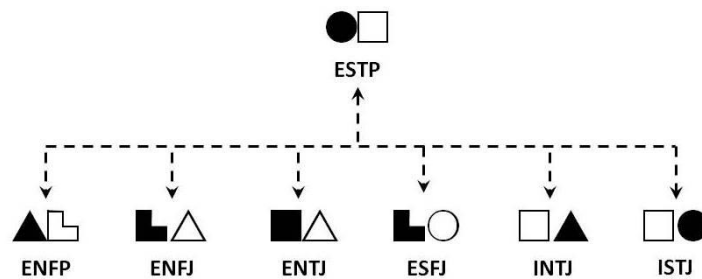
- ■ economic activities, profit, benefit, algorithm;
- △ development, trend, evolution, prognosis;

**Sales department:**

- ▲ identification of potential opportunities, principles of action;
- □ ethics, customer relations;

Based on the data it can be compiled an information-metabolic map of the whole organization. Similar approach allows assessment of all relationships and psycho-informational interactions in the organization and identification of critical zones and interfaces. For each structural unit in the surveyed organization, a psycho-informational chart can be made. A map such as this considered from senior management point of view for this company would look like this:

*Figure 1. Psycho-informational map of Bulgarian telecom company*



In this structure, management has a common information channel with finance department and IT department - in terms of power mechanisms ● and structural logic □ respectively.

Communication with Human Resources department is naturally comfortable, based on common quadra-values and inter-type relationship of "activation" type.

The interaction of senior management with the other three departments is hampered by the lack of an appropriate communication interface. Particular attention should be paid to communication with sales department, due to tense interrelationship (super-ego).

To solve these problems, there is a need for an intermediary (translator). Interaction with HR and Marketing department can be facilitated by ESTJ (a type common to top management). This type is able to easily translate the goals and messages of the management, using its common information interface (○) with the ESFJ and ENTJ types. And vice-versa, messages from both departments would be received based on shared information aspects and would be passed on to the management on basis of internal interaction within the management team:



$$\text{ESTJ} \leftrightarrow \text{ESFJ}$$

$$\blacksquare \bigcirc \leftrightarrow \blacksquare \bigcirc$$

In this case, the effectiveness of interaction between HR department and the senior management ambassador is achieved on a consensual basis by creating a favorable working environment.

The same ambassador would use a different approach and "language" in relations with marketing department, where the communication exchange is based on business logic, algorithm of action, benefit and efficiency of process:

$$\text{ESTJ} \leftrightarrow \text{ENTJ}$$

$$\blacksquare \bigcirc \leftrightarrow \blacksquare \triangle$$

The communication case for psycho-informational exchanges with sales department is more complex and can be solved by using an ENTP as an ambassador with natural communication channel (▲) for exchange of ideas and problem solving. This type is less common for top managers and if there is no suitable person in the company's management, they could be found at the sales department or appointed from another company unit as a mediator:

$$\text{ESTP} \leftrightarrow \text{ENTP} \leftrightarrow \text{ENFP}$$

$$\bullet \square \leftrightarrow \blacktriangle \square \leftrightarrow \blacktriangle \sqcup$$

The considered example represents the viewpoint of top management and does not exhaust the overall psycho-information metabolism in the company. This approach is applicable to each of the elements in the organizational structure, as they are in intensive information exchange and diverse of formal and informal interactions.

The presence of an aspect-mediator should be a natural element of the processes in the modern organization. This role can be done by a project manager, internal communication coordinator or similar position well known to nowadays corporations.

Based on socionic analysis, it can be concluded that the process of optimizing psycho-informational corporate exchange in the overall management system, necessarily includes following stages:

1. Identification of integral type of information metabolism for each of the functional units in the organization;
2. Analysis of inter-type relations between the units;
3. Identification of conflict points and definition of critical communication interfaces;
4. Definition of information-aspect communication channels between the departments;
5. Selection of ambassadors (informational proxies) within each of the teams, related to the specifics of counterparties;
6. Selection of mediators (translators of informational aspects) outside the interacting units.

It is important to note that the choice of ambassadors and intermediaries should not be limited by cognitive functions. Given the design of the A-model (Augustinavichute, 1995), the translation of the information aspects is limited by splitting of the socion by dynamics/statics dichotomy. That's why such kind of information transmission in certain cases cannot be achieved, no matter of the number of "intermediaries" in the communication chain.

When certain aspects of one communication participant are positioned in the vital ring and the others positioned in the mental ring, the information translation can only be performed on basis of inner-quadra interaction and teamwork would be effective on the basis of common goals and common values. Nevertheless, the energy and emotional exchange in this communication has enough potential for achieving an effective and harmonious interaction between two psycho-information systems.

The approach to selecting an intermediary strongly depends on the type of management in the organization. In the authoritarian style of management that corresponds to D. McGregor's X-model (McGregor, 1960), the common communication interface is more important. The democratic style of governance that responds to the Y-model is characterized by the growing role of inter-relationships. In the Z-model proposed by Ouchi (Ouchi, 1981) and specific for Japanese culture, intertype relations have a leading function in interaction between the units in the organization.

The facilitating of the communication requires a reduction in tension of the relationships and developing of a common language between the different

departments within the company. In each of the 16 psycho types, the cognitive process is most effective when it goes through the natural basic and creative information aspects.

It should be noted that the psycho-information profile of each organization is a quasi-stable equilibrium and its analysis is just a snapshot of the current state. Crises, reorganizations and transformations into a company may change dramatically its characteristics. Such kinds of changes affect not only the system as a whole, but change the properties of its components and relations between them. In the case of serious transformations in the company it is necessary to update the analysis, in order to meet the new requirements for communication exchange between the different units.

## CONCLUSION

The illustrated example demonstrates a significant potential for practical application of the integral Socionics in organizational management in a real corporate environment. Considering natural processes in human relationships and psycho-informational exchange, a higher level of integration can be achieved between objectives of the functional units in organizational structure, increasing the efficiency of internal communication in the company as well as reducing conflicts and harmonizing relations in the working environment.

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## EFFECTS OF PROMOTION PRACTICES ON THE SUSTAINABLE DEVELOPMENT OF TOURIST DESTINATIONS

Mariya Stankova<sup>1</sup>, Christos Amoiradis<sup>2</sup>

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### Abstract

*Tourism is one of the fastest growing industries across the globe. It is a strong contributor to economic development and works towards providing economic and socially sustainable development. However, the number of international tourists is permanently growing. With this circumstances, to sustain the high level of tourist flows, it is required by the destinations to minimize the adverse effect of economic growth. This would enable it to diminish the negative impacts of their economic growth and harness the power of tourism in economy to help see the positive changes. The present paper sheds light on the good practices that have been adopted across the globe to promote tourism destinations and researches the various codes of conduct that can be adopted to promote tourism. Studying the application of environmental protection measures and implementation of environmental management, it analyzes cases from across the globe to highlight sustainable tourist practices.*

**Keywords:** Tourist destinations, promotion practices, sustainable development

**JEL Codes:** Q56, O44

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## INTRODUCTION

Tourism is one of the fastest growing industries across the globe (Filipova, 2011). It is a strong contributor to economic development and works towards providing economic and socially sustainable development. A report by the UN World Tourism Organization forecasted in 2010 that international tourism would reach a mark of 1.4 billion international tourist arrivals in 2020. However, this number was crossed by 2018, and is still growing at 6 % per year. In this context, the impact of tourism on the world environment is generating demand with the rapid development of what has been increasing interest in public and private sectors, and has led to a number of new policies at

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<sup>1</sup> South-West University "Neofit Rilski", 60, Ivan Mihailov str., 2700 Blagoevgrad, Bulgaria

<sup>2</sup> University of Thessaly, Argonauts & Filellinon str., 38221 Volos, Greece

the national and interregional levels. The industry itself has responded to this trends with an arising awareness. However, to sustain the high level of tourist flows, it is required by the tourist destinations to minimize the adverse effect of economic growth. This would enable destinations (at country level) to diminish the negative impacts of their economic growth and harness the power of tourism segment in economy to help see the positive changes. The present paper sheds light on the good practices that have been adopted across the globe to promote tourism destinations, particularly in Europe. Further, the study deals with a comparison of the presented practices so as to outline their positives and negatives and to identify some translation possibilities as an effective experience leading to the achievement of sustainability in the development of tourist destinations. Studying the application of environmental protection measures and implementation of environmental management, the current study analyzes the chosen examples as cases to highlight sustainable tourist practices.

Its main goal is the understanding of the importance of sustainability throughout the whole process of planning, forecasting and managing of the tourism development. Considering the limitation of the paper's volume, the attention is focused on the analysis of best practices (linked to tourist destination' promotion) as a methodological basis for comparisons, conclusions and recommendations. Thus turning them in a useful tool for the guidlining of the sustainable success of tourist destinations in national or international level.

On the foundation of analysis and compared results, the paper presents the findings and conclusions based on the effects of promotion practices on the sustainable development of tourist destinations. Thus according to various cases discussed indicate that sustainability programs are destination dependent strategic tool and are different for each destination. These differences among the tourist destinations mainly focus on one of the three parameters of sustainable tourism, those of the social, environment, and economic dimensions. However, applied to the mass tourist destination, would lead to certain success in the sustainable development achievement, keeping the attention of tourist with a unique travel proposition to sustain tourism in the area.

## **LITERARY REVIEW ON JUSTIFICATION OF STUDY METHODOLOGY**

In connection with the justification of the research methodology, a comprehensive review of the related literature was made. A number of different studies and databases were, principally focused on the best promotion practices

identification. Identifying and sharing knowledge of best practices has been established as one of the requirements for next-generation product development (Rezayat, 2004). To a further extent, best practice transfer can be defined as business imperative (Kermally, 2002). Best practices must be learnt from others, but managing such information and knowledge transfer is a critical challenge facing modern-day organizations (Dani et al., 2006). Following a certain logic, this study focuses on two main aspects: firstly - to build explicit knowledge by studying and systematizing good practices for the promotion of tourist destinations and secondly, to summarize and translate knowledge of best practice for effective sharing and reuse in the sustainable destination development. Sustainable destination development can further successfully apply strategies and programmes designed for transborder regions (Krasteva, Kiryakova-Dineva, 2018).

Defining the term good practice is difficult, given the many definitions of different authors and authoritative international organizations (International Quality Study, 1993; Johnson, 1997; Camp, 1989). However, this paper perceives and uses a work definition based on Bogan and English (1994) and Ramabadron, Dean and Evans (1997) describing it as optimum ways of performing work to achieve high performance.

## **CASES FROM ACROSS THE WORLD IN IMPLEMENTATION OF BEST PRACTICE PROMOTION OF TOURIST DESTINATION**

Above segments in the current study highlight various environmental management system that tourist destination can choose from for their sustainable development. Further, the study will present various best practices that have been implemented across the world through cases of successful sustainable development: and benchmarking methods needs.

Rimini (Italy): Province of Rimini, in Italy is a coastal city located on the Adriatic Sea. It supports a population of 1.49 lakhs residents. The city received a total of 4.8 million tourists in 2017 and was fourth most popular destination for tourists in Italy. The city hosted 7.4 million tourists in 2017 (Busetto, 2019). Rimini is a mass tourist destination and tourism makes up for one of the major economic sectors. Rimini receives tourist in a high influx of tourists in summer between the periods of April to October and has undertaken economic diversification to promote tourism outside the summer season. With sustainable development in the area, since 1990s Rimini started tackling seasonality by sustainable development of cultural tourism (Figini, Vici, 2012).

TCCA however, led way to development of Integrated Coastal Zone Management (ICZM) in the area and ICZM committee was founded in Rimini (Coastal Management Centre, 2004). Regional council under ICZM was constituted and priority actions in Rimini included direction for restoration of river sediment flow process. Among other priorities included was regeneration of natural coastal process starting with the River Conca. Actions of enhanced usage of renewable energy with plans to include eco-sustainable center in beaches with facilities such as intense differentiated waste collection facility, photovoltaic panels, diminishing water usage, were all taken up to enhance the region's sustainability (Briani, 2009). Leading from these developmental strategic plans for sustainable development of tourism has been laid out and with implementation of changing roles in seaside, Rimini's inner city neighborhoods and cultural heritage sites are also being developed.

Among the procedure for sustainable development adopted in Rimini include implementation of ISO 14001 standards in frequent tourist destination including Italia in Miniatura. This makes Italia in Miniatura the only theme park in Europe that has an environmental label. Rimini also has managed to control their water consumption at beaches by 70–80%. They have also adopted information points at beaches, to inform residents and tourist air and water quality every day (Sörensson, 2010). A Tourism Carrying Capacity Assessment (TCCA) was carried out in Rimini in the year 2000 and results indicated that coastal tourism in the country had reached its carrying capacity limit. This led to a loss in environmental quality as well as its natural attractions. These events even resulted in a decrease in tourism in the area (United Nations Environment Programme, 2009). In this connection, Ivanova points out that it is a question of whether the economic benefits of the loading of an alluvial island are justifiable when it is bordered on a high capacity passenger ship that wants to take a tour of it (Ivanova, 2015).

Lloret de Mar (Spain): Lloret de Mar is a tourist destination in the Mediterranean coast located in the southern part of "Costa Brava. The region has a population of about 40,000 residents. As a mass tourist region, this destination received 5th rank among sun and sand destination in Spain in terms of hotel bed spaces with 29,000 terminuses. Lloret de Mar receives almost 1.2 million visits per year with 5.8 million tourist overnight stays per year (Lloret Turisme press office, 2019). For the period 1970s-2000 mass-tourism was boomed in Lloret de Mar first strategy was confined to economic benefits from tourism and environmental were held secondary.



Among the first measures of global development strategy that were raised in the 1992 Earth Summit, framed the management system for Agenda 21. It was only in 1997 that a board of tourism, representative of all political parties, hotel guilds, civil society, and business worlds and civil society took part in a conference on Tourism and Sustainable Growth. The committee promoted Agenda 21 under the advice of UNESCO and the International Council for Environment Initiatives to address region-specific sustainability indicators. These included an increase in the usage of public transport, enhanced recycling of municipal wastes, and maintenance of ecological quality of rivers in the city (Lew, 2017; Lloret de Mar, 1998).

Additionally, the government of Lloret De Mar has formulated Strategic Tourism Plan for over the periods, with objective of identifying hubs of competitiveness and generating strategies for sustainable development. Sustainability vision in the strategic tourism plan also includes measures to identify attitudes and methods that may add value to organizations working in the region, while developing a responsible attitude towards people and environment. With sustainability interest, ISO 14001 and EMAS standards are increasingly being adopted in the region ((Lloret de Mar, 2015; Lloret Urban Lab, 2016; Sörensson, 2010).

Costa Rica: Costa Rica is rain-forest rich tourist destination in Central American country. The region shares coastlines with the Pacific and Caribbean. With a population of 4.9 million, Costa Rica is home for about 5% of the world's species, with its rich biodiversity. While with the natural environment, Costa Rica also have cultural institutions to promote tourism. The region also hosts four different UNESCO World Heritage sites and receives more than 2 million visitors per year. Among the sustainable goals that the nation seeks to attain by 2021 is become the first carbon neutral country in the world (Costa Rica Tourism Board, 2019).

For sustainable development, Costa Rica has adopted Certification for Sustainable Tourism (CST). The program is designed for the tourism sector businesses to ensure that the development in the area are compliant with the cultural and communal reserve management as well as sustainable ecological model. The CST program is increasingly being administered to all national lodging establishments for free certification that allows them to focus on four major areas of development. These include the physical-biological parameters required to evaluate the interaction between companies working in the tourism department and their natural surroundings. CST further promotes hotel to integrate cultural elements. This helped growth of local region and communities

in the region. Measures such as Eco Hotels status for partnering hotel industry help keeping players in the industry motivated to adopt sustainable practices (Honey, 2002; Lepree, 2009).

Cuba: Cuba is an island tourist destination in the Caribbean Sea with a population of 11.49 million. The region received a record total of 4.75 million tourists in 2018. The increase in visitations grew by 60 percent in 2017 than it was four years ago (Cuba Tourist Board of Canada, 2017; Wood, 2018). Sustainable development of tourism was largely driven by its centralized economy. Since 1993, the region entails composite development of public and private sectors. The centralized approach to sustainable development led to formulation of a top-down approach in policy strategies. This meant that government was not case specific in developing only local destinations. Rather the approach adopted was sustainable and designed to develop all stakeholders in the Cuban economy (Laitamaki et al., 2016).

One of such top-down approach considered for driving sustainability in the region was Formación de Trabajadores para el Turismo or Education for tourism industry workers program. This programs for education was driven by FORMATOR schools in Cuba. These schools were responsible for overseeing training of professionals in the tourism sector. The workers in tourism sector are provided a four-year bachelor degree under the program. The programs are designed to prepare worker for their prospective position at work. Workers spend time learning practical application of sustainability at their job roles to promote Cuban tourism policies of encouraging sustainable practices in the tourism sector (Henthorne, George, Williams, 2010; Hingtgen et al., 2015; Laitamaki et al., 2016).

Ecuador and Aruba: Ecuador lies in South America's west coast and is home to wildlife-rich Galápagos Islands that is a UNESCO World Heritage site. Ecuador has a population of 16.6 million received almost 1.5 million tourists in 2017 reaching an all high mark historically (CEIC, 2018; Ministry of Tourism of Ecuador, 2007). The Ministry of Tourism realized the need for sustainable development in tourism that can be brought by concentrating on alternative ways and new options to maintain competitiveness of Galapagos as a tourist destination. The strategy included diversification of tourism offering a consolidated option of cultural experiences with natural destinations (Izurieta, 2017).

Apart from alleviating the impacts on sustainable tourism in the Galapagos, there are other measures also taken up by Ecuador including Buen Vivir. Gudynas (2001), described Buen Vivir to be the classical idea on which

quality of life depends. Buen Vivir embraces the notion of tourism welfare and cohabitation among communities as well as Nature. Raised consciousness of the necessity of human and ecology to co-exist led Ecuador to adopt Buen Vivir ideas in the new Constitutions. Indigenous concept of Buen Vivir known as the *sumak kawsay* of the *kichwa* was adopted in 2008 to describe the set of rights for each individual. These include rights of each resident of Ecuador towards health, shelter, food, education, and environment among others (Republic of Ecuador, 2008).

The Plan Nacional del Buen Vivir PNBV or the National Plan of Good Living devised by the government further introduced a shift of paradigm in tourism. PNBV promotes ecotourism with inclusion of chances for development of the local communities. There has been incorporation of heritage culture growth in tourism and local communities are included in convergence of activities between tourism and economy. For example, in case of service providers in tourism infrastructure, such as in the region of Agua Blanca, 80% of the population is involved in community tourism (Calisto Friant, Langmore, 2015; Endere, Zulaica, 2016; Guardiola, García-Quero, 2014).

Among the other program promoting sustainability in tourism in the region is the Green Gateway program in Aruba. Aruba received 1.07 million visitors in 2017 and a green gateway program is implemented to ensure sustainability of the region in the long term (Statistic, 2019). The program was launched in 2009 and is based on a vision of sustainable infrastructure investment. The transformation in Aruba planned with the help of Green Gateway is to create a knowledge-based, environmental and entrepreneurial sustainable economy. One of the pillars in the vision includes replacement of fossil fuels with renewable energy solutions. The government further plans to enhance capitalization of a favorable wind and solar resources on the island. The second pillar of green gateway aims at increasing capital for development of sustainable infrastructure. Long term Purchased Power Agreements are attractive ventures for international investors and will help the region gain on facilities such as wind and solar farm as well as futuristic waste-to-energy projects (Government of Aruba, 2015; Laitamaki et al., 2016; UNDP, 2017).

Azores (Portugal): Autonomous Region of the Azores is an archipelago made up of nine volcanic islands in North Atlantic Ocean. Azores has a population of 245,746 residents and received 1.3 million tourists in 2016. Among the sustainability programs affiliated in Azore, the Tourism Planning Program of the Autonomous Region of the Azores (POTRAA) was adopted in 1996. It, however, got its approval in 2008 by the Regional Legislative Decree

No. 38/2008/A. The measures undertaken included promotion of urban facilities of sustainable tourism at the same time keeping focus rehabilitation and recovery of rural tourism. POTRAA also focuses on patrimonialization that is local positioning of tourism sector in Azores with global articulations (Mihalič, 2013).

Azores also focused on projects such as LIFE Sustainable Laurel Forest undertaken to preserve two priority habitats in Azores, the Laurel forest and active bogs. Increases ecological restoration with appropriate restoration efforts against pastures and forest logging zones, promoted both value and long-term sustainability in the region. Further, The Government of the Azores under initiative for European and Global Geopark focused on the development of geotourism in the archipelagos. To promote sustainability of large scale tourism, several routes have been established, along the Volcanic Caves with Thermal Spas and the Urban routes. These allow tourists to acquire an understanding of the geological heritage of the region also enables the government to raise awareness about the cultural heritage of Azores (Calado et al., 2016; De La Cruz et al., 2014; Lima, Machado, Nunes, 2014).

## RESULTS AND DISCUSSION

The case study of various tourist destinations and their efforts of sustainability highlights that sustainable development of tourism requires economic, social, and environmental sustainability. These three aspects depend on each other and have to be worked upon simultaneously by the countries to provide sustainable tourism to their tourist.

*Table 1. Sustainability strategies for tourist destination*

Case Study	Primary focus	Secondary Focus	Third Focus
Rimini	Environment	Economy	Social
Lloret de Mar	Economy	Social	Environment
Costa Rica	Social	Economy	Environment
Ecuador and Aruba	Social	Environment	Economy
Azores	Environment	Economy	Social
Cuba	Social	Economy	Environment

*Source: Compiled by Author*

Analysis of the cases highlights that tourist producers have different sustainability strategies depending on their prevailing conditions. Such as in Rimini the problem for sustainable development of tourism arises from the environmental causes such as need to focus on improving the quality of the seawater. At the same time ensuring that the practices of tourism are economically viable.

However, in Granada, the problem for sustainable tourism development arises from the short stay or low-price holidays that visitors look for. Granada receives a large number of tourists, however, they are only day travelers and hence tourism related services such as the restaurants and hotels do not attain economic benefit. Further, Gotland experiences seasonality among travelers. The programs such as HANSA cater to historic or cultural tourism to promote tourism around the year. Also, in Cuba is in a unique position to take advantage of its uniquely preserved cultural heritage. The work of developing the destination with social and environmental interests has led the way for formulation of education for tourism industry workers program. The program aims at high-end sustainable tourism with a workforce that is developed to focus on providing enhanced service and premium tourist experience. This will further enhance the competitiveness of the regions.

Further, the CST program approach of Costa Rica makes it one of the popular eco-tourist destination. The approach of CST integrates economic, educational, and social sustainability aspects for community development. Inclusion of physical-biological parameters in sustainable development practices and conservation through community development is the basis for CST based progress. Also, Ecuadorian practice of sustainable development in tourism and inclusion of Buen Vivir focuses on the social dimension of sustainable tourism. Buen Vivir principles of Ecuador tourism focuses on environmental sustainability with the development of local community. It guarantees rights to locals such as those of health, food, education, and shelter to ensure overall growth (Republic of Ecuador, 2008).

Additionally, in Aruba, the Green Gateway initiative focuses on managing the environmental impact of tourism in the longer run. The initiative brings out the need for focus in long term measures of sustainability such as manufacturing of renewable energy locally through cooperative efforts. Adoption of eco-savvy innovation enables Aruba to have uniquely-competitive sustainable tourism. Finally, the case study of islands in Azores suggests ways of sustainable development through promotion of cultural heritage and its natural endowments of biosphere reserve. The sustainability management

practices undertaken promote rural and urban areas to preserve local traditions and architectural heritage. At the same time, the practices ensure the development of tourism while minimizing environmental impact. Each case reviewed in the present study has unique tourism practices and sustainability programs developed around the available resources to ensure premium-quality services to tourists.

## CONCLUSION AND RECOMMENDATIONS

Without doubt, the tourism industry is of utmost priority for economic development. However, it also has undoubted importance as strongly influencing the participants in it and helping to mitigate the effects of this economic development. Exploring the link between tourism and the economic development based on a survey of some of good practices in tourism, the paper emphasizes the importance and necessity of the adoption of codes of conduct, such as ISO 14001 by various tourism providers. It also provides the contours for application of environmental protection measures for sustainable designing of tourism, while minimizing negative environmental and social impacts. Implementation methods of environment management program further highlights methods for supervising and controlling adverse impacts of tourism activities. The various cases discussed indicate that sustainability programs are destination dependent strategic tool and are different for each destination. These difference among the tourist destinations mainly focus on one of the three parameters of sustainable tourism, those of social, environment, and economic dimension. It also became clear that mass tourist destinations sustainably developed with good practices, are able to offer tourists a unique travel proposition while maintaining tourism in the area and balancing sustainability.

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