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Списание "Икономика и управление"
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2700 Благоевград, ул. "Крали Марко" 2
e-mail: em@swu.bg
тел.: 073/ 885952

Editor's office address:

Magazine "Economics and Management"
Faculty of Economics – SWU "Neofit Rilski"
2 "Krali Marko" Str., 2700 Blagoevgrad
e-mail: em@swu.bg
Tel: (+35973) 885952



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Всяка една от статиите, публикувани в списание „Икономика и управление”, издание на Стопанския факултет на ЮЗУ „Неофит Рилски”, след предварителна селекция от редакционната колегия, се рецензира от двама хабилитирани рецензенти, специалисти в съответното научно направление.

Each of the articles published in the “Economics & Management” Magazine, edition of the Faculty of Economics at the SWU “Neofit Rilski”, after preliminary selection by the Editorial board, is a subject of preliminary review by two tenured reviewers, specialists in the respective scientific domain.

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Възгледите на авторите изразяват личното им мнение и не ангажират редакцията на списанието.*

Уважаеми читатели,

На Вашето внимание е списание "Икономика и управление". Списанието е печатен орган на Стопанския факултет при Югозападния университет "Неофит Рилски" – Благоевград и издаването му е свързано с по-нататъшното развитие и обновяване на научните изследвания и учебния процес във Факултета в контекста на членството на България в Европейския съюз. Стопанският факултет вече трето десетилетие се издига като център за образователна, научна и научно-приложна дейност в Югозападна България.

Тази многостранна дейност на Стопанския факултет определя и целта на настоящото списание "Икономика и управление" - да популяризира научните новости и да удовлетворява потребностите на практиката. Редакционната колегия счита, че в списанието определено място трябва да намерят актуалните проблеми на:

- националната и регионалната икономика;
- управленските подходи и механизми;
- европейската интеграция и глобализацията;
- качеството и конкурентоспособността;
- икономиката на знанието;
- икономическият растеж и устойчивото развитие.

Публикациите в списанието обхващат научни сфери, съответстващи на научната и образователната проблематика и профилирането на специалности в Стопанския факултет – мениджмънт, маркетинг, финанси, счетоводство и контрол, социално-културни дейности, туризъм, социална политика, инфраструктура и други.

Списание "Икономика и управление" се явява среда за среща на мненията и оценките на учени, изследователи и специалисти от сферата на науката и на стопанския живот.

Редакционната колегия се стреми да поддържа високо равнище на научните и научно-приложните разработки и същевременно да предоставя възможност не само на утвърдени и авторитетни български и чуждестранни учени, но и на начинаещи преподаватели и докторанти да публикуват своите идеи. На страниците на списанието могат да споделят свои виждания и специалисти от стопанската практика.

Вярваме, че отговорното отношение на авторите ще съдейства списанието да отговаря на съвременните критерии и изисквания. Списание "Икономика и управление" ще разчита на мненията и препоръките на читателите.

От редакционната колегия

NATURAL PARADIGM OF THE ECONOMY THEORY

Mihail Govorukha¹

Received: 20.02.2019, Accepted: 10.03.2019

Abstract

The purpose of the paper is to show the insignificance of the so-called liberal capitalist economy and offer a new market-profitable way of production and distribution of goods based on natural the paradigm of the theory of economics. The statement and the solution of the test task of the economy (my personal interpretation) and the algorithm for calculating the gradation of salaries, the material base of which is the annual gross harvest of cereals, hay, vegetables and fruits in Ukraine, is also outlined. The algorithm of the test task provides an opportunity to control the annual productivity of labor in Ukraine.

Keywords: *natural paradigm, commodity, cost, value added and additional, material bioenergetic measure of value (MBMEV), daily bioenergetic constant of a person, money*

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1. Introduction

There is no measure - there is no trust!
(Folk wisdom)

A profound analysis of the history of economic thought during the 18-20th centuries, especially for people with higher education in the natural sciences, raises a number of questions: why there is such a blatant property stratification among the various segments of the planet's population (from 1 to ten times) ?; why economic science (in the way it was and is now) only describes what is really and does not offer anything radical (integral) to eliminate (or at least reduce) the disadvantages of the existing mode of production and distribution of goods?; why this science was attributed to the humanities, not to the natural sciences. After all, the real economy - it is almost solid figures, that is, accounting ?; why artificially created phenomena like inflation and corruption are

¹ International Center for Information Technologies and Systems, Ukraine, 03680, Kyiv-680, CSP, Glushkova str.40, Email m-govorukha@ukr.net

constantly supported in almost all countries of the planet. It seems that there are "underground" forces that benefit from such an economic state ?; There can be much more? I intend to answer these questions in this article.

2. Reflections and sentences

Paradigm (Greek - "example", "model") - a set of philosophical, general-theoretical foundations of any science. Over time, they can change. One can say that each science has its own set of "legislative" requirements for its development. In theory, the capitalist economy also has its own set of such requirements, categories.

List the main ones: **the goods, the value of the goods and services, the measure of value, the value added and additional, the cost of minutes and consumer, money, credit and interest, etc.** Guided by such a paradigm (where, directly, but most, indirectly), the capitalist system generated unprecedented wealth inequality between people of the planet, which, naturally, generates power (mainly) redistribution of private property between individual groups of people, nations, and countries. The catastrophic state of ecology, human health, wildlife, etc. leads to an arms race and a race of consumption.

I will not do a review of the "gigantic" number of economic (mostly scholastic) literature. This literature (and this is somewhere from 500 to 600 books, magazines, articles, etc.) has descriptive content and little to give constructive ideas to readers for the reorganization of such a petty economy. My method for studying economic literature is as follows. If books or articles do not mention the category "cost" and "material bioenergy measure of value," then such literature should not be studied in general.

Let's consider the insignificance of several components of such a paradigm, for example, the value and the measure of the value of goods and services.

The economists of the 18th and 19th centuries, theoretically, took the time taken to make a unit of a particular product. It was perceived as a measure of value. No material equivalent was offered. Marx and his associates simply accepted what was in practice, that is, they declared a measure of the value of gold as a monetary material. At the same time, they did not calculate labor expenditures for the production of 1 ounce (the time scale of weight) of gold.

Marx repeatedly repeated that goods are exchanged as labor equivalent (labor costs) (K.. Marx. (1978). Capital. In 4 volumes). But practically, Marxists offered nothing to slow down the exchange of goods on the principle of "who deceives - the seller or the buyer" (this principle works in our time).

At one time, Proudhon P. (1809-1865), and later Gray J. G. (1859-1946) tried to introduce a time value measure in practice, but the Marxists were defeated.

It seems that these scholars were not dedicated to the secret plans of the Marxists. According to Lyndon Laroche (Laroche Lyndon ml.(1992) Do you really want to know everything about the economy?),

Marxists stirred hostility between the peoples of Europe in favor of Great Britain, and did not care about their well-being.

The hourly measure of value has significant disadvantages, it does not have a material equivalent, it can not be "arranged", and so on. No country legally introduced a monetary equivalent of 1 working hour (another I do not know).

Podolinsky S.A. (1850-1891) as a physician and public figure in his works on economic topic proposed the determination of the value of goods and services based on human bioenergy needs. This idea is put forward in Podolinsky's main work on this theme, "Human Work and Its Role in the Distribution of Energy". He personally sent it to K. Marx. I have a Marxial notebook of this work, where he actually expressed his, I would say, "neutrality," but practically ignored this ingenious economic idea with Engels. Before the bioenergy measure of Podolinsky's value then he had not yet arrived (he died very early). In the 20th century, continued the propaganda of the ideas of Podolinsky famous poet, writer, public figure, economist for political views, Hero of Ukraine, Rudenko M.D. (1920-2004). For this he was severely punished: 7 years of imprisonment and 5 years of exile. Now in Ukraine all literary and economic works by Rudenko MD for everyone is available. In the book "Energy of progress" (a collection of various publications on economic themes) Rudenko M.D. his literary way develops the ideas of S. Podolinsky about the bioenergy essence of value. There he offers certain equivalence between money and grain of wheat.

Further. Particularly insignificant in the capitalist paradigm is the category of additional value (the Russian translation of this term from the language of the clerks is incorrect: not "surplus value", but there should be an "additional cost").

The Marxists did not divide the goods into edible and "inedible" ones. This also applies to the distribution of energy for edible (biological) and "inedible" - industrial. As a result, they encountered a problem of additional cost, its source. Yes, and the term "value added" itself is incorrect: it is not consistent with the term "cost".

Nature accumulates bioenergy in food for all living things on Earth, and it will become cost only in the production of goods and services. Consequently, this bioenergy is a stock for the whole year, so that society lives normally.¹

Marx and his associates for the added value took only the increase of money, and not something material (physical). They considered it as their source of underpaid wages

¹ Energy as a natural phenomenon is electromagnetic radiation, which under certain conditions can be transformed into other types (mechanical, chemical, electric, etc.). Under biological energy, we will understand the part that is contained in food, that is, food. In other words, this part of energy has a biological "packaging".

to workers, which is an "absolute" economic nonsense. Money in capitalist political economy is considered a measure of value. But money is the invention of people, not nature and therefore can not be a measure of value. Money as a symbol of value must have a material equivalent. But for Marxists it does not matter: they turned money into speculative goods through credit and interest.

There are probably thousands of economists involved in dealing with the theory of money, but I did not find any specific, definite definition of money in read, reviewed books (this is somewhere up to 600 books, articles, etc.). For example, Harris Lawrence's book "Monetary Theory" (L. Harris L. (1990). Monetary theory) has a volume of 750 pages. To the question: "What is money?", Which he himself poses, there is no clear answer. We can say that there is a complete scholasticism that fully satisfies the financial international.

Further. The category "consumer value" is like an "invitation" to price fraud. It is logical to assert that the price of a product must be calculated and a possible slight fluctuation within the limits of the additional bioenergy represented in the monetary equivalent, that is, the profit.

Capitalist loan - this is again a fraud with money through the percentage of it. The source of interest on loans is the growth of bioenergy crops in fields, forests, rivers, seas.

Statistics show that this growth is somewhere (3-5) percent in the fiscal year. Consequently, interest on loans should be within half the growth of the harvest and not more. If it's more, then it's a crime.

The negative effects of the capitalist system can be greatly reduced, or even completely rid of them, if we organize the economy on the basis of the natural paradigm.

I represent it as: commodity, cost, change value or price (commodity), material bioenergy measure of value (MIBEM), additional bioenergy, daily bioenergetic constant of a person, products edible and inedible, fiscal year, annual money, etc.

The economic system based on the natural paradigm would have a different quality and may therefore have a different name, for example, a market-profitable way of production. This method is inherent in all so-called Marxist economic formations, beginning with the initial division of labor.

3. The main categories of the natural paradigm

Where can you get a bioenergy measure of value? The physiological need for biological energy (let it in the kCalories or kJoules) of each person per day amounts to a certain amount. Accordingly, the gradation of this need begins with children and the elderly. For concrete: we will take the daily requirement of 3000 kCalories for the average statistician.

Gradient coefficients are established by the state upon the proposal of special scientific institutions. Legislative daily requirement of 3000 kCalorie is announced as the

daily bioenergy constant of the Ukrainian economy and it will be a material bioenergy measure of value.

So, thus, a reference point in the economy appeared. This constant is natural and inherent to all peoples, nations and tribes of our planet.

Now the cost of a product or service will be equal to the amount of bioenergy (food) consumed by workers in the manufacture of a unit of goods or a certain standard of service. Everything is simple, understandable and no confusion. But this will be only a physiological component of value. This should add bioenergy to create the infrastructure of everyday living conditions of every person. Let's suppose that for employees of the first category it is necessary to add two more constants, that is, another 6000 kCalories. Thus, the unit cost of goods will increase three times.

The next step. Legally, you need to introduce the equivalence of the monetary unit and the daily constants. But in practice it is uncomfortable to consider the kCalories, so it will be better if you go to the direct carriers of these kCalories.

This carrier can be well-known and respected in Ukraine - it is, of course, wheat grain. On average, 1 kg of wheat just keeps 3000 kCalories. Therefore, it is more practical to legitimize equivalence: 1 hryvnia is equivalent to 1 kg of grain wheat¹. All the other ones are eating just crops, the goods must be converted to calories to wheat. In this way, we can determine the annual gross bioenergy in Ukraine. He also determines the amount of money in the current fiscal year. By simply dividing the total bioenergy by 3000 kCalari, we will receive the amount of money.

By transferring bioenergy, which represents the cost, in the equivalent of money, we get a certain share of the salary per unit of the product. Higher wages will be calculated according to the appropriate tariff rates.

The financial year should start before collecting a new crop. My suggestion is from the 1st of June. Allow it to simplify accounting.

The top (highlight) of the economic system, organized on the basis of the natural paradigm, will be annual money. This is a logical conclusion from the foregoing. After all, each annual harvest must represent their money. This is described in more detail in (M. I. Govorukha (2010). Basic principles of physical savings (pp. 88-99)). Annual money is a "grave" for inflation and corruption. In conclusion, consider the test task of the economy.

4. Test task of the economy

The solution of this problem makes it possible to realize the cycle of real material economic processes, because the economy has an annual bioenergy cycle.

¹ For Asian countries, the equivalent of their monetary units may be 1 kg of rice

Condition of the task: what mechanism (or algorithm) for the transfer of additional bioenergy in the barter equivalent exchange of goods and services?

The problem is normally solved in the system of physical savings. There are all the necessary data:

1) when exchanging "inedible" goods between themselves, no transfer of additional bioenergy occurs. It has long been known and accepted normally that goods are exchanged as labor cost equivalents. In our case, as bioenergy;

2) the other result will be in the exchange of "inedible" goods on the edible. Since barter consumption of bioenergy during the production of "inedible" goods must be offset (returned) by edible products, as well as with the supplement. Therefore, you must first determine the cost and 1 kg of "calculated" wheat, which has a bioenergy component of an average of 3,000 kCal (12,552 kJ). To do this, we will present all the edible products in the calories of wheat grain, that is, we will crush all edible products (except for meat, so that there is no double count) contained in the Statistical Yearbook of Ukraine for 2013 (Statistical Yearbook of Ukraine for 2013. (2014)) and the amount received is divided by the calorie content of wheat grain. As a result, we get the gross amount of "calculated" wheat. According to my calculations in 2013, 81,391 billion kilograms of "calculated" wheat were received;

3) now it is necessary to calculate the number of employees of the agroindustrial complex (APC). For this purpose, out of the total employed population of 20,404 million, all employees who are detained at the

expense of the budget, as well as the part of industrial workers who work for defense purposes and detained at the expense of the share of the defense budget, should be removed.

After all these manipulations the result is as follows: 15,536 million workers work in the agroindustrial complex;

4) We will further determine how much Calorie consumed these employees over the fiscal year. We will accept the following conditional precondition: for each employee of the agroindustrial complex, 10,000 kCalorie per day (3000 kCal for physiological needs, and the rest - for the organization of household infrastructure). The total amount will be $56.7074 \cdot 10^{12}$ kcalorie (56.7 trillion). Finally, we divide these trillions into the gross settlement of wheat "calculated", that is, $56,7074 \cdot 10^{12} / 81,391.109 = 0.6693 \cdot 10^3$ kCal / kg or 700 kCal / kg (for the round account).

Consequently, the cost of 1kg of wheat "estimated" is 700 kCal / kg, while 1kg of wheat contains 3000 kCal. This is where additional bioenergy is located. Creator (producer) of additional bioenergy is nature, not physical or mental labor of people. In other words, human labor contributes to increasing the accumulation (accumulation) of solar energy in grain crops, herbs, vegetables, fruits, etc .;

5) thus, in the equivalent exchange of "inedible" commodities in food, bioenergy is transferred 4 times more than it was consumed in the process of producing these goods.

Allow the error in calculations ϵ (5-10)%, but, on my deep belief, the algorithm is correct. Here the bioenergy of gross sowing material was not taken into account. It should be removed from the gross volume of wheat "calculated". With further improvement of the algorithm - this will be taken into account;

6) of course, barter equivalent exchange is very labor-intensive, so humanity has gradually simplified the process of exchange through money as an intermediary and the equivalent of something material and reached the paper money, but the material equivalence thus distorted, which led to a planetary distortion of the processes of production and exchange of goods. Obviously, because of money, additional bioenergy, that is, profit, is transferred.

Such calculations, if desired, can be made by each of the readers for their country, to ensure that the algorithm is correct. And what does this give for practice? The bioenergy cost of the material equivalent of the monetary unit of a particular country is in fact a universal (integral) criterion of labor productivity.

The smaller this criterion, the higher the productivity of labor. He determines the real exchange rate of the currencies of specific countries as opposed to fraudulent.

The gradation of salaries is established within the framework of the natural inequality of workers and taking into account the gross bioenergy consumption of the country. If you do not have enough of your food for a year, then you need to exchange "inedible" food products in those countries that have surpluses. An example can be Russia, Japan, Israel, ...

For humankind, the "eternal" source of energy is the Sun. It's enough for everyone and there's no need to fight for food, but you have to work to have plenty of it.

5. Conclusions

On the basis of the above scientific and economic material one can make some recommendations for the real economy and not only for Ukraine:

1) in the economies of all countries of our planet there is no metrological component that is inherent only in economic relations. In other words, there is no material bioenergy measure of the value of goods and services, which makes it possible to cheat with private property;

2) if such a measure was introduced in most countries, inflation, corruption, banditry, wars, economic crises, etc. would disappear. After all, the production and distribution of goods would be "settlement" for all countries and would not operate the principle of "who deceives someone." (Football is played according to planetary rules);

3) I understand that there will be some inconveniences for people who live not only on salaries, but we are temporary on our planet, and life is eternal. Let it be the best after us.

We will not be passive observers of the destruction of the planet's economy, but unite to introduce a material bioenergy measure of value to a planetary economy.

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THEORIES OF EXECUTIVE REMUNERATION

Miroslav Nedelchev¹

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Abstract

The aim of the article is to present the theories of remuneration. Both classical and modern theories are presented within their time and economic environment. The anchor of article is the model principal-agent and reducing asymmetric information through remuneration.

The conclusions of the article define a wide range of theories. All theories aim to solve the principal-agent problem through a new tool - the remuneration. The nuances of individual theories can be determined from the different periods of their occurrence and from the dominant economic environment for the essence of the remuneration.

Keywords: corporate governance, information asymmetry, principal-agent

JEL Codes: D82, G35, J33, M12

Introduction

The effects of global financial crisis have led to efforts to reassess the principles and requirements for remuneration policies and practices. There is a need to analyze and assess the modern situation and to outline the challenges of introducing new good practices for remuneration at international level.

At the core of modern remuneration theories, long-term interest in the financial results of the company is set. The reassessment of remuneration theories occupies an important place in the management of anti-crisis development. The main thrust of the changes that emerges from the modern remuneration theories aims at better risk management (Stankovska, Dimitrieska, Stamevska, 2018). The end idea of modern remuneration theories is to reach a financial stability and a sustainable economic growth.

The presentation of remuneration theories will allow revealing the negative consequences of the construction of existing pay systems, underpinning the incentive to undertake excessive risk.

¹ Economic Research Institute, Bulgarian Academy of Sciences, mknedelchev@abv.bg

Classical theories of executive remuneration

The Industrial Revolution (XVIII century) has led to the expansion of companies' activities and the emergence of the need to employ executives to manage the family business (Madgerova, Kyurova, 2014). The separation of management and ownership determines the existence of information asymmetry, which can be reduced by a new tool - the formation of executives' remuneration.

In classical economics, Adam Smith considers the executive's remuneration and defines it as the value of his control and management work. The formation of remuneration is not directly dependent on the size of managed capital, but is determined by skills and trust in the executive. To align the interests, profit is distributed as a dividend to shareholders and a remuneration for executives.

At a later stage, John Stuart Mill defined the profit as a "remuneration for labor", i.e. a wage for shareholders. In the spirit of Utilitarianism, J. Mill offered a protection of certain social causes by criticizing taxes and as a private case of the progressive system – a proposal to eliminate the remuneration of executives according to profits and to introduce the co-operative remuneration system.

At the end of the 19th century, Alfred Marshall defined the economy as a positive science. He further develops market demand and supply by defining "management salary" for executives as a premium for the undertaken risk.

After the effects of the Great Depression, the concept of executives' remuneration changes. The pioneer work of A. Berle and G. Means (Berle, Means, 1932) puts accent on maximizing of shareholders' wealth - people unknown and without power. Neo-Economics has the following views on remuneration:

- The content of remuneration is expanded and already includes incomes and prestige for executives (Galbraith, 1987). On executives' agenda is the size of the company, which provides a power equivalent to the salary. Led by such motives, executives initiate a wave of mergers and acquisitions (Filipova, 2010).

- Similar to the classical economy, one of the main tools of competitive advantage is to reduce employees' salaries in order to increase the shares' cost (Georgiev, 2013). A new point in economics is begun for comparing the executives' and employees' salaries.

- According to the Theory of imperfect contract, the focus is on incentives other than company characteristics that stimulate an optimal outcome. As a perfect incentive system, the motivation of the sole trader in the classical economy is mentioned. A new form of agent problem emerges – the executives use profits for their empire-building projects instead of increasing the wealth of the shareholder (Bratton, 2001).

Modern theories of executive remuneration

The remuneration of the executives enter into researches in the years of the World War I due to nationalization of the railway companies in the United States. Public disclosure of remuneration information began in the 1920s for railway and bank executives through the mass press (Borisova, 2017).

In the 1930s, all sectors began to disclose information on the remuneration of executives. The rationale for expanding information is the effects of the Great Depression and the requirement of information from US supervisory authorities. At a later stage, with the establishment of the Securities and Exchange Commission in 1934, the supervision of remuneration practices was centralized.

In the 1960s, a significant share of the remuneration was provide in options and parallel long-term incentives were introduce. The last change, the extension of remuneration period, was define by the tax policy and the growth of the market value of the companies. The structure of executive remuneration changes to balance the interests of principal and agent (Frydman, Saks, 2005).

In the 1970s, unlike previous periods, remuneration followed the development of economy and the growth of companies (Frydman, Saks, 2005). Modern theories of executives' remuneration have marked their beginnings since the 1970s due to the lack of dependence between remuneration and performance (Nelson, Gallery, Reza, 2011):

- According to the model of B. Holmström (Holmström, 1979), the optimal contract between principal and agent increases the principal' wealth if there are signals that are recognizable by the principal. Such signals are the agent's compensation for his efforts. As the main tool for balancing the interests between principal and agent, the binding of remuneration and results is indicated (Holmström, 1999). For companies in the same sector, the optimal compensation scheme for executives is to compare results to other companies (Nedelcheva, 2016).

- According to the Principal-agent theory, the optimal remuneration contract should include internal debt to avoid the shareholder-debenture holder conflict (Edmans, Gabaix, 2009). In cases where the remuneration is only in shares, then executives have an incentive to increase company risk above the level preferred by bondholders and transferring wealth from bondholders to shareholders (John, John, 1993).

The 1980s are characterized by a focus on the personal and professional traits of executives in determining their remuneration (Keremidchiev, 2017). A number of correlations such as age-income and experience-bonus have been identified (Driver, Thompson, 2018). These theories are carried-out for individual countries instead of for specific sectors and companies (Escosura, Rosés, 2003).

Since the 1990s, researches has been geared not only to the level but also to the structure of executives' remuneration (Conyon, Schwalbach, 2000). In practice, the theoretical point of view for reducing the conflict between principal and agent through the

remuneration begins to be imposed. According to the contract theory, the contract is incomplete due to the specificities of the executives' activity compared to employees (Holmström, Milgrom, 1991):

- results are difficult for approval;
- objectives are multidimensional to be provided for in the contract;
- some of the activities are not disclosed and are kept secret, contributing to the company's benefits.

In the theory of B. Holmström (Holmström, Milgrom, 1987), there is a negative correlation between a rising risk and an incentive remuneration. In contrast to the payment-to-income sensitivity (Jensen, Murphy, 1990), the remuneration should be determined depending on the risk undertaken. An important explanation for his theory is that it refers to a company with dispersed ownership. Indirect reflection of the theory of B. Holmström finds in a study of the formation of remuneration relative to the return on shares and not according to the dominant view - depending on the company's risk (Aggarwal, Samwick, 1999).

An expanded model of remuneration theory based on optimal negotiation is the theory of self-interest (Bebchuk, Fried, 2004). The theory views an executive as a self-interested person who pay himself a larger remuneration based on the managed capital. The theory is seen as a counterbalance to the information asymmetry and the imperfect contract because executives have control over factors, such as the undertaken risk. According to this theory, the management contracts, including remuneration, must be public and transparent, as the motives are closely relate to factors under the control of management (Weisbach, 2006). Here is the concern the assumption that in mergers the executives of the target company have special benefits (retention of position or high compensations), which exceed the premium received from target shareholders (Hartzell, Ofek, Yermack, 2004).

The practical implication is in the paradox that executives control board members in terms of remuneration. For such a situation are have helped the reconciliation in one person the two functions, a board chairman and a CEO, as well as the small involvement of board members in the company's activities. Data finds that if one person performs both CEO and board chairman simultaneously, the directors receive greater remuneration (Callahan, Millar, Schulman, 2003). The decisive factor for this conclusion is the presence of dispersed ownership and the accompanying free riding in exercise of control. The little attention that board members pay in carrying out their tasks leads to the so-called "entrenched" executives. Under the entrenched hypothesis, the entrenched executives have too much power over the board members and can set their own remuneration to the detriment of the shareholders. Executives as insiders for corporate governance have the opportunity to abuse not only for their own benefit but also to vote for friends or relatives high salaries, personal expenses, premiums and large pensions at the expense of shareholders (Samuelson, Nordhaus, 1985).

A direct consequence of the self-interested theory is the motive for “pay without performance”. L. Bebchuk and J. Fried describe the agent’s problem not in the separation of ownership and control but in the process of negotiating the remuneration for executives (Bebchuk, Fried, 2004). Namely the power that executives get when negotiating, give them reason to receive rent instead of salary. As a solution to the situation, the authors propose use of compensation committees as well as external indicators such as the labor market and the employees’ opinion. Compensation committees can reduce agent problems by restructuring incentive plans to align the interests of executives and shareholders (Conyon, He, 2004). The alignment of interests of executives and shareholders can be achieved with independent members of the compensation committee (Nelson, Galloway, Reza, 2011).

Another variety of the optimal contract is the hypothesis of career impact (Gibbons, Murphy, 1992). The optimal contract is presented as explicit motives and implicit arrangements such as professional career. In this perspective, the executives are preliminarily motivated in their professional development by creating a reputation in the labor market (Nedeltchev, 2004). Namely, this reputation partly replaces an explicitly stimulating contract. Over time, the executives are driven by the “pay-performance” motive to compensate for declining career opportunity.

Finally, there are theories that seek a correlation between the qualities and remuneration of executives (Stoimenova et al., 2014). Some authors (Custódio, Ferreira, Matos, 2011) prove that in case of hiring an external executive the remuneration exceeds that of an internal executive. Other authors (Murphy, Zábojník, 2004) set a greater remuneration for executives with a broad range of knowledge that transcends the boundaries of a sector of the economy, and in case the executive director has experience in more than one company or sector. An additional argument for increased remuneration is the requirement in recent years for a wide range of knowledge rather than special knowledge (Murphy, Zábojník, 2008). This new moment for executives’ market is defined because of the industrial deregulation (Hubbard, Palia, 1995) and the foreign competition (Cuñat, Guadalupe, 2009). The executives’ remuneration is set before the deregulation from the market price, a premium of 1.65 per mille from the stock price (Murphy, 1999), and from the investments after the deregulation (Smith, Watts, 1992).

Other argument for shift in executives’ market is the transition to a knowledge-based economy where technology and managerial practices increase corporate value (Garicano, Rossi-Hansberg, 2006). Therefore, the increase in remuneration reflects the company’s growth from mergers and hiring executives-talents (Gabaix, Landier, 2006).

There is in the specialized literature a focus that analyzes the relationship between remuneration and the following corporate characteristics (Elston, Goldberg, 2003):

- profit and growth of the company (Patton, 1951);
- sales instead of profit (Roberts, 1956);
- market concentration and barriers to entry (Auerbach, Siegfried, 1974);

- cost per share instead of accounting results (Masson, 1971);
- institutional shareholders and levels of remuneration (Hartzell, Starks, 2003);
- hierarchical position and the company size (Conyon, Schwalbach, 2000);
- trend to prestige, which is expressed in the extended number of subordinate employees (Galbraith, 1987);
- rating by the supervisory authority (John, Mehran, Qian, 2007).

The second branch of the theories for results, risk and remuneration analyzes the opposite possibility - the impact of remuneration on risk behaviors and indirectly on the overall risk exposure of the company (Houbenova-Delisivkova, 2017). The focus of the literature is whether remuneration with options or shares leads to undertaking risk by executives. According to the data, remuneration with options does not entail any more risk (Ross, 2004). Other data indicates that share-based remuneration reduces principal-agent conflict, but does not produce better results (Fahlenbrach, Stulz, 2011). Shareholders use accounting data instead of stock market data to determine the remuneration of executives (Heimes, Seemann, 2011).

Conclusion and Recommendations

Remuneration linked to taking excessive risk is one of the causes of the global financial crisis. The modern theories aim to reconcile incentives with long-term viability and prudent risk management by improving the remuneration structure. The new remuneration framework is tied to long-term results and a reduction in risk appetite. The directors should be serve their function for control over executives. The shareholders will be involved in the adoption of remuneration policies and the control of remuneration is entrust to the supervisory authorities and auditors (Tsvetanova, 2014).

The re-evaluation of current remuneration practices occupies an important place in the management of anti-crisis development. The main direction of the changes that emerges in remuneration systems is for better manage risk. New remuneration policies and practices would lead to financial stability and sustainable growth at the international level.

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MITIGATION OF REGULATIONS BURDEN IN FINANCIAL SECTOR BY APPLICATION OF HIGH TECH SOLUTIONS

Nedyalko Valkanov¹

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Abstract

Introduction of new complex regulations after the crisis of 2007-08 made financial institutions face a peculiar burden caused by the significant increase in their regulatory spending. Meanwhile the application of blockchain-based technologies, artificial intelligence and big data is gaining more and more popularity in different segments of finance, including the regulatory related areas. Appearance of RegTech firms changes the traditional model for treatment of regulatory related issues by financial intermediaries themselves, introducing the opportunity for cooperation with external providers of technological expertise. The article treats the interaction between financial institutions and compliance orientated technological innovations outlining three possible perspectives for future development.

Keywords: financial regulation, compliance, financial and technological innovations

JEL Codes: G20, G 28, O30

1. Introduction

Post-crisis years could be characterized as a period of significant changes in the field of financial regulations. Following the worst economic turbulence after the Great Depression, the updated financial supervision framework imposes numbers of stricter and more complex regulatory requirements. Basel III, Solvency II, Fourth and Fifth EU AML directives, PSD 2, MiFID II, FATCA are only some examples for more sophisticated regulations with global impact. In order to give adequate response to the fast changing environment, authorities extend the range and scope of existing supervisory requirements, increase their number significantly and sometimes place financial intermediaries in the difficult position of non-compliance with regulatory basis. In their attempts to deal with constantly growing burden of regulations, financial institutions introduce a new way of

¹ Chief Assist. Prof., Ph.D., Department of Finance, University of Economics – Varna, e-mail: n.valkanov@ue-varna.bg

outsourcing regulatory orientated issues by cooperation with small, independent and innovative technology firms originating from the FinTech industry.

The study focuses on the adoption of blockchain technologies, artificial intelligence and big data technologies in the compliance toolbox of financial institutions. It points several perspectives of the interaction between the high tech sector and the financial industry, and the main research objective aims to highlight some arguments supporting the thesis for new technologies as an appropriate option for softening the pressure of regulatory costs.

2. The burden of post-crisis financial regulations

Passed decades of deregulation in the field of finance, together with globalization and the revolution in information technologies undoubtedly contributed to global economic development and social well-being. Recalling the fundamental cyclicity principle today the pendulum turns in opposite direction causing a wave of over-regulation for financial industry, which more and more often is defined as a burden. Financial sector itself also could be blamed for falling in this situation. Some of the reasons behind present trends to over-regulation follow processes like:

- financialization of the economy¹;
- formation of large structures, too big to fail;
- the interconnection and interdependence between large financial intermediaries;
- complexity of different types of structured, hybrid and derivative financial instruments;
- formation of brand new channels for creation and distribution of financial products;
- appearance of slightly regulated and even unregulated financial areas and services.

In this line of thought, global financial crisis of 2007-08 should not be seen as a sole factor for tightening the regulatory regime, but rather as an occasion provoking a reaction to more regulation. Accustomed to working in more liberal environment for a period of more than three decades, financial institutions, and especially banks, face a significant challenge trying to respond to changed and stricter regulatory framework. Below are presented several figures illustrating constantly increasing regulatory spending made by global financial community².

¹ Financialization is a term associated with the growing domination of the financial sector at the expense of the real. Known also as “financial capitalism” or “deindustrialization”, together with deregulation and globalization, it is one of the three megatrends, characterizing the development of world economy for last thirty years. See: Georgiev 2016: 157-159.

² Conditionally, two main drivers of regulatory costs growth could be summarized as: 1) stricter capital and liquidity requirements (introduced by regulations like Basel III and Solvency II) and 2)

According to Thomson Reuters the number of financial regulatory updates in 2016 globally reaches the number of 52 506 or average 201 per each working day. Especially for banks, the number of regulations they have to observe on global scale has increased more than three times in the period between 2011 and 2017 (English and Hammond 2017: 22; Grasshoff et. al. 2017: 4). RegTech Council estimates over 50 000 regulatory amendments published in the period between 2009 and 2012 in G20 countries (Butler et al. 2018: 4) while research of Burnmark, Alvarez & Marsal points an annual increase of 429% in the period between 2008 and 2015 (Burnmark, Alvarez & Marsal 2018: 21). Table 1 summarizes data for the period between 2008 and 2017 showing the constant increase of regulatory changes in numbers and as a percentage.

Table no. 1. Annual number of amendments of global financial regulations

Year	Total number of regulatory amendments	Growth compared to previous year	Average number of regulatory amendments per one business day
2008	8 704	–	~ 34
2009	10 075	+ 16 %	~ 40
2010	12 179	+ 21 %	~ 48
2011	14 215	+ 17%	~ 60
2012	17 763	+ 25 %	~ 75
2013	26 950	+ 52 %	~ 100
2014	40 603	+ 51 %	~ 150
2015	51 583	+ 27 %	~ 200
2016	52 506	+ 2 %	~ 200
2017	56 321	+ 4 %	~ 223

Sources: English and Hammond 2018: 16; Grasshoff et al. 2017: 10.

Numerous changes of existing regulations and the adoption of new supervisory requirements undoubtedly affect the compliance costs made by financial institutions, especially large banking institutions. For example, the compliance staff of Citi counts 30 000 employees (Citi 2014), while the number of HSBC's personnel engaged with the verification of business and institutional customers' identification consists of more than 2 000 employees (Arnold 2018).

Is the coverage of compliance costs no longer too costly for financial institutions? A study of Deloitte's Canadian division finds that financial institution leaders often

tightened rules for complying with new and updated EU and US regulations like 4th and 5th AMLD, PSD 2, GDPR, MiFID II, FATCA, EMIR, CSMAD, MAR, AIFMD and etc.

express a feeling of frustration over the environment surrounding their compliance. The research leads to the conclusion that signals received by the regulators are not always clear, making it difficult for financial institutions to plan their next moves. The challenge is compounded as well by the fact that both national regulations and international rules should be respected at the same time (Deloitte 2017: 1). Hence, if in medium to long term, the cost paid for new regulations could result in a higher level of stability and security at systemic level and ultimately result in, at least partially recovering confidence lost after the financial crisis, in short term the trend towards maximum supervisory coverage could be perceived as an additional cost burden. Interesting in this regard is the conclusion of OECD that compliance may sometimes cost too much and lead to more negatives than meeting the objectives of the relevant regulation, which could lead to a situation causing more harms than benefits. A specific example here is the situation when due to excessive compliance costs some market players are getting out of business (OECD 2000: 11).

According to some calculations, financial industry spends on regulatory issues globally around \$80 billion per year (Mesrobian 2018), and adoption of a single regulation like MiFID II costed to financial sector the sum of \$2,5 billion. (Butler et al. 2018: 4). According to Bain & Company similar costs take between 15 and 20% of daily operational costs and 40% of reorganization projects expenses (Memminger, Lin and Keswarkaroon 2016). Juniper Research analysis points that in 2017 compliance costs of financial institutions took around 4% (around \$270 billion) of their income with expectations this percentage to increase to 10% in 2011 (Juniper Research 2017). Another estimations point even more drastic trend of growth of 20% (Grigg 2017: 4).

3. The invasion of new technologies and the cooperation with the “tech” sector

In parallel with constantly rising cost burden in the financial sphere, another process takes its place. It is connected with the appearance of the financial technology (FinTech) sector represented by innovative, independent, highly profiled and very often small technology firms, which unnoticed turn in significant competitors of major financial institutions. Acronyms like FinTech, InsurTech and WealthTech represent a short description of changed landscape for traditional financial services providers like banks and insurers, for example. Thanks to new technologies financial activities like payments, lending, insurance, financial planning, wealth management, traditionally perceived as prerogatives of classical financial intermediaries, nowadays are accessible thorough brand new and different distribution channels.

Speaking about application of newest IT innovations, first association is often connected with cryptocurrencies and namely the most popular Bitcoin. Standing behind them *blockchain technology* definitely has a much wider application potential in

economics, as a whole, and more specifically in finance and especially compliance¹. Shared databases, for example, are gaining popularity in routine know your customer (KYC) and customer due diligence (CDD) compliance operations. This helps customer onboarding verification process, as well as different anti-money laundering (AML) and counter-terrorist financing (CTF) related tasks, minimizing compliance costs.

But blockchain is not the only streamlining technology affecting modern compliance activities. They rely as well on *big data* manipulation and interpretation. The enormous amounts of data, connected with contemporary financial operations often require usage of multiple systems and databases. Nowadays' silos compliance infrastructure in larger financial infrastructure is based preliminary on different and non-relational databases (also known as "NoSQL databases"). Thus for a simple verification task, e.g. check of new customer in different blacklists, conventional compliance software has to perform separate queries in different internal and external databases, increasing the processing time and probability of incorrect return (due to different data structures of separate databases). When speaking about more complicated financial operations, risk of delay and unreliable information rises significantly.

Application of big data techniques allows the connection of different types of databases and finding different patterns and relations in data, which is impossible for traditional software tools. Furthermore, in sense of cost optimization, big data, together with crypto technologies, allow sharing information between separate financial institutions and supervising authorities, creating common databases and lists with negative information and etc.

Third main technological vector of change in compliance is connected with the *artificial intelligence* (AI). Initially entered into everyday life by mobile devices, internet of things and other smart technologies, its adoption in financial services industry was a matter of time. Away from all other benefits it brings in commercial point of view, its application for compliance related purposes offers very wide scope for development. In the field of customer onboarding, KYC, AML and CTF popularity gains smart technologies, allowing: conversion of analog data into digital (e.g. speech, text and face recognition), analysis of data (by knowledge discoveries in databases, application of rule-based automated systems, analysis by analogy, verification of data and etc.). A good example in this direction is the adoption of AI-based solutions for detection of trade-based money laundering². Automated process using AI also find application in

¹ Based on cryptographic techniques, the distributed ledger technology (DLT) enables greater level of security of different kinds of digital information – transactions, customer files, contracts, databases, records keeping and etc. The technology does not allow data manipulation without the approval of all counterparties in the system.

² Being one of most complex and difficult for identification mechanism for money laundering, trade-based money laundering uses the cover of legitimate import and export activities in order to conceal integration of dirty money into financial system. Usage of complex documentary financial

transactions monitoring, finding anomalies, business continuity management, reporting activities and etc.

Who are the developers and vendors of these high tech solutions? Financial institution themselves, traditional financial software developers or somebody else? All three assumptions could be considered as correct, but special attention deserve namely the smallest and newest among them, and namely the specific Regulatory Technology (RegTech) companies. It can reasonably be argued that their appearance has given a significant impetus to the development of the high-tech initiative in the field of compliance.

According to some definitions, appearance of RegTech could be connected with the FinTech industry or more precisely, their activity is described “as any range of fintech applications for regulatory reporting and compliance purposes by regulated financial institutions” (BCBS 2018:43) or as “technology that addresses regulatory challenges and facilitates the delivery of compliance requirements” (CB Insights 2017: 13). Institutionalization of RegTech as a separate activity is linked to the publication of UK’s Financial Regulator (FCA) “Call for Input: Supporting the development and Adoption of RegTech”, explaining the need to attract new digital technologies in support of financial regulation (FCA 2015: 3).

Cited document points the following directions related to the formation of RegTech initiatives: 1) technological accelerators; (2) risk assessment and regulatory compliance tools (in the field of trade-related fraud prevention, financial crime, money laundering, customer segmentation and the risk of irregularity); 3) large data processing techniques; 4) tools in the field of visualization and robotics; 5) software integration tools and 6) usage of cloud technologies (FCA 2015: 4).

The European Parliament's motion for a European Parliament resolution on financial technology (FinTech) of the Committee on Economic and Monetary Affairs notes that regulatory technology (RegTech) “can lead to considerable benefits for financial institutions and supervisors by allowing new technologies to be used to address regulatory and compliance requirements more transparently and efficiently and in real time” and “has the potential to improve compliance processes, in particular the quality and timeliness of supervisory information, by making them less complicated and more cost-efficient” (ECON 2017).

Above-mentioned report demonstrates the political will at the highest supranational level to stimulate the development of the activities for the implementation of the high-tech potential in the field of financial regulation. This view is shared as well by the other side of the Atlantic. A US Department of Treasury’s report on new financial technologies

instruments (bills of exchange, bills of lading, letters of credit, different forms of trade financing and others) in foreign trade creates favorable conditions for infusion of illegal capital and their subsequent legalization through fictitious commercial operations.

is made the conclusion that the development of financial technology has allowed financial firms to improve their efficiency by lowering their regulatory costs (U.S. Department of the Treasury 2018: 5).

Versatile nature of RegTech activities does not allow unitary systematization in specific category areas. Nevertheless, different successful classifications are available. For example, Deloitte's database on RegTech's firms classify their activities in five different spheres: 1) regulatory reporting, 2) risk management, 3) identity management and control, 4) general compliance activities and 5) transaction monitoring¹. According to Burnmark's RegTech classification, main RegTech areas, based on all digital use cases of banks are: 1) Regulatory Compliance (including: regulatory intelligence, compliance and governance, and regulatory reporting); 2) risk management (including: market risk, conduct risk and cyber risk); 3) financial crime (including: financial fraud; money laundering and terrorist financing and market abuse) and 4) identity management (including: KYC for identity verification, KYC for onboarding and KYC for AML checks)².

Lack of a uniform classification of RegTech activities should not be treated as an obstacle. What could be analyzed in this case are the several main competitive advantages of firms providing such high tech services. As it is well seen from mentioned Deloitte's database, RegTech companies are primarily: 1) small (mostly with personal below 100 employees); 2) new (established in last 10 years) and 3) with global presence (functioning mainly in the virtual space where no boundary limitations exist). Especially their flexibility and agility give RegTech firms the potential to meet the fast changing technological environment predetermining the future development of financial industry – something not typical for traditionally conservative and cumbersome financial institutions.

4. Some aspects of change that has already begun

In brief, present day financial sector faces the pressure of new regulations, the aftermath of technological turbulence and the appearance of a brand new player – the “tech” sector. In view of the trends mentioned above and without claiming exhaustiveness, three possible perspectives, describing future interaction between financial institutions and compliance orientated technological innovations, could be outlined.

Perspective one – *traditional financial institutions to become high tech companies*. Good illustration of the intensive penetration of high tech solution in financial business

¹ See: <https://www2.deloitte.com/lu/en/pages/technology/articles/regtech-companies-compliance.html>.

² Burnmark, Alvarez & Marsal 2018: 7.

are the words of JPMorgan Chase' CFO Marianne Lake. Speaking in front of banks' investors in 2016, Ms. Lake declares that JPMorgan is a "technology company" with its \$9 billion technology budget and a team of 40,000 technologists, including 18,000 developers who create intellectual property (Crowe and Turner 2016).

Inevitable binding of contemporary financial intermediaries with innovative informational technologies unconditionally provokes the implementation of corresponding solutions in their compliance¹. It is no longer an exception but a rule technologically upgraded compliance systems to be referred as Compliance 2.0, i.e. when taking into account the integration of solutions using AI, big data and blockchain. Implementation and maintenance of such automation requires its specific expert potential. Maybe that way, part of the compliance personnel, unloaded from some routine operations, gains the potential to turn into quasi technological staff. And is not that the case with many other types of specialists, engaged in the financial sphere?

Perspective two – *new level of collaboration with the technology sector*. Unlike traditional outsourcing practices, where specific activities are being transferred to external contractors following mainly cost optimization motives, the case of cooperation between financial institutions and RegTech is different. Here the leading incentives are connected not only with the financial factor, but with the possession of marginal levels of technological expertise and agility. Even if for a large scale financial institution creating own research and development departments, or even divisions, is not a significant obstacle, nature of big organizational structures influences and predetermines the impetus to constant innovation. This little, but significant detail makes numerous, small and independent high tech innovative RegTech companies worthy competitors of financial mastodons.

In brief, pressed by heavier regulations, financial institutions have the necessity of innovative compliance technologies and the readiness for such types of investments. On the other hand are the countless technology startups, introducing different high tech solutions for financial reporting, identity management, fraud prevention, business continuity and etc. By the perspective of the financial sector, expected to meet regulatory requirements, potential options are: 1) to buy different solutions (patents, codes and etc.); 2) to outsource regulatory related operations to external specialized RegTech firms and 3) to develop own high tech solutions. None of the three options should be excluded and even an assumption for their combination in different cases could be made.

¹ Example for such innovative service is the "One Pay FX", which is the first blockchain-based international money transfer service across four countries, developed by Spanish bank Santander. See: https://www.santander.com/cs/cs/Satellite/CFWCSancomQP01/en_GB/Corporate/Press-room/Santander-News/2018/04/12/Santander-launches-the-first-blockchain-based-international-money-transfer-service-across-four-countries-.html.

Discussing the appearance of multiple RegTech firms, thesis about the fruitful competition yielding good results is more than reasonable. Banks and other financial institutions can only be in favorable position by presence of different alternative, constantly updated and enhanced solutions.

Perspective three – *high tech financial regulators*. Adoption of high-tech arsenal by supervisors could be determined as one of the most significant dimensions of the process connected with penetration of newest IT achievements in the field of financial regulation. Main drivers provoking regulatory agencies perceive generously their potential could be found in: 1) the inability to regulate complicated products and high level of interdependence in financial sector without “smart” technology assistance; 2) already observed implementation of high-tech solutions by subordinated financial institutions – both in their business activities and for regulatory purposes; 3) the appearance of brand new type of high-tech providers of financial services in the face of FinTech sector, based entirely on new technologies.

Driven by similar motives, regulators’ response leads to formation of another class in the “tech” segment, and namely the Supervision Technologies (SupTech), which term embrace all high-tech initiatives undertaken by financial regulators. Particular example here are organized by supervisors initiatives like sandboxes, accelerators, hackathons, innovative offices and etc.¹

In this line of thought it is necessary to be considered once again the potential of small technology startups. As mentioned above, new technological environment makes them increasingly important factors when speaking about the formation of trends, that a little bit later financial institutions start to follow, as well as regulators themselves. According to some studies, the relations between the parties involved in the creation and application of SupTech, leads to the development of several models of cooperation, which could be systemized like: "bank - regulator"; "bank - regulator - startup"; "regulator-starter" and "regulator-regulator" (Burnmark, Alvarez & Marsal 2018: 36). A kind of peculiar innovation itself is also the fact that regulators are seeking for cooperation with all stakeholders in the SupTech ecosystems, attracting financial institutions, FinTech and RegTech companies, scientific and research organizations².

¹ For example, see: Smart Financial Center, created by Monetary Authority of Singapore (<http://www.mas.gov.sg/Singapore-Financial-Centre/Smart-Financial-Centre.aspx>); The FinTech Accelerator Project, established by Bank of England (<https://www.bankofengland.co.uk/research/fintech>); Data Science Hub initiative of Dutch central bank (<https://www.dnb.nl/en/supervision/innovationhub/index.jsp>); The LabCFTC Project of the U.S. Commodity Futures Trading Commission (<https://www.cftc.gov/LabCFTC/index.htm>); CFPB Project Catalyst of United States’ Consumer Financial Protection Bureau.

² Good example of cooperation between regulators, the “tech” sector and academic institutions is The FIN-TECH project, under the EU's Horizon2020 funding scheme, aiming to create a European training programme, by providing shared risk management solutions that automatize compliance

5. Conclusion

Trends marked above just outline the boundaries of one significant process of change covering all aspects of financial sphere, including its regulation. Something more, especially in the field of compliance, new technologies give financial institution unload to some degree by the burdensome regulatory costs imposed by fast changing regulatory framework. Apart from undeniable technological innovations, interesting is the new type of cooperation between both sides of the supervision process – financial institutions and regulators. Namely newborn “tech” sector could be perceived as peculiar mediator, creating a new type of basis for achievement of better regulatory efficiency.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE EFFECT ON BANKING PROFITABILITY. A CASE STUDY OF GREEK BANKS IN BULGARIA

Koletsa Eleni¹

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Abstract

The present work deals with the calculation and the analysis of profitability and the effectiveness in the Greek Banking Institutions which are located in Bulgaria during the period of IFRS implementation. Its general goal is to examine the effect in profitability after the implementation of IFRS in the banking Institutions. The use of financial ratios is one of the most widespread and dynamic methods of financing analysis that helps in the interpretation of economic elements of an enterprise, so that it has been selected for this work. It is evaluated the efficiency and profitability for the years before and after the implementation of IFRS in order to have a completed picture of the examined credit institutes. Afterwards, it follows a comparison of the given results for each bank and the export of conclusions.

Keywords: IFRS, banking performance, efficiency, profitability

JEL Codes: G14, G21, G23, G15

1. Introduction

This research is focused on the profitability analysis of the banking institutions during the period of IFRS implementation. Profitability analysis provides extensive information about the financing situation of a banking institution or an enterprise and more specifically it analyzes and presents in which period of time the enterprise succeeds higher profits. This way is analyzed the effectiveness and the profitability of an enterprise in sectors that concern and are related with the customers, the products, the costs, the investments, etc. Substantially this financing tool it helps enterprises to take the suitable decisions and correct strategies in order to achieve their essential objective, the profit. The use of financial ratios is one of the most widespread and dynamic methods of

¹ Southwest University "Neofit Rilski", Ivan Michailov st. 2700 *Blagoevgrad*, Bulgaria, email: eleni3kol@yahoo.gr

financing analysis that helps in the interpretation of economic elements of an enterprise. The reason that led to the establishment of ratios emanates from the need to become immediately perceptible the real value and the importance of real sizes. Therefore, with their usage we can realize the elements which yield profit and use them more intensively for their increase. A banking organization is an enterprise that aims at the maximization of wealth of shareholders that have invested in the enterprise for a given level of risk.

Basic factor for the achievement of objectives from the administration of a banking organization is the measurement of its efficiency with the use the most suitable quantitative and qualitative indicators that determine it. The most important and interesting dimension of efficiency is the measurement of profitability. They have been selected the basic indicators of profitability and effectiveness in order to analyze and present in which period of time the banking institutions succeeds higher profits.

2. Literature review

The most interesting and important dimension of efficiency is to measure profitability. Many researchers have attempted to measure productivity and efficiency of the banking industry using costs, outputs, efficiency and performance. Banks' efficient performance demands a large number of accurate information through an environment that includes accounting practices, government regulations, and the general market conditions under which banks operate. Potential differences in these features against political jurisdictions can affect the efficiency of banks across jurisdictions (Demirgüç-Kunt, Kane, and Laeven, 2008).

The functional environment canal so influence the exterior and interior mechanisms that discipline the directors of banks. The interior discipline it is caused or it is decreased by the organisational form, the property and the capital structure, the governing councils, and managerial compensation. The exterior discipline it is caused or it is decreased by the governmental regulation and the net of safety, the discipline of capital markets (undertakings, cost of capital, stock price), market competition, external debt, product market competition (LaPorta, Lopez-de-Silanes, and Shleifer, 2002).

According to O'Donnell and Westhuizen (2002), a bank is considered technically inefficient if the real output is lower than the maximum expected output, through a valuable combination of resources. The usual cause of inefficiency includes the managerial failure or organizational errors. The scale and scope economies of banking are absolutely related to the competitiveness and efficiency of banks and many researchers have focused on their extensive study.

Rutamu and Ganesan (2008), in their article "Profit and Profitability of Co-operative Banks: The Case of Banques Populaires (Peoples' Bank) of Rwanda" examined the output of Banques Populaires and the decisive factors of Profit and Efficiency. The output of this research was that there was a net profit which was merged with Gross Profit

for the years 1994-2004. The research was conducted between six models of Profit and Profitability, these empirical results defined that the determinants of profit in Banques Populaires were other incomes and total deposits. As decisive variables of efficiency were proved to be the total assets per branch and the number of branches. Furthermore, the deficiency of cost control and inadequate sources of income led to the low return from investment. As a result, Banques Populaires attempt to improve their efficiency in order to improve their low profitability.

However, Luo and Homburg (2007) stated that the assessments of efficiency encompass multiple inputs and outputs overlooking single and cost-based indicators such as return on assets and equity.

E. Stavrova (2009) examines the concentration of risk in the Bulgarian banking system using the Harfindel-Hirschman index and establishes a relatively high level of risk in the first group of banks for the period 1996-2009.

Various management direct studies of efficiency evaluate market efficiency which is reported in the expand where companies that use the minimal productivity factors (labour and capital), succeed maximal sales and profit. Luo (2003) pointed that stock market determines the real value of a company and as a result a company manage to convert its performance to value in the stock market. Contrary to the efficiency, market ability depicts the investors' anticipations for prospective performance.

A research on commercial and co-operative banks in Greece for the years 2003-2004 (Kosmidou and Zopounidis, 2008) gave the evaluation of their performance and efficiency. They used a ranking measurement which analyses the strengths and weakness of banks in a combination to their competitors, as Greek banks are rated based on their performance. They showed that commercial banks have an unconventional way to increase their profits by increasing their accounts, something that strikes enticing to customers and enhancing their financial indices. However, the co-operative banks' outputs varied as many of them presented high profitability and market sharing, while other were going into a decline.

Through an analysis of the sources of inefficiency Sharma et al. (2012) found that priority sector affect the total advance ratio and as a result, public owned banks are affiliated with the technical efficiency of banks. Specifically, cash-deposit ratio was positive demonstrated, correlated with technical efficiency. In conclusion, Public owned banks were proved to be more efficient than Private and Foreign banks.

Efficiency of European banks and how cost improvements affect them is a matter that has interested Cavallo and Rossi (2001), who concluded that mergers should be aimed at small banks which should penetrate in the product lines of larger banks.

Berger (2003), studied prospective efficiency outcomes of a European single market for financial services. He claimed that the single market of European financial services could not be enough efficient because of the cross-border efficiency barriers. Productivity changes in European co-operative banks have been examined by Carlos et al.

(2005), who found that technology and its use between 1996 and 2003 led to productivity augmentation. In particular, the outcomes refer to larger and centralized banks than to smaller co-operative banks.

3. Research Methodology

Each financial ratio alone is not sufficient to perform correctly a banking institution. In this paper they are calculated the most representative financial ratios, in order to arise reliable results. For the profitability analysis they are used three main financial ratios (ROA, ROE and NIM) and three for the efficiency (NPM, Asset Turnover ratio and Efficiency Ratio).

The research has been done to the Greek banking institutions which are located in Bulgaria. The adoption of IFRS has positive effect in banks as it contributes in the transparency of the application of rules in a capital market. IFRS with the establishment of the world acceptance of accounting rules that results through international tendencies and the awareness of the need for harmonization of accounting models, they cover the requirements of users of financial statements for a uniform presentation of information and comparability of financial elements, in order that the investors have more possibilities of choice with the lower possible cost.

IFRS require or allow the use of fair value for the calculation of financial elements and obligations. While financial elements and obligations constitutes the most important part of the assets and liabilities of the banking organizations, the use of the fair value has direct impact in the composing of its financial statements. Their implementation gives bigger variability in the financial statements, while the profits or the damage of financial elements are recognized immediately in the results or in the proper funds. As the banks were found in the center of recent financial crisis, our analysis focuses in the impact of IFRS in its performance.

There are many references for Bulgarian banks that have obliged to apply IFRS since 2003. Bulgarian banks are considered as the earliest mandatory adopters of IFRS in Europe. However, banks in Bulgaria did not publish any information before 2005 about their use of IFRS or which specific standards they implemented or even which is the started year of the transition to IFRS. In this essay it is considered as the crucial year of implementation 2005 as it is the first year of mandatory adoption in EU. All EU listed companies since 2005 were obliged to present their consolidated financial statements in accordance with IFRS (Regulation (EC) 1606/2002) and it is the first year that Bulgarian banking institutions presented information in the auditors' reports about which IFRS have been used.

It follows a study diversifying the years in two parts of 2001-2004 and 2005-2008. This separation in two periods is selected in order to be examined one precise period of 4 years before and 4 years after the implementation of IFRS, which will give us precise

results. All the used data are derived from the official financial statements of the Bulgarian National Bank.

4. Results

In the frame of the present study were created and used six financial ratios that represent the supreme defining factors of banks' efficiency. The three first financial ratios are named "profitability ratios" and are concern in the efficiency of asset, capital equity and the net interest margin, and the next three which are named "efficiency ratios" and concern in net profit margin, assets turnover and efficiency.

It follows an analysis and a classification of banks with a focus to a period before and after the implementation of International Financial Reporting Standards which was settled at January 2005. There is selected a period of 8 years (2001-2008) separated in two parts.

The first part includes the 4 years period of 2001-2004 and the second part the 4 years period of 2005-2008. This is selected because there is a need for taking equal periods before and after the implementation of IFRS which was in 2005. The average ratio prices of each banking groups for the years 2001-2004 and 2005-2008 and their classification from the best to worst for each financial ratio it appears in the following tables:

Table no. 1 - Average of efficiency ratios for banks for the years 2001-2004

2001-2004						
	ROA	ROE	NIM	NPM	ASSET TURNOVER RATIO	ER
ALPHA	0,99%	20,65%	1,91%	24,44%	1,91%	61,56%
EMPORIKI	0,14%	2,45%	4,77%	1,62%	4,77%	87,08%
PIRAEUS	0,75%	31,80%	2,40%	19,47%	2,40%	69,71%
POSTBANK	1,11%	11,80%	3,94%	17,80%	3,94%	80,17%
UBB	2,19%	15,45%	4,30%	30,32%	4,30%	60,58%
TOTAL AVERAGE	1,04%	16,43%	3,46%	18,73%	3,46%	71,82%

Source: (Bulgarian National Bank)

As it appears in the two tables, banking institutions achieve better efficiency after 2005, which means that they correspond completely in the changes that they have been settled by IFRS. We can ascertain that all ratios in general present a rising course, apart from ER which presents a downward course but this means that it achieves better efficiency.

Table no. 2- Average of efficiency ratios for banks for the years 2005-2008

2005-2008						
	ROA	ROE	NIM	NPM	ASSET TURNOVER RATIO	ER
ALPHA	0,06%	49,59%	1,93%	-2,84%	1,93%	90,43%
EMPORIKI	0,53%	1,15%	3,53%	5,92%	3,53%	98,89%
PIRAEUS	1,20%	12,64%	3,03%	28,28%	3,03%	47,71%
POSTBANK	1,32%	13,68%	4,22%	23,04%	4,22%	56,60%
UBB	3,14%	23,54%	4,96%	45,77%	4,96%	38,36%
TOTAL AVERAGE	1,25%	20,12%	3,53%	20,03%	3,53%	66,40%

Source: (Own research –Data from Bulgarian National Bank)

It follows a first classification of banks according to ratios of efficiency and profitability:

Table no. 3- Classification of banks for the years 2001-2004 according to financial ratios

2001-2004						
	ROA		ROE		NIM	
1	UBB	2,19%	PIRAEUS	31,80%	EMPORIKI	4,77%
2	POSTBANK	1,11%	ALPHA	20,65%	UBB	4,30%
3	ALPHA	0,99%	UBB	15,45%	POSTBANK	3,94%
4	PIRAEUS	0,75%	POSTBANK	11,80%	PIRAEUS	2,40%
5	EMPORIKI	0,14%	EMPORIKI	2,45%	ALPHA	1,91%
	NPM		ASSET TURNOVER RATIO		ER	
1	UBB	30,32%	EMPORIKI	4,77%	UBB	60,58%
2	ALPHA	24,44%	UBB	4,30%	ALPHA	61,56%
3	PIRAEUS	19,47%	POSTBANK	3,94%	PIRAEUS	69,71%
4	POSTBANK	17,80%	PIRAEUS	2,40%	POSTBANK	80,17%
5	EMPORIKI	1,62%	ALPHA	1,91%	EMPORIKI	87,08%

Source: (Own research –Data from Bulgarian National Bank)

In the table 3 it appears the classification of banks for the period 2001-2004. UBB seems to utilize more efficiently its assets with Alpha Bank which are the banks with the best performance and ratios for almost all the years until 2004, even if Alpha bank present bad outputs in the management of functional expenses and net interest margin, but except for this it is classified in the best three. Piraeus has a more stable performance and appeared to have the third or fourth class for all the ratios apart from ROE, to which

it has the highest price, a fact that proves to use more efficiently its capitals in order to create additional profits. Emporiki bank presents the worst efficiency in most categories (ROA, ROE, NPM, ER) with the exception of the effectiveness for the management of functional expenses and the net profit margin, where it possesses the first class, while in the remaining categories it occupies the last class. Postbank in general, presents bad output in all ratios, apart from the ROA, in which it is presented in the second class.

Table no.4- Classification of banks for the years 2001-2004 according to financial ratios

2005-2008						
	ROA		ROE		NIM	
1	UBB	3,14%	UBB	23,54%	UBB	4,96%
2	POSTBANK	1,32%	POSTBANK	13,68%	POSTBANK	4,22%
3	PIRAEUS	1,20%	PIRAEUS	12,64%	EMPORIKI	3,53%
4	EMPORIKI	0,53%	EMPORIKI	1,15%	PIRAEUS	3,03%
5	ALPHA	0,06%	ALPHA	49,59%	ALPHA	1,93%
	NPM		ASSET TURNOVER RATIO		ER	
1	UBB	45,77%	UBB	4,96%	UBB	38,36%
2	PIRAEUS	28,28%	POSTBANK	4,22%	PIRAEUS	47,71%
3	POSTBANK	23,04%	EMPORIKI	3,53%	POSTBANK	56,60%
4	EMPORIKI	5,92%	PIRAEUS	3,03%	ALPHA	90,43%
5	ALPHA	-2,84%	ALPHA	1,93%	EMPORIKI	98,89%

Source: (Own research –Data from Bulgarian National Bank)

After 2004 the ratios are altered and consequently it is also altered the classification of banks. UBB increases its efficiency in the all the ratios and possesses itself at the first class to all the categories. Postbank as well, presents very good prices to all the categories and it conquers the second class to all indicators apart from the net profit margin and efficiency ratio to which is exceeded from Piraeus. Emporiki has definitely a rise apart from the management of functional expenses and the net interest margin in which in the previous four-year period it possessed the first class. Remarkable is the fall of Alpha bank which it presents the worst picture in almost all the ratios, apart from the total efficiency ratio, in which the bad picture it presents from Emporiki, while it had good output for the years 2001-2004 it presents disappointing sizes after 2004 and for this reason it presents the worst picture.

The classification of each bank in the above table in scale of 1-10 from the best to the worst Bank, the average score that has achieved each bank is the following:

Table no.5- Classification of banks in the scale 1-10 for the years 2001-2004

2001-2004	
BANKING INSTITUTIONS	FINAL CLASSIFICATION
UBB	1,67
PIRAEUS	3,17
ALPHA	3,17
POSTBANK	3,33
EMPORIKI	3,67

Source: (Own research –Data from Bulgarian National Bank)

Table no. 6 - Classification of banks in the scale 1-10 for the years 2005-2008

2005-2008	
BANKING INSTITUTIONS	FINAL CLASSIFICATION
UBB	1,00
POSTBANK	2,33
PIRAEUS	3,17
EMPORIKI	3,83
ALPHA	4,83

Source: (Own research –Data from Bulgarian National Bank)

5. Conclusions

In this work it has been analyzed the profitability and the effectiveness of the Greek banking institutions which are located in Bulgaria, by the use of financial ratios. All the used data are derived from the official financial statements of the Bulgarian National Bank published at 31st of December.

There are many references for Bulgarian banks that have obliged to apply IFRS since 2003. Bulgarian banks are considered as the earliest mandatory adopters of IFRS in Europe. However, banks in Bulgaria did not publish any information before 2005 about their use of IFRS or which specific standards they implemented or even which is the started year of the transition to IFRS. In this essay it is considered as the crucial year of implementation 2005 as it is the first year of mandatory adoption in EU.

As it is mentioned before while this research was proceeding deeply it separated the examined period in two parts, four years before the application of IFRS and four years

after the application. At the duration of these two periods became the classification of banks depending on their efficiency.

The first results showed that banking institutions achieve better efficiency after 2005, which means that they correspond completely in the changes that they have been settled by IFRS. We can ascertain that all ratios in general present a rising course, apart from ER which presents a downward course but this means that it achieves better efficiency.

Concretely, banks in total achieved a development in the period 2005-2008. Its average efficiency proved to be improved having a 0.21% growth for ROA, 3.69% for ROE, 0.07% for NIM, 1.3% for NPM, 0.07% for Asset turnover ratio and 5.38% for ER.

The first classification of banks for the period 2001-2004 shows that UBB seems to utilize more efficiently its assets with Alpha Bank which are the banks with the best performance and ratios for almost all the of the years until 2004, even if Alpha bank present bad outputs in the management of functional expenses and net interest margin, but except for this it is classified in the best three.

Piraeus has a more stable performance and it proved that used more efficiently its capitals in order to create additional profits. Emporiki bank presents the worst efficiency in most categories but she presented higher effectiveness for the management of functional expenses and the net profit margin, where it possesses the first class. Postbank in general, before 2005 presents bad output in all ratios, apart from the ROA.

After 2004 the ratios are altered and consequently it is altered also the classification of banks. UBB increases its efficiency in the all the ratios and possesses itself at the first class to all the categories. Postbank as well, presents very good prices to all the categories and it conquers the second class to all indicators apart from the net profit margin and efficiency ratio to which is exceeded from Piraeus. Emporiki generally has definitely a rise but she has fallen from the first class concerning the management of functional expenses and the net interest margin. The most distressing output is concerned in Alpha bank which it presents the worst picture in almost all the ratios.

The classification of each bank in the above figures in a scale of 1-10 from the best to the worst Bank is referred to the average score that has achieved each one of them.

In this final classification the most efficient bank before the implementation of IFRS and afterwards appears to be UBB. Its efficiency is better after 2005, that means it has achieved to correspond completely in the new data that have been imposed with the application of IFRS and even if it continues to be in the top of classification scale, it has managed better score the second period. It is a profitable and efficient bank. Postbank, furthermore, increased its efficiency after the application of IFRS and appears that it was adapted faster in the new conditions. In the years 2005-2008 it raised in the second level of hierarchy, leaving the third level to Piraeus.

Piraeus, as it is realized from all our research is a bank that appears to have constant course and corresponds mediocrely decreasing its efficiency, in an effort for profitability and maintenance of its efficiency, after the application of the new standards.

Emporiki presented a more constant course and while it does not appear to be harmonized very efficiently with IFRS and it is not so much efficient in the second period of 2005-2008, nevertheless, it segues into the fourth and one before last level in the scale of classification. Its rise in the hierarchy is altered, of course, because of the abrupt fall of Alpha bank which has made a “plunge” and presents the worst picture.

Alpha is the bank that did not accomplish to absorb at all the new changes derived from the IFRS implementation and while in the period 2001-2004 it possessed the second class in the scale together with Piraeus, it has collapsed to the last level of classification with a reduction of its efficiency of 1,66%.

It can be aware of that the examined period of 2005-2008 is concerned as years at which began the economic crisis in Greece, a fact that could be an obstacle for the Greek banks to accomplish their harmonization with the IFRS and increase or maintain constant their efficiency.

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**AUDITING UNCERTAINTY OF THE ACCOUNTING ESTIMATES IN FAIR
VALUE ACCORDANCE WITH THE PROCEDURES OF THE
INTERNATIONAL STANDARDS ON AUDITING NO.540 FILED STUDY ON
THE AUDIT OFFICES OPERATING IN JORDAN**

Ahmad Adel Jamil Abdallah¹, Musab Shareef Salameh²

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Abstract

Accounting estimate in fair value is one of the most problems facing auditors during their career, this study try to investigate how auditors compliance with the procedures required by ISA 540 when auditing cases of the uncertainty of accounting estimates plus fair value measurement and disclosures in the financial statements. The researchers distribute a questionnaire to the auditing offices operating in Jordan (311 offices) to know how auditors comprehend the audit responses provided in ISA 540, questionnaires distributed to all these (150) auditors selected randomly, (117) questionnaires were returned. The study found the auditors in general compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates with a high level except examination the management's assumptions about accounting estimates came with average level which may appear from management bias, then we found that the auditors compliance with procedures for measurement and disclosures in the financial statements, we recommended Follow-up changes and recent developments that may arise in the international accounting standards related to accounting estimates and the auditors should know the new procedures and policies established by the companies' managements to follow up the preparation of the accounting estimates.

Keywords: Auditing uncertainty, accounting estimates, Fair Value, ISA 540

JEL Codes: M40, M41, M42

1. Introduction

The role of the auditor is to provide reasonable assurance about weather financial statements are free from material misstatements. This includes providing an objective and independent opinion on the appropriateness of management's assertions about the true state of the financial reports (Eilifsen et al. 2013). In addition Auditor presents an important role in the business environment in contemporary organizations, where a lot of parties rely on these services provided for decision-making which related to nature of organizations. This represented in the quality of the audit process by the auditors. In order to present a requested services and work on improving it. (Abdallah et al. 2015)

¹ Al-Zaytoonah University of Jordan, Faculty of Business, Accounting Department, Assistant professor
Ahmad.adel@zuj.edu.jo

² Postgraduate student , Al-Zaytoonah University of Jordan, Accountant Department,
musab.s.salameh@gmail.com

This study focused on problem of the attitude and opinion of the audit offices in Jordan regarding the auditor's response to the development of accounting estimates in order to maintain the auditor opinion independence, which in turn constitutes a challenge in evaluating the objective assumptions and determining external data, which not appear in accounting estimates of fair value precisely if there is a bias by management. IFRS (13) clearly sets out that fair value is not an entity specific measurement it is a market-based measurement (Chaudhry, Asif, et al. 2015). And the auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risk (ISA 540, para.10, 2016) because some financial statement items cannot be measured exactly, but can only be estimated (ISA 540, para.2, 2016).

Closely related studies conducted by Montague Norma R.(2010) "examine the effects of audit guidance and uncertainty of estimation on auditors' confirmation bias and professional skepticism when evaluating the estimates of fair value, she found that auditors show the greatest confirmation bias when they are directed to disagree versus support management's estimate or generate their own estimate, and that this bias increases the degree of professional skepticism exercised by auditors when they evaluate fair value estimates".

In this study the researchers has dealt with the auditor's responsibilities relating to the fair value estimates and related disclosures through clarify the risks arising from the material errors, procedures and audit evidence that the auditor will follow towards the accounting estimates that contain the fair value estimates disclosed in the financial statements, and to consider the extent of irrationality those values, and the extent of the auditor's response to such estimates in accordance with the ISA 540, which focuses on the fair value estimates.

The purpose of this study is to dissect how auditors comprehend the audit responses provided in ISA 540, the outright purpose is to inspect how the auditors perform the auditing uncertainty of accounting estimates in fair value, and therefore the research questions of the study is:

To what extent the auditors compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates

To what extent the auditors compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements

2. Literature Review

2.1. Changes in Accounting Estimate

Accounting estimate is a monetary amount approximation in the absence of accurate means of measurement, this term is used for an amount measured at fair value where there is estimation of uncertainty, as well as for other amounts that require estimation (ISA 540, para.7a, 2016). More than that some accounting standards (IAS No.8 Accounting Policies, Changes in Accounting Estimates and Errors) state that changes in accounting estimates arise from new information or developments. Accordingly, disclosure of a change in accounting estimate is an unambiguous signal of new information which is significant to the stakeholders (Beaulieu, Philip, et al. 2017).

Making accounting estimates is a very complex process that connotes obtaining of all required information about the topic (Sacer, Ivana, et al. 2016). The financial statements preparation requires frequent use of estimates such as asset residual values, fair values of financial assets or financial liabilities (Chaudhry, Asif, et al. 2015) which may include uncertainty. ISA 540 clarifies that there is a significant variation in reliability, which in turn refers to uncertainties of accounting estimates, Uncertainties are defined as "The capability of an accounting estimate and related disclosures to an inherent lack of fineness in its measurement" (ISA 540, para.7c, 2016). IAS 8 requires that changes in estimates be recognized prospectively by including it in profit or loss in the period of change if the change affects that period only or the period of change and future periods if the change affects both (Chaudhry, Asif, et al. 2015).

Asbahr and Ruhnke (2017) analyses whether reporting an accounting estimate as a key audit matter (KAM) can impact auditors' professional judgment about the reported estimate under the difference condition of tacit or without client pressure, through using the moral licensing theory, reasoning of motivated and accountability, they found that auditors' professional judgment about the rationality of a biased accounting estimate is not affected by the (KAM) reporting requirements and pressure of client, and provide Initial evidence that the reporting (KAM) format can serve as moral license to concede an adjustment.

Other authors concentrate on the learning effect, like Asthana (2002) in her study posits that the precision of accounting estimates should be an increasing function of experience due to learning effects she conducted regression analyses to examine the precision of two estimates (discount rates and health care cost inflation rates) required under SFAS 106. She found show that the estimation errors for the health care cost inflation estimates decrease with experience, but those for discounts rates do not.

2.2. Auditor's responsibility in estimating accounting estimates accordance to ISA 540

Auditors have difficulty obtaining conclusive evidence to challenge management's estimates (Kaplan and Reckers, 1995), they should obtain sufficient and appropriate evidence as to whether the disclosures relating to the financial statements are appropriate or not, in the context of the applicable financial reporting framework, And whether accounting estimates, including accounting estimates of fair value in the financial statements, whether recognized or disclosed, are reasonable or not (IFAC, para.6, 2010), Boumediene, Salem, et al. (2017) "they studied the effect of audit challenges related to fair value on the quality of audit and the role of the (ISA) 540 in alleviate these challenges from point of view the external auditors in Tunisia, they found that the fair value may cause technical difficulties for auditors. These challenges at fair value have no negative effect on audit quality and respondents approve that the ISA 540 play a major role in alleviate the audit challenges related to fair value". Some other researchers Griffith.E. (2016) investigate how auditors use valuation specialists in audits of fair values through interviewed 28 auditors and 14 valuation specialists with extensive experience auditing to help auditors to improve the quality of audits of fair values. The interviews reveal a tendency among auditors to make specialists' work conform to the prevailing audit team view, in addition to that he finds that while valuation specialists perform many of the most difficult and important elements of auditing fair values, auditors retain responsibility for making overall conclusions about fair values yet who must rely on the expertise of specialists to make these judgments.

Based on the above, the following responsibilities related to the auditor when auditing and assessment risk of accounting estimates (Alshwabkeh, Zaid, 2013):

- 1 Understand accounting estimates requirements
- 2 Assessing how management perform accounting estimates
- 3 Reviewed previous year's estimates
- 4 Assessing of compliance with the requirements of the Accounting Standards related to accounting estimates
- 5 Follow up of subsequent events and provide it to audit evidence

2.3. Auditing of the uncertainty of the accounting estimates in Fair Value

As we explain above ISA 540 define Estimation uncertainty as the capability of an accounting estimate and related disclosures to an inherent scarcity of rigor in its measurement. (ISA 540, para.7c, 2016). Estimation uncertainty and the prevalence of fair value measurements in financial statements have increased over time (Christensen, B. et al. 2012) it is associated with higher inherent risk assessments, which are in turn predictive of client problems identified during the engagement (Cannon and Bedard 2016). Measurements of complex fair value usually are characterized by greater uncertainty regarding the measurement process reliability (PCAOB, AS 2502, para.24, Dec, 2017). In his study Griffin (2014) "examine how uncertainty affects adjustment of auditors' decisions when assess fair values through measuring outcome imprecision and input subjectivity, supplemental disclosure, and choosing one report, he found that auditors probably require modifications if fair value contain both more outcome inaccuracy and more input subjectivity but it's may decrease when client complement recognized fair values as an additional disclosure". Some other studies reflecting the challenges auditor faces in their evaluation of accounting estimates, DeZoort,F.et al. (2003) they found that, in auditor-management disagreements, audit committees lend greater support to auditors when there is less measurement uncertainty, and Kang, Y, et al. (2015) they found that audit committees find more comfort in accounting estimates audited using innovative audit procedures. While auditors tend to follow management's lead and routinely audit the process management uses (Griffith.E et al. 2015), auditors are less influenced by management when auditors develop their own estimate expectation (Fitzgerald, and Smith 2015) and when auditors practice critical thinking (Griffith.E. et al. 2015). These previous studies typically rely on experimental research design or small survey data.

3. Method

The researchers used the analytical descriptive method to collect data, analyze and test the hypotheses by relying on questionnaires distributed to the auditing offices operating in Jordan (311 offices) to know how auditors comprehend the audit responses provided in ISA 540. In which the auditors were asked to state the likelihood (on a 5-point scale: [5] strongly agree; [4] agree; [3] neutral; [2] disagree; [1] strongly disagree).

To get the primary data, the number of auditors were (150) selected randomly, questionnaires distributed to all these (150) auditors, (117) questionnaires were returned (percentage of 78%); these 117 copies were accepted and used in the pilot analysis of the original distributed questionnaires. (33) Questionnaires were excluded for incomplete filling and clear randomization during filling at (percentage of 22%)

Secondary data is collected from Arabic and Foreigners articles published by the well-known periodicals, books, and dissertations related to uncertainty of the accounting estimates in Fair Value.

4. Study Hypothesis

The auditor has to understand how accounting estimates are verified, Griffith et al. (2012) interviewed 24 auditors belonging to six major audit firms, during the months of October and November. These interviewees noticed that the accounting estimates are difficult to verify because they must assess the reasonableness of the estimates rather than simply verify their accuracy. More over Kumarasiri and Fisher (2011) sought to identify and examine the issues and challenges faced by auditors in auditing estimates at fair value in a context of developing countries based on a survey of 156 auditors in Sri Lanka. Among the problems they found is the prevalence of inactive markets in developing countries, According to the above-mentioned studies, we can formulate the following hypothesis:

H1: auditors are not compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates.

H2: auditors are not compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements.

5. Design of the Study & Statistical Treatment

The Exploratory and Confirmatory Factor analysis was carried out in order to verify the validity of the study tool, as illustrate in table (1)

Table no.1- Matrix of factors, paragraphs and their saturation values

paragraphs	Factors/ saturation values	
	Factor (1)	Factor (2)
1	0.989	
4	0.983	
5	0.960	
6	0.952	
2	0.951	
3	0.947	
9		0.925
7		0.903
8		0.745

The saturation value adopted in the analysis was (0.40) as the value between the important saturation and the unimportant saturation. These result were accepted accordance to Kaiser-Meyer-Olkin (KMO) (Kaiser,1970) which use for test a measure of how suited data is for factor analysis, the value of this scale is (0.859) and it is acceptable because it is greater than (0.5). The value of the (Bartlett) test is statistically significant, which means that there is a minimum of variables that enable to make the Exploratory and Confirmatory Factor analysis for variables. As shown in table (2)

Table no. 2- Sampling appropriateness and the variables validity to conduct the factor analysis

KMO test	0.859	
Bartlett test	Chi-Square	6160.06
	Degree of freedom	351

	significance level	0.000
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6. Data Analysis and Findings

6.1. Reliability Test

Cronbach's alpha was used to test the Internal Consistency Coefficient In this study 0.60 or higher is considered acceptance (Sekrran, 2013). As shown in table (3) the Cronbach's alphas for first factor was (0.986) and for second factor was (0.819) and for the questionnaire as a whole was (0.876)

Table no. 3- Internal Consistency Coefficient (Cronbach's alpha)

Factor	Cronbach's alpha
1(paragraphs 1-6)	0.986
2(paragraphs 7-9)	0.819
questionnaire as a whole	0.876

6.2. Normal distribution Test

In order to identify the normal distribution of the study data and check whether appropriate for a regression analysis for hypothesis tests, we using (Kolmogorov-Smirnov). Table (4) shown that the result of (Kolmogorov-Smirnov) test was (0.08) with significant level more than (0.05) which equal (0.063)

Table no. 4- Kolmogorov-Smirnov test for normal distribution

Test value	Degree of freedom	Significant level
0.08	117	0.063

6.3. Multicollinearity Test

In order to verify the multicollinearity between variables we used (Variance Inflation Factor) and (Tolerance). Table (5) shown all Variance Inflation Factor less than (5), and all Tolerance values more than (0.1), that is mean all data are free from multicollinearity problem.

Table no. 5- Multicollinearity Test Results

Variables	Variance Inflation Factor	Tolerance
1	1.036	0.965
2	1.074	0.931

6.4. Sample Characteristics

The respondents were (n=117,100%) an accountants, most of them were (n=86, 74%) had accounting degree, (n=19, 16%) had diploma, (n=12, 10%) had master degree, note that no one of sample had Ph. Degree. Most of respondents were (n=101, 86%) specialist in accounting, (n=14, 12%) specialist in banking and financial sciences, (n=2, 2%) specialist in business management. Furthermore most respondents (n=96, 82%) had experience between 10-15 years, then (n= 14, 12%) had experience less than 5 years, (n=7, 6%) had experience between 5-10 years. As illustrate in table (6).

Table no.6- Demographic Description of the Study Sample

Category	Position/ Job title		Professional Certificate		Scientific qualification		Years of experience	
	Frequencies	%	Freq.	%	Freq.	%	Freq.	%
Partner	-	-						

Financial manager	-	-						
Chief of accounts	-	-						
Auditors	117	100						
Total	117	100%						
Bachelor			86	74				
Diploma			19	16				
Master			12	10				
Total			117	100%				
Accounting					101	86		
banking and financial					14	12		
business management					2	2		
other					-	-		
Total					117	100%		
Less than 5 years							14	12%
Between 5-10 years							7	6%
Between 10-15 years							96	82%
More than 15 years							-	-
Total							117	100%

6.5. Test of Hypotheses

6.5.1. First Hypothesis

“Auditors are not compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates”

To verify the validity of this hypothesis, the arithmetic means and standard deviations of the items concerning compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates, as it is illustrated in the following table

Table no.7- Arithmetic means and standard deviations of the items concerning compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates

Rank	N	Items	Mean	Std.	Sig.
1	1	The auditor has the ability to understand the methods and procedures followed by management when preparing accounting estimates	3.90	1.192	High
2	4	performing an audit on assess uncertainties of accounting estimates and risks arising from them	3.88	1.183	High
3	2	The auditor complies with the standards used to assess fair values and accounting estimates	3.85	1.222	High
4	5	The auditor is complies to compare the results submitted by the management, with the actual results from the auditing of uncertainty cases	3.84	1.181	High
5	3	The auditor shall verify the information provided by the management and shall be authenticated by the necessary signatures and documents.	3.79	1.126	High
6	6	The auditor examines the management's assumptions about accounting estimates	3.62	1.312	Average

Average	-	-	3.81	1.202	High
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The table above showed that the arithmetic mean range between (3.62) and (3.90). Item (1): “The auditor has the ability to understand the methods and procedures followed by management when preparing accounting estimates” came first with a mean (3.90) while item (6): “The auditor examines the management's assumptions about accounting estimates” came last with a mean (3.62). And the mean of the compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates was (3.81).

- *Testing the First Hypothesis Using T-test*

Table no. 8- Testing the First Hypothesis Using T-test

Rank	N	Items	Mean	Std.	Sig.	t-value	Sig.level
1	1	The auditor has the ability to understand the methods and procedures followed by management when preparing accounting estimates	3.90	1.192	High	8.145	0.000
2	4	performing an audit on assess uncertainties of accounting estimates and risks arising from them	3.88	1.183	High	8.050	0.000
3	2	The auditor complies with the standards used to assess fair values and accounting estimates	3.85	1.222	High	7.490	0.000
4	5	The auditor is complies to compare the results submitted by the management, with the actual results from the auditing of uncertainty cases	3.84	1.181	High	7.660	0.000
5	3	The auditor shall verify the information provided by the management and shall be authenticated by the necessary signatures and documents.	3.79	1.126	High	7.636	0.000
6	6	The auditor examines the management's assumptions about accounting estimates	3.62	1.312	Average	5.073	0.000
Average	-	-	3.81	1.202	High		
Significant level at ($\alpha \leq 0.05$)							

For testing this hypothesis we used items (1) to (6) to extraction means, standards deviations and t-value for one sample, the result on table (8) showed that the auditors are compliance with procedures followed in international standard on auditing 540 when auditing cases of the uncertainty of accounting estimates, with total mean for (3.81) and standards deviations for (1.202). The t-value for all items was consider statistically significant at ($\alpha \leq 0.05$) and therefore the null hypothesis was rejected and the alternative one was accepted.

6.5.2. Second Hypothesis

“Auditors are not compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements”

To verify the validity of this hypothesis, the arithmetic means and standard deviations of the items concerning compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements, as it is illustrated in the following table

Table no. 9- Arithmetic means and standard deviations of the items concerning compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements

Rank	N	Items	Mean	Std.	Sig.
7	1	The lack of clear accounting policies, affect the management company in dealing with uncertainty cases	3.78	0.911	High
8	2	The auditor has the ability to track the subsequent events associated with the uncertainty of accounting estimates	3.74	1.001	High
9	3	The auditor has the ability to verify the relevant management decisions in the accounting estimates and the extent of their credibility or bias	3.72	1.065	High
Average	-	-	3.75	0.992	High

The table above showed that the arithmetic mean range between (3.72) and (3.78). Item (1): “The lack of clear accounting policies, affect the management company in dealing with uncertainty cases” came first with a mean (3.78) while item (3): “The auditor has the ability to verify the relevant management decisions in the accounting estimates and the extent of their credibility or bias” came last with a mean (3.72). And the mean of the compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements (3.75).

- Testing the Second Hypothesis Using T-test

Table no.10- Testing the Second Hypothesis Using T-test

Rank	N	Items	Mean	Std.	Sig.	t-value	Sig.level
7	1	The lack of clear accounting policies, affect the management company in dealing with uncertainty cases	3.78	0.911	High	9.237	0.000
8	2	The auditor has the ability to track the subsequent events associated with the uncertainty of accounting estimates	3.74	1.001	High	8.033	0.000
9	3	The auditor has the ability to verify the relevant management decisions in the accounting estimates and the extent of their credibility or bias	3.72	1.065	High	7.288	0.000
Average	-	-	3.75	0.992	High		
Significant level at ($\alpha \leq 0.05$)							

For testing this hypothesis we used items (7) to (9) to extraction means, standards deviations and t-value for one sample, the result on table (10) showed that the auditors are compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements, with total mean for (3.75) and standards deviations for (0.992). The t-value for all items was consider statistically significant at ($\alpha \leq 0.05$) and therefore the null hypothesis was rejected and the alternative one was accepted.

7. Results and Recommendations

7.1. Results

Accordance to the pervious discussion, we note that the auditors in general compliance with procedures followed in international standard on auditing 540 when auditing cases of the

uncertainty of accounting estimates with a high level except examination the management's assumptions about accounting estimates came with average level. and the ISA 540 play a major role in alleviate the audit challenges related to fair value, as appeared in (Boumediene, Salem Lotfi, et al. 2017).

For compliance with auditing of the uncertainty of accounting estimates relating to fair value measurement and disclosures in the financial statements, we found that the auditors compliance with procedures for measurement and disclosures in the financial statements. Is different from results by Griffin (2014) when he found that auditors probably require modifications if fair value contains both more outcome inaccuracy and more input subjectivity when they examine how uncertainty affects their adjustment

7.2. Recommendations

Depending on the previous results, the researchers recommended the following:

Follow-up changes and recent developments that may arise in the international accounting standards related to accounting estimates, and also changes and recent developments in the procedures followed in the international standards on auditing, to ensure that the values of these estimates are disclosed in the companies. Plus,

The auditor should know the new procedures and policies established by the companies' managements to follow up the preparation of the accounting estimates and assumptions so that they are clear, reliable, and the need to confirm the continuity of the follow up of the estimates for the current accounting period and future periods.

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INNOVATION CROWDSOURCING AS A PROCESS FOR MANAGEMENT

Emanuela Esmerova¹

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Abstract

All models are converging toward the idea that innovation activities can be more or less correctly be described and viewed in process models. Some models innovation management describe the life cycle of the innovation by the S-shape and logistic function, which is composed of three distinct phases: Emergence, growth and maturity. Other studies, place the emphasis on the characteristics of innovation which are defined as a function of innovation stages of development, e.g. Maidique distinguishes the recognition of the invention, the development, the achievement and the distribution of phases of the innovation process. Whatever the model, an innovation management is generally described as a practice or a new object. An innovation management obviously begins with new ideas (Tushman, 1977). Traditionally, these ideas have been generated by professionals such as engineers, traders or designers in a company.

Keywords: *Innovation, management, crowdsourcing and management performance*

JEL Codes: *M10, O31, O32*

1. Introduction

However, recently, there is a change in this line of thought which has pushed these two researchers to ask the following question: Who is able to find the best ideas, the professional employees of the company or the potential customers or users of these ideas? It is only recently that these potential users are seen as a useful alternative to generate new ideas. Many organizations now outsource the search for new ideas. This research will attempt to clarify the process management innovations of Crowdsourcing and to clarify the effect of this process on the stains creative and complex tasks. As well, we are going to present briefly a general view of literature on the process of innovations, the Crowdsourcing and we will present the results of our semantic study carried out on a

¹ Emanuela Esmerova European University, Skopje- Macedonia, Professor, PhD, email: emaesmerova@yahoo.com

sample of 23 volunteers motivated by the web, the E-management and the practice and the management of virtual communities which has been used in combination with a deductive study.

2. The interests of the Crowdsourcing

When a business company decides to perform an operation of outsourcing, it is based on a number of factors that determine its choice. The emergence of the Crowdsourcing lies in the following perspectives (Arnold, 2000 and Lebraty, 2007, p. 125)

- **The reduction of costs:** It entrusted the task to people non- professionals, but also qualified, generally it is sufficient to pay a small fee, or even without pay, it reduces the cost of labor.

- **The effectiveness:** The tasks of Crowdsourcing are carried out with the participants of the public on a large scale with the help of the internet, and has greatly reduced the time, the participants are users of products or services which may know exactly what the needs of the consumers, with their ideas, products are more practical and the innovation process is more simple. The participation of customers reinforces the relationship between consumers and the organization.

- **The flexibility and globalization:** the work of the world can participate in the process of Crowdsourcing without geographical constraints, with the application and development of the internet, and organizations can use many external personal easily.

- **The involvement of the user:** The major aspect of the Crowdsourcing affects the involvement, more or less directly, from the consumer to the creation of the product. In effect, through the use of ICT, and to the internet in particular, the purchaser is no longer in "end of string", by consuming in a passive way a product, but he participated in its creation, its promotion or its dissemination, and consequently removed the monopoly of these actions to the enterprise. Instead of simply receive, the Community product, published and acts. The community may include consumers, creators, readers, writers, listeners, recorders, for spectators, producers .

- **The focus on core business:** The platforms are typically used for benefits of service deemed non-essential, non-strategic, or requiring a specific expertise. The Crowdsourcing therefore allows delegating certain tasks, allowing you to focus on its core business or on other priorities.

- **The motivation of the participants:** This type of community is characterized by the fact to bring a very important interest to a domain, or to a product. And generally the members of this community type do not seek to be paid and their motivations are focusing on a individual commitment to improve the center of interest which the gathers. Therefore to attract their attention, it should be to find a center of interest likely to be the basis for the constitution of a community.

- **The quality of service:** The Crowdsourcing allows companies to improve the quality of their products and services in referring to the opinion of the public.

- **The value creation:** According to Lebraty: "the development of the Crowdsourcing can be explained by its contribution to the creation of value in the organization". In this perspective, we can see that via the Crowdsourcing, the firm incorporated the crowd in the chain of value creation especially in the phase of the development of ideas. From an etymological point of view, the root of the concept of innovation has Latin origin, meaning "to make new" and can be found in the Middle Ages, XV c. (Panteleeva, 2010, p. 25). Materialized and needed on the market novelty is the only one that can provide its organization creator with positive financial results. It is a prerequisite for generating profit, which is one of the main objectives of any business entity. (Ratka. Ivanova, 2017, p142).

2. Framework methodology

The objective of our research was to provide a clearer view on the contribution of the Crowdsourcing as a process of innovation on the two types of Crowdsourcing (complex tasks and creative spots). As there was a lack of empirical research on the Crowdsourcing, the deductive method has been used to acquire a better understanding of the process of Crowdsourcing. This has been done by the identification of configurations of these variables and exploring the mechanism behind it. The variables were based on the theoretical knowledge from a study of literature comparable in the areas of innovation. According to Omar Aktouf who specifies that starting from one or several hypotheses, we apply a deductive reasoning that is to say, the general provisions, known in advance to a particular situation addressed. It is equivalent to a hypothetic-deductive method. This is a classic approach to modern science. It arises out of the experimental method and is applicable in human science in all disciplines and with several methods of research (Aktou Omar, 1987, p. 214). In practice, the deductive method is to check a general assumption on the largest number of specific comments. In effect this method is to apply a general principle to a particular case (Mathieu Guidere, 2004, p. 258).

Then a semantic study was performed in order to explore the determinants of the process of Crowdsourcing and these assignments. The proposals made concerning the approach to strategic management of natural and social living environment are based on the interaction of the individual subsystems and components of the regional system and the specific properties that distinguish it from the other systematic formations. (Vanev, 2017, p. 161).

2.1. Experimentation and put in place

To carry out our study, 23 motivated volunteers (including thirteen women) were

recruited because they were interested in the web, the E-management and the practice and the management of virtual communities. The majority of our sample of contributors exercised the functions of 'community's managers". They are phd students in our area of specialty with an average age of between 28 and 30 years (minimum 24 years and maximum 35 years). They have accounts, groups in various social networks and also they have often visited the platforms of Crowdsourcing (at least once every three months); which indicates that they may be to some extent representative of model players of the Crowdsourcing. (Filosofova, G. and V. Bikov, 2008, p.211)

They are also "players" who are as familiar with the vocabulary of marketing as the web ; this means that our sample is representative of the "professionals" more than that of conventional consumers. Our maintenance guide qualitative has been created during to our discussions. We center our meetings and our conversations around two scientific articles: The first one is Lebraty (2007) and the other is Lobre (2007), and we have quoted a few platformsof Crowdsourcing as sportingnews.com, fluevog.com, lego.com, crowdsourcing.typepad.com, internetactu.ne.

We have prepared our sample to this experimentation on three phases and in two different groups:

- **Phase 1: Presentation of the project and the objectives**

In this step, we have brought together all of the contributors to whom we have explained our goals concerning our research related to crowdsourcings. We have provided the contributors with a folder containing the two articles and a set of links to sites of Crowdsourcing.

- **Phase 2: debate and exchanges**

This phase was conducted to facilitate trade between the members and to clarify the different questions and shadows that can curb and/or prevent the success of the Crowdsourcing. It is the starting point of our study which was exclusively on the internet.

- **Phase 3: analysis and processing of information with the software Tropes**

In a first step of this phase we will then create a "scenario" from "references used" to the plan frame semantics from the essential themes mentioned. This "analysis grid" allows to visualize the essential concerns around systems of recommendation. In addition, the model Tropes applies the scenario as grid "automatic" on the qualitative texts collected and extracted the "phrases representative" helping to select the proposals or statements that will be used for the exercises of quantification with the "cards" and the "carpet game" for our research and subsequent experiments on the same subject. Of course, the actual phrases of cognitive exercises will be the more often rewritten for reasons of style, and grammar.

The texts produced by the discussions and individual opinions have represented a dozen pages occasions to be able to be treated by a specialized software in the semantic

studies Tropes® requiring an establishment of spelling corrections and punctuation.

In a second step, we have asked our sample of 23 people at a time on a social network and on Skype. The texts have been resumed on a Word file with correction of texts to create phrases understood by the computer (expressions, punctuation); without changing the substance of the opinion expressed. The text of a dozen pages was then gone under the model Tropes® package. To be clear, we are looking for a structure of understanding which depends in part on our expectations. The latter giving rise to the creations of themes, if this approach appears justified by the raw scan of references obtained. The scenarios are designed to enrich and filter the classes of equivalent in function of a strategy of analysis. What are the specific ontology, which allow to:

- A/define the own classifications; depending on the vocabulary corresponding to the environment of study.

- B/change or restructure the dictionaries of the Tropes® software

- C/define a grid of analysis to automatically generate a report.

2.2. The interests of the Crowdsourcing:

When a business company decides to perform an operation of outsourcing, it is based on a number of factors that determine its choice. The emergence of the Crowdsourcing lies in the following perspectives (Arnold, 2000 and Lebraty, 2007, p. 321):

- **The reduction of costs:** It entrusted the task to people non- professionals, but also qualified, generally it is sufficient to pay a small fee, or even without pay, it reduces the cost of labor.

- **The effectiveness:** The tasks of Crowdsourcing are carried out with the participants of the public on a large scale with the help of the internet, and has greatly reduced the time, the participants are users of products or services which may know exactly what the needs of the consumers, with their ideas, products are more practical and the innovation process is more simple. The participation of customers reinforces the relationship between consumers and the organization.

- **The flexibility and globalization:** the work of the world can participate in the process of Crowdsourcing without geographical constraints, with the application and development of the internet, and organizations can use many external personal easily.

- **The involvement of the user:** The major aspect of the Crowdsourcing affects the involvement, more or less directly, from the consumer to the creation of the product. In effect, through the use of ICT, and to the internet in particular, the purchaser is no longer in "end of string", by consuming in a passive way a product, but he participated in its creation, its promotion or its dissemination, and consequently removed the monopoly of these actions to the enterprise. Instead of simply receive, the Community product, published and acts. The community may include consumers, creators, readers, writers,

listeners, recorders, for spectators, producers ...

- **The focus on core business:** The platforms are typically used for benefits of service deemed non-essential, non-strategic, or requiring a specific expertise. The Crowdsourcing therefore allows delegating certain tasks, allowing you to focus on its core business or on other priorities.

- **The motivation of the participants:** This type of community is characterized by the fact to bring a very important interest to a domain, or to a product. And generally the members of this community type do not seek to be paid and their motivations are focusing on a individual commitment to improve the center of interest which the gathers. Therefore to attract their attention, it should be to find a center of interest likely to be the basis for the constitution of a community.

- **The quality of service:** The Crowdsourcing allows companies to improve the quality of their products and services in referring to the opinion of the public.

- **The value creation:** According to Lebraty: "the development of the Crowdsourcing can be explained by its contribution to the creation of value in the organization". In this perspective, we can see that via the Crowdsourcing, the firm incorporated the crowd in the chain of value creation especially in the phase of the development of ideas. From an etymological point of view, the root of the concept of innovation has Latin origin, meaning "to make new" and can be found in the Middle Ages, XV c. (Panteleeva, 2010, p. 25). Materialized and needed on the market novelty is the only one that can provide its organization creator with positive financial results. It is a prerequisite for generating profit, which is one of the main objectives of any business entity. (Ivanova, 2017, p.142)

3. Framework methodology

The objective of our research was to provide a clearer view on the contribution of the Crowdsourcing as a process of innovation on the two types of Crowdsourcing (complex tasks and creative spots). As there was a lack of empirical research on the Crowdsourcing, the deductive method has been used to acquire a better understanding of the process of Crowdsourcing. This has been done by the identification of configurations of these variables and exploring the mechanism behind it. The variables were based on the theoretical knowledge from a study of literature comparable in the areas of innovation. According to Omar Aktouf who specifies that starting from one or several hypotheses, we apply a deductive reasoning that is to say, the general provisions, known in advance to a particular situation addressed. It is equivalent to a hypothetic-deductive method. This is a classic approach to modern science. It arises out of the experimental method and is applicable in human science in all disciplines and with several methods of research (Aktou Omar, 1987, p. 120). In practice, the deductive method is to check a general assumption on the largest number of specific comments. In effect this method is

to apply a general principle to a particular case (Mathieu Guidere, 2004, p. 257).

Then a semantic study was performed in order to explore the determinants of the process of Crowdsourcing and these assignments. The proposals made concerning the approach to strategic management of natural and social living environment are based on the interaction of the individualsubsystems and components of the regional system and the specific properties that distinguish it from the other systematic formations. (Vanev, 2017, p.161)

4. Discussion and inputs

After the results that have been found, we can say that companies can benefit from resources without being formally detained by them. This will be particularly the case during the use of the Crowdsourcing, the crowd then constituting a particular resource (not necessarily specific) not owned by the company. In effect, the vision of the company based on the resources also stresses the importance of the capacity for the integration of external resources made by the crowd. Nevertheless, the crowd does not include only qualified individuals. A large majority of these individuals presented a great problem of lack of knowledge and expertise. This incompetence of this part of the crowd might pose a problem for the conquest of the actants, potential customers of actor's providers. An efficient management of these skills is proving, therefore paramount, and even necessary. Nevertheless, according to: (Rus and Lindval, 2002, p. 296) the management of skills reveals the main activities of the Knowledge management.

The importance of the interdependence between the members of the crowd should be stressed. In effect asserts that the diversity of the group is a major asset in the use of the crowd. It is necessary to maintain this diversity among the crowd, he also claims that the diversity is an essential condition to have to benefit from the wisdom of the crowd. (Surowiecki, 2004. p.89) Therefore, the interaction between the members of the crowd offers a good contribution in term of diversity, quantity and ease, we can see this result on the graph 6 where the scenario interaction/work was treated. On this graph it is clearly noticed that the variables quantity, diversity and participation are very close and also a importance of variables: use and facilitates (sphere of large size in relation to the other).

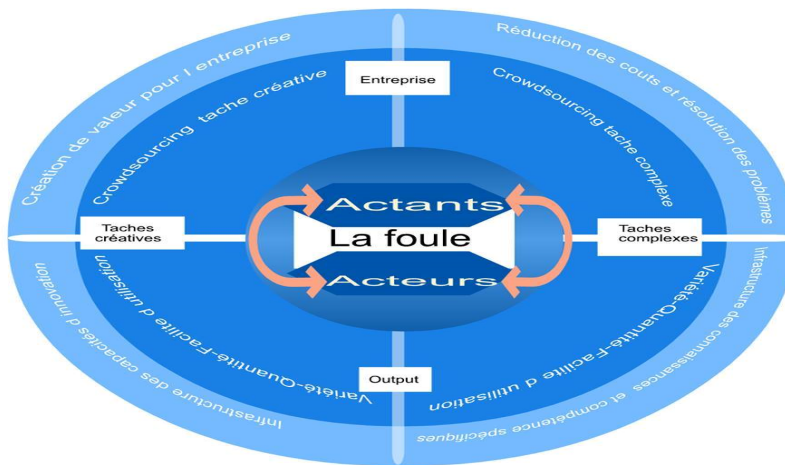
To summarize our results in a graph that highlights and explains the environment the process of the Crowdsourcing as a dynamic process between the different stakeholders namely, the recording (the licensor of orders for the outsourcing) and the actor (the receiver of orders) and that whatever the types of the Crowdsourcing and the purpose of the outsourcing (complex tasks, creative spots) and the contributions (output). Thus this proposed chart shows well that the Crowdsourcing is a process which is not a linear model of traditional innovations (first generation) or the innovation is represented by a line of sequential process which begins by pure science and ends by a commercial application (A. J. Berkhout et al. 2006, p. 45).

Also, it is not a model of innovation of second generation or the process of innovation is still designed as sequential steps as in the first generation except that the innovation process is reversed in this case science is replaced by the market, which has become the source of innovation.

Figure 6 shows that the proposed model describes a dynamic process or the interaction between the members of the crowd and the feedback (learning) between the crowd and the company (stating) affects the output of two types of Crowdsourcing in other words on the contribution of the Crowdsourcing.

In effect this quality is determined by the quantity of solutions or ideas proposed by the crowd, the variety, which reflects the diversity of options proposed to resolve the problems (Schenk and Guitard 2009) and the ease of use which refers to the usefulness of the ideas.

Figure no.1. Environment of the innovation process of the Crowdsourcing



Source: authors' own survey

The success of this dynamic process and interconnects the Crowdsourcing raises a creative interplay between infrastructure capacity for innovation and infrastructure of the specific qualifications of a large number of internet users. This success which will be materialized by quantity and quality of ideas and of the proposed solutions suggested to a business company, which will generate a value and additional reduction of costs. Indeed Lebraty and Iobré argue that the development of the Crowdsourcing can be explained by its creation of value for the organization. Precisely by taking into account the creativity and ideas of the crowd we have already created an additional value for the

firm. We can say that the firm created the value using the competence of the crowd to manufacture the products that wants the crowd.

Other shares Dujarier in 2008 specify that the Crowdsourcing is none other than the work of the volunteer amateur. This idea has also been supported by Lebraty, in 2007 year which stated that the individuals who offer their services have a salaried activity main. For them the Crowdsourcing is a "micro-task" that generates a "micro-income" and to which they give a small part of their time. In the case of the Crowdsourcing, the outsourcing is "open" to the crowd of "hobbyists". The generation of new ideas is essential to increase the competitive advantage of business organizations in terms of constant search for ways and means of improvement. (Filosofova, G. and V. Bikov. 2008, p. 25). New ideas are the basis of innovation and innovative activity of enterprises. The fast pace, at which consumer requirements change, requires investing in innovative solutions to ensure the continued existence and development of business organizations. Namely innovations are the main driving force of the market economy. (Nenov, T. 2010, p.3).

5. Conclusion

The results of this research to better understand the process of Crowdsourcing. However, our study presents a certain number of limits. From the point of view of the empirical analysis, many issues have not been addressed and remained to be dealt with in order to better understand the process of the Crowdsourcing, for example, what happened exactly after a process of Crowdsourcing? To which generation belongs the process Crowdsourcing? How the ideas are selected and which ultimately causes the adoption and use of contributions? How many firms, large & SMES, have recourse to this practice? What is the turnover of these past few years?

From the methodological point of view, we have based on the participants in a blog. The question of the legitimacy of these players deserves to be asked. Also, we have tended to guide the contributors and to orient in the virtual discussion during this experimentation. Would we find the same results; if we do not have oriented the contributors in this experimentation? Would we have the same factors with the same importance? Thus, in the context of a first approach to this concept of process Crowdsourcing, we believe these specialists, internet lovers, sufficiently representative and notified for that their evidence can be used in a scientific communication.

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OPERATIONAL RISKS OF THE MANAGEMENT AND CONTROL SYSTEM OF THE MANAGEMENT AUTHORITY OF THE OPERATIONAL PROGRAMME HUMAN RESOURCE DEVELOPMENT 2014-2020

Petya Naydenova¹

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Abstract

Effective management and control over the spending of EU funds is one of the key requirements together with the existence of clear programming documents and a legal and institutional framework in place for the use of Structural and Cohesion Funds. The management and control is effective only with a synchronized action of a system of control impacts. The aim of the researcher is to define the risk factors in the functioning of the management and control system of the Managing Authority of the Operational Programme Human Resources Development 2014-2020 in Bulgaria according to the European commitments.

Keywords: *system, risk, management, control, European programmes*

JEL Codes: *G32, P40, M11,*

1. Introduction

The European Union Funds Management System in Bulgaria is designed to meet national and European regulatory requirements and according to the best international standards and practices but still does not achieve the desired results. The detection and resolution of critical problem areas is an ongoing task of the executive and legislative authorities, the European Union, researchers, and the control system itself.

The article aims to define the risk factors in the functioning of the management and control system of the Managing Authority of the Operational Programme Human Resources Development 2014-2020 in Bulgaria. The subject of the research is the management and control systems in the Managing Authority of the Operational Programme Human Resources Development 2014-2020 in Bulgaria and the subject - the risk factors in its operation.

¹ Department of Public Administration, University of National and World Economy, Ph.D., naydenova.petia@gmail.com

The study uses the system approach, comparative, analytical, inductive and deductive methods.

2. The risk factors in the functioning of the management and control system of the Managing Authority of the Operational Programme Human Resources Development 2014-2020 in Bulgaria

For Managing the Operational Programme Human Resources Development (HRD OP) 2014-2020, the Managing Authority (MA) - Directorate General "European Funds, International Programmes and Projects" at the Ministry of Labor and Social Policy (MLSP) has developed a manual¹, which describes the internal rules and procedures for the management of the Operational Programme Human Resources Development covering the entire management cycle - from programming to the impact assessment of the financed activities.

The audit trails described in the manual are intended to provide reasonable assurance in two respects:

- ✓ All information subject to processing and reporting is correct;
- ✓ The management and control system includes procedures that ensure the accuracy and credibility of the expenditure declared under the programme and cover the administrative, financial, technical and physical aspects of the operations.

Risk identification is an activity carried out by the MA in order to identify the existing or potential risks endangering the achievement of the objectives set by the MA, including the risks associated with the fight against fraud.

On the basis of the objectives set, the potential risks to their achievement are identified and measures are taken to manage these risks. This requires a continuous process of assessing and managing the impacts of risks in an effective manner, and the MA should have employees with the appropriate knowledge and skills to identify and assess potential risks.

When identifying the risks of the MA, the inherent and control risks as well as the findings of the audited reports are taken into account. The residual risk is also evaluated.

Risks are classified as:

- External risks - these are risks related to external circumstances of the MA (external organizations, media, etc.)
- Internal risks - these are risks related to the activities and functions of the MA.

One of the main objectives of the risk assessment is to inform the management of the MA on the areas of risk where specific actions should be taken to mitigate the potential risks and the relative priority of these areas. Using such an assessment, risks can be classified by priority and their priority assigned. This information serves as a basis for

¹ www.esf.bg, According to the Procedural Manuals of the MA of the HRD OP 2014-2020, last verified on 15.03.2019

management decisions regarding the risks to be addressed (for example, risks with a high potential impact or risks with a high probability of occurrence).

The most common method of assessing identified risks is by qualitatively determining the expectation of the risk occurring and the impact that will be on the MA's activity.

The MA also carries out an assessment of the risk of fraud and effective and proportionate anti-fraud measures (Regulation (EU) No 1303/2013), as a commitment to the Managing Authority to create effective and proportionate anti-fraud measures to take account of identified risks.

Control activities are introduced to provide reasonable assurance that the risks identified in the risk management process are limited within acceptable limits.

The Manual of OP Managing Authority of the HRD OP does not have a procedure for checking for common and often repetitive fraud schemes by means of relevant indicators ("red flags")¹.

There is also no control mechanism or procedure in the Procedural Manuals of MA of HRD OP which is practically implemented and used to assess the impact and the likelihood of occurrence of the most common risks of fraud.

The MA's fraud risk assessment is only formally described in the MA's Manual but does not contain an effective audit trail that reflects that the MA through the actions taken receives information on the presence / absence of fraud.

A new point in the 2014-2020 programming period is the possibility of initiating a procedure for discontinuing payments and imposing financial corrections if the performance benchmarks are not met, but the weaker results should be due to clearly identified performance weaknesses, and the European Commission is required to inform the Member State of identified weaknesses.

Until the adoption of the Fund Management Act of the European Structural and Investment Funds, the imposition of financial corrections was not regulated by law, and the order and methods for making financial corrections in domestic law were fully regulated by secondary legislation and the appeal on a court order was not explicitly regulated, resulting in contradictory case-law and the impossibility of a wide range of EU fund users to defend their rights. (Yonkova, N., 2017, p.42)

If the Member State has not taken corrective action to address the weaknesses, the EC may temporarily suspend payments to it. At the end of the programming period, if the Member State has not yet been able to take corrective action to address the weaknesses, the EC may apply financial corrections.

The risk to sound financial management is represented by the HRD OP budget:

¹ Implementing Recommendations 9 in COCOF Information Note 09/0003/00-EN on Fraud Indicators for ERDF, ESF and CF.

- ✓ not to be used as intended, for the purposes and according to the rules established by the budgetary authority (legality and regularity of expenditure);
- ✓ not be properly accounted for in the annual financial statements (reliability of the accounts);
- ✓ not to be spent in a reasonable way, in accordance with the principles of sound financial management (economy, efficiency and effectiveness); and
- ✓ EU spending should not bring added value and the expected benefits are not realized (EU-added value).

The sound management of these risks should result in good cost quality, costs that are used in an economical, efficient and efficient manner and in accordance with the rules.

Analyzing the procedural actions of the MA and the implementation of control mechanisms when selecting a financing operation it becomes clear that the controls only confirm predefined conditions and parameters without identifying the risks and possible future problems.

In order to achieve policy effectiveness, it is not only important to set clear objectives and take into account the results at the programming stage. It is essential during the implementation phase of HRD OP to follow a result-oriented approach as the effectiveness of a policy is mainly determined by the quality of the projects financed and their added value in terms of tangible results. (Daskalova, 2009, p.170) In the selection procedures used by the Managing Authorities, priority should be given to selecting those projects that are most appropriate to the objectives that are most likely to achieve results and to ensuring that the funds allocated are spent in accordance with the rules.

In 2014, the process of using the Aharne tool in the EU started. Bulgaria has planned the introduction and use of the EC-developed Aharne system as a tool for risk assessment under Operational Programmes.

This provides an operational software tool for identifying the most risky projects, as well as allowing continuous, systematic monitoring and review of data from internal and external sources regarding projects, beneficiaries, contracts, and contractors.

In addition, the use of Aharne as a risk assessment tool is foreseen to be included in the description of the Management and Control Systems of the Managing Authorities.

The Arahne system as a risk assessment tool is described in the Procedural Manuals the MA of the HRD OP as an opportunity to use but in practice there is no control procedure for this.

There are various types of external and financial risks as well as the risks related to the activity, which may arise when the budget of the HRD OP is spent. If these risks become a reality, they can lead to:

- ✓ Non-implementation of policies or failure to achieve the intended objectives due to the wrong or inappropriate processes used to achieve the desired impact and results;

✓ The lack of added value, especially at European level. EU funds are able to bring benefits to EU citizens or other beneficiaries, but without these costs having a specific dimension at EU level. It may also be a case in which the achievement of the results would have been achieved with other funds or with less EU funds;

✓ Actions or omissions that harm the EU or the reputation of the MA;

✓ Non-implementation of appropriate operational methods or management methods in order to achieve the policy objectives; the results could be achieved in a satisfactory way or other methods would have resulted in better results; (Vasilev, 2017, pp. 153-157)

✓ Non-implementation of appropriate internal control systems to achieve the objectives (taking into account management, operations, legality and regularity of operations, finance, public procurement, fraud and other irregularities, the use of information technology, human resources, assets, health and safety, etc.) or lack of a performance management system in place to monitor progress;

✓ Complex and wide-ranging conditions may make it difficult for both the beneficiaries to comply with them and the managing authorities to check compliance. Where conditions are not clearly defined, they may lead to different interpretations and approval of expenditure in the culture of spending (ie to create pressure for spending available budget regardless of whether it meets real needs);

✓ Checks and controls by the Member States' managing authorities and auditors have not helped to prevent, detect and correct misstatements of expenditure;

✓ In order not to lose the budget they manage, the spending authorities prefer to focus on spending within the given deadlines rather than on using it in an appropriate or efficient way that strengthens the culture that is more focused on net balances and redistribution of the EU budget rather than on how EU funds can be better invested and used for the common good;

✓ The EU budget is used to fund activities and projects that are not self-sustaining or are not maintained after an EU support break. Consequently, the money originally used may not be used economically expeditiously;

✓ There is no information about what has actually been achieved and what benefits have been obtained. Sometimes partial information is provided, for example when individual countries produce reports on activities in their territories (in relation to performance objectives, assessments, etc.). However, no picture is given of the overall picture of the results of the performance nor is it allowed to make comparisons across the EU. As a result, the only coherent and comparable data available across the EU budget is on funding levels, and this can strengthen the culture of absorption of the budget;

✓ Member States may also complicate the rules by adding conditions in national legislation (for example in the field of public procurement) or other guidance, or by establishing their own eligibility criteria (for example, for Cohesion Policy expenditure) . These additional requirements may be unnecessary and impose unnecessary administrative obstacles and complicated aspects of EU spending;

✓ Control systems at different levels are not always sufficient to verify all conditions; (Kresnaliska, Chorbadzhiyska, 2017, pp.21-27)

✓ Management information systems do not provide sufficient data on how the funds are used, as well as on their impact and added value;

✓ Reporting and management accountability systems are not designed to evaluate end products or to track performance according to the plan;

✓ There are no indicators to measure the achievement of sound financial management (economy, efficiency and effectiveness), or indicators are inappropriate and stimulate unfair behavior.

From the evaluation of the management and control systems of the HRD OP 2014-2020, the following conclusions can be drawn:

1. The approach used to spend the EU budget is solely for the inputs, which means that the managing and supervising authorities focus on compliance with the rules without paying attention to the achievement of results. It is possible that financial management is largely focused on using the available budget.

2. Implementation of the budget brings European added value where the expenditure is justified and effectively contributes to the effective achievement of EU policy objectives and promotes capacity building and prosperity in the Member States. The EU budget provides funding in areas of exclusive competence of the Union but can also add value by creating networks (both physical and material) to enable the rapprochement of citizens and EU Member States.

3. The budget finances innovative activities and the availability of EU funds can stimulate Member States to adopt measures that they would otherwise not consider.

Reducing the administrative burden on beneficiaries is a horizontal priority set out in the applicable regulations and the Partnership Agreement, which is the focus of the Managing Authorities in the preparation of the 2014-2020 programmes and the procedures for their implementation as well as throughout the period of their implementation.

However, the actions taken are still not considered sufficient. Further efforts are needed to simplify the rules for reporting certain costs, such as staff costs; minimizing the change of manuals and, where appropriate, explicitly notifying the beneficiaries and conducting explanatory meetings; shortening the time for evaluating project proposals and verifying costs; timely posting of questions and answers; to define the needs and to develop the necessary databases; analyze needs and bottlenecks and make recommendations to the Central Coordination Unit to optimize Unified Management Information System for the EU Structural Instruments in Bulgaria UMIS 2020 and increase its functionality - including in terms of e-application, input of indicators and generation of reports.

In relation to the planned activities to reduce administrative burdens in the Procedural Manuals for the Management and Implementation of Operational

Programmes, incl. of the HRD OP, electronic application, electronic communication, document verification by electronic means, uniform payment rates for project management teams, expenditure limits for a learner, etc. are introduced under all procedures for granting the grant.

It is necessary to strike a balance between effective control over the spending of ESIF funds and the reduction of the administrative burden on beneficiaries. The administrative requirements should be proportionate to the potential risk of intervention, which may be related to the categorization of "simple, normal and complex" interventions with the relevant set of requirements and procedures. (Vasilev, Kirov, 2018)

3. Conclusion

The orientation of programmes towards results depends on a number of interacting elements, including good needs analysis, reliable intervention logic with clear specific objectives, well-selected performance indicators reflected in the selection criteria, and a well-structured implementation framework with realistic and achievable milestones and common goals.

Good governance of public spending implies that European taxpayers' money is used for priorities that are recognized as useful and desirable by society (through its elected representatives) where the objectives are achieved in an efficient, efficient and cost-effective way, and the availability of a system of checks and balanced competences ensures compliance with the democratic principle of accountability and effective management.

The MA should aim to simplify procedures and increase the flexibility and adaptability of the management and control systems for 2014-2020.

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COMPETITIVE ADVANTAGES AND COMPETITIVE STRATEGIES OF SMALL AND MEDIUM-SIZED ENTERPRISES

Radostina Emilova Yuleva¹

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Abstract

Modern conditions of the external environment, put a number of tests on small and medium-sized enterprises, they also provide a number of opportunities, especially for those who have an appropriate strategy to benefit from them, which is a prerequisite for the acquisition of Competitive advantages. Small and medium-sized enterprises are looking for changes, experimenting with new business models and do not blindly follow the imposed traditions of doing business, are becoming increasingly important in a modern plan. The main objective of this article is to clarify the nature and peculiarities of the competitive advantages of small and medium-sized enterprises, identify the main types of competitive advantages and competitive strategies. The main research methods used in the development are content analysis, method of analysis and synthesis, intuitive and systematic approach.

Keywords: competitiveness, competitive advantages, competitive strategies, enterprise.

JEL Codes: L20, L22, M10, O39

1. Introduction

The concept of competitive advantages analyzes the economics of company activity, mainly focusing on its ability to generate a much greater return on invested capital and to link the company's strategy with the main financial markets over an extended period of time. The competitive advantage exists when the enterprise owns and develops a combination of specific characteristics that allow it to overtake its competitors and be more competitive. An effective competitive strategy must be in order to carry out these activities and to ensure that the company has an advantage compared to competitors. A competitive strategy is a summary of the vision that a firm perceives against its competitors.

Research and technological development are often viewed as the only way to get innovative products on the market and a way to make a company

¹ Radostina Emilova Yuleva, PhD student - Management and Marketing, Southwest University "N. Rilski", Blagoevgrad, Ivan Mihaylov, 66, email: r.yuleva@gmail.com

competitive. This approach may result in lower growth for those economic operators who have limited investment and financial opportunities, as is usually the case for the majority of small and medium-sized enterprises. (Stavrova, Zlateva, Vladov, 2018, pp.97-98) A number of studies have come to the conclusion that small and medium-sized enterprises create more significant innovations than large companies. At the heart of this is the entrepreneurial behaviors of small and medium-sized enterprises, which in order to deliver value on the market apply creative approach and innovation in meeting the needs and solving the problems of consumers. They must therefore use creative and innovative techniques as a source of competitive advantage. Businesses should focus on the formulation and implementation of strategies that can benefit from their benefits from a smaller size. The most commonly quoted advantages in this regard are narrow product specialization, a clearer defined and geographically limited market segment. In addition, the simplicity of the SME organizational structure allows their entrepreneurs and managers to carry out close daily contact with staff, effective communication, and high speed of strategic decision making and realization of changes.

2. Competitive advantages of small and medium-sized enterprises

According to Filipova, an expression of an enterprise's competitiveness is its adaptability, expressing the adequacy of its responses to the impact of the environment and complying the amendments to the dynamics of the environment. (Filipova, M., 2004, p. 85) Dimitrova points out those competitive advantages are central to the process of shaping and developing the competitiveness of the enterprise. (Dimitrova R., 2014, p. 38) She also notes that the emergence of the modern concept of competitive advantages is predicated on the development of scientific and technical progress, globalization and the internationalization of competitive relations (Dimitrova R., 2014, p. 36).

Competitiveness is manifested through competitive advantages. It is considered that this relationship between these categories is causal and that competitiveness is reflected in the manifestation of the competitive advantage. According to Azoev, competitiveness is a result reflecting the existence of competitive advantages, without which its achievement is impossible. (Azoev, 2000, p. 61) in order to achieve a clear understanding of the mechanism for shaping competitiveness, disclosure of its content and internal links, it is necessary to explore the essence of competitive advantages. A number of definitions of the nature of the competitive advantage are given in the scientific literature. According to Markova's opinion, competitive advantage is the hallmarks of the company and its product, which are a value for consumers. (Markova 2005) Yaneva, points out that it is their evaluation served as a basis for the development of marketing strategies (Yaneva, 2017, 51). Kyurova, for its part, considers that the competitive advantage can be seen as a product-owned specific characteristic that add

value to consumers and carry greater usefulness than competitors' products (Kyurova, V., 2018, 112).

Competitive advantages are extremely time-consuming features of the entity or factors of the external environment that provide the enterprise with superiority over competitors in the particular market over the period considered. The competitive advantage is the characteristics or properties owned by the product or brand, which give them some superiority over the immediate closest competitors. Kotler mentions that a competitive advantage is an advantage over competitors, earned on the basis of offering greater value or lower prices or through more benefits justifying higher prices. (Kotler, 1996, c. 431) On the basis of what we have said here, we can summarize that the competitive advantage is a specific positive quality of the entity or entity that it excels in and differs in a positive way from its competitors. Dimitrova notes that in the context of the time perspective, competitive advantages can be considered as real and potential. (Dimitrova R., 2014, 45)

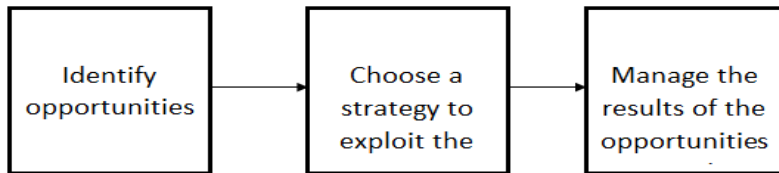
It is important to point out that the acquisition and development of competitive advantages is defined as the biggest challenge faced by small and medium-sized enterprises (SME's) in the modern conditions of a super-competitive and dynamically changing Business environment. At the same time, the achievements of strategic management, such as theory and practice, are motivated by and intended primarily for the needs of large enterprises. Therefore, they are not directly applicable in smaller companies and do not fully correspond to their needs and specific characteristics. According to Donel's opinion, usually small and medium-sized enterprises do not have the opportunity to develop advantages on the basis of economies of scale and scope, easy access to finance, carrying out costly research and development, etc., so widely covered sources of competitive advantages in the context of large enterprises. (O 'Donnell, 2002, p. 10) According to Kuyrova, a winning strategy for small businesses is the development and introduction of new products for the market or improvements in existing ones, as the realization of such products is bound on the one hand with more complete satisfaction of ever Increasing consumer needs and, on the other hand, achieving a competitive advantage (Kyurova, V., 2014, 161).

In practical terms, a company has a competitive advantage if it offers customers something that is different compared to other competitors' offerings and this difference is beneficial to customers. Situations in which the company can do something that companies competing cannot or owns something that the competitors do not have, but they want are examples of owning a competitive advantage. From a theoretical point of view, the company has a competitive advantage when it is able to create more economic value compared to its competitors. Economic value is the difference between the subjective assessment of the customer for the benefits it has received from the use of the company's product or service and the full cost, which includes all the costs of the company for the production and realization of the product or service. Thus, the size of the

company's competitive advantage can be defined as the difference between the economic value that the company creates and the economic value that its competitors create. Barney describes the competitive advantages of being temporary or sustainable. Temporary are those that only exist for a short period of time, while sustainable are those that the company manages to keeping for a long period. (Barney, 2006, p. 35)

The following two figures show the steps (Figure no. 1) in the process of acquiring competitive advantages and the basis for their acquisition (Figure no. 2).

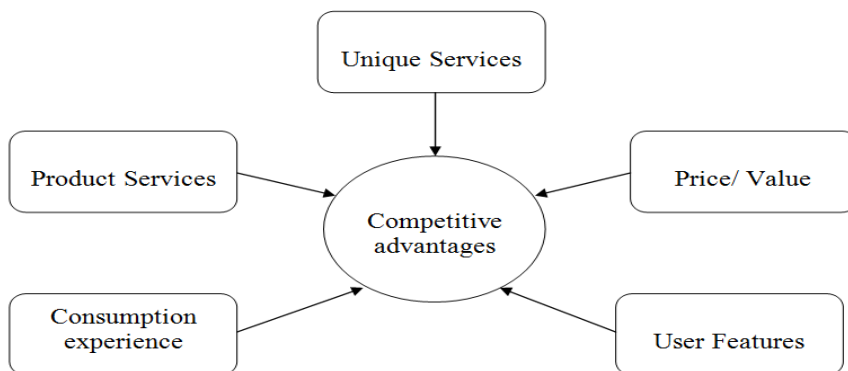
Figure No1. Steps in the process to gain competitive advantage.



Source: systematization of the author

It is evident that the first step in the process is to establish the possibilities of the pre-order, the second step is to choose a strategy for the use of the opportunities already established, and the third is to manage the results of their use. The basis for acquiring competitive advantages consists of several main components, and they are unique services, product attributes, experience of consumption, price and customer service.

Figure no2. The basis for acquiring competitive advantages



Source: systematization of the author

For the purposes of the research, we need to focus attention on the types of competitive advantages. Porter identified two main types of generic competitive advantages based on price advantage and differentiation. The advantages in price and

differentiation are known as positional advantages as they originate from the positioning of the company in a predetermined and deliberately chosen industry of operation. (Porter, 2010)

The price advantage means to offer customers not only a lower cost, but also a higher value against the same price compared to competitors. Very often in today's conditions, the acquisition and retention of an advantage based on low costs can only be achieved by large companies, as it is required to achieve cost leadership on a global scale. Such a strategy and competitive advantage are not suitable for SME's, as they do not have access to the necessary sources of benefits such as cheaper raw materials, energy and labour, economies of scale, scope and experience and technological innovation. Ultimately, there can be only one cost leader in an industry.

The second type of competitive advantage is associated with differentiation of the company's proposal based on unique characteristics or higher efficiency. This is a situation where the company proposal satisfies user needs or solves consumer problems better than competitors' offerings do. In this case, the opportunities for SME's to gain competitive advantages are more and more diverse. The company offer can be differentiated by providing additional services, branding, imposing a high image of the company brand, convenient distribution, etc.

The sources of differentiation are knowledge of products, markets and technologies that are not known to competitors; Positive relations with stakeholders; and flexible and proactive management. It should be taken into account that knowledge is not free and most often they are the result of investments, which makes them difficult and costly to master from some of the small and medium-sized enterprises. The knowledge of the product and technology is the result of research and development activities, and market knowledge – from conducting market research and analysis. Further to the creation of positive relationships with stakeholders, trust is required. Trust reduces transaction costs and control costs related to the performance of contractual relationships with consumers, suppliers, investors and employees. In turn, the advantages resulting from a flexible and proactive behaviour are related to the company's ability to capture the change in user needs and problems and on this basis to make quick decisions about what new products and services to offer. Flexibility, sensitivity and speed are defined as the most common and affordable sources of competitive advantage for small and medium-sized enterprises. (Wickham, 2006, p. 134) In this context, Kyurova, Zlateva and Yaneva point out that in the conditions of digital transformation and adaptation of modern business to the new technological conditions, it is becoming more and more applicable digital marketing as an effective way of Development. It is highly needed for small and medium business. Digital marketing equates chances in online conditions where SMEs can successfully compete with large companies. (Kyurova & Yaneva, & Zlateva, 2019, p. 65)

On the other hand, the resource-based view (RBA) emphasizes that the company can rely solely on the resources and competencies at its disposal to create and develop

competitive advantages. Creating a higher value for consumers, the company acquires a competitive advantage and achieves higher financial economic results. Resource – The underlying view examines the company as a collection of resources and competencies that are heterogeneous for different companies. Company resources are tangible and non-tangible assets that are permanently linked to the company at some point. Also resources are all these things that can be perceived as an advantage or disadvantage of a company. (Wernerfelt, 1984, p. 171-180)

This can be all assets, capabilities, organizational processes, specific company specifics, information, knowledge, etc. that are owned by the company and used by it to formulate and apply strategies that improve its effectiveness and results. Therefore, the formulation of the company strategy, according to Barney's opinion, and the building of competitive advantages should be guided by the possibilities for the most effective use of the resources and competencies owned by the company and not on the basis of the choice of an attractive position in the industry through Porter's generic strategies. (Barney, 1991, p. 99-120)

It is important to establish the criteria for choosing competitive advantages. Each company has the right to choose between different competitive advantages in a given period of time. The criteria for selecting the most important ones are several:

- ✓ Significance-an advantage is significant if the proposal ensures compliance of the function for which the product or the specified service is purchased.
- ✓ Specificity or divergence-competitors do not offer similar qualities and ways of bidding.
- ✓ Superiority-The proposal is superior to that of competitors and roads where such advantages can be obtained.
- ✓ Justifiability-Competitors cannot imitate it, or if they imitate it, their success will be small. If the product is protected by patents, the owner of the patented product has the right to seek responsibility for the stolen innovation or idea.
- ✓ Uniqueness-the uniqueness guarantees longer lasting success and is one of the conditions for a strategic position.
- ✓ Efficiency-the implementation of a competitive advantage must provide profit while being available to consumers in the target market.

3. Competitive strategies of small and medium-sized enterprises

There is a close correlation and dependence between competitive advantages and competitive strategies. The successful operation and development of the enterprise in competitive markets requires it to have competitive advantages over its competitive market. Dimitrova notes that competitive advantages are the basis for the formation and realization of the competitive strategy of the enterprise. (Dimitrova R., 2014, p. 51-52) Competitive advantages are the basis for developing an effective strategy and, for its part,

the successful strategy is the one that leads to the acquisition and preservation of competitive advantages.

In this regard, Filipova points out that 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 requirements of the users and high quality of the offered products. (Filipova, M., 2005, 53) The ultimate goal of the strategic management process is to lead the company to choose and implement a strategy that will provide the company with a competitive advantage. This also applies to small and medium-sized enterprises, which need a strategy to gain a competitive advantage and achieve high financial and economic results. A number of studies, described in the work of Miller, show that companies with a well formulated strategy achieve better results than companies without strategy. (Miller, 1994, 1649 – 65)

According to Pelham, small businesses are more successful, following a strategy of differentiation and therefore striving to acquiring competitive advantages based on differentiation. (Pelham, 1999, p. 33-46) However, it is often seen that strategic governance is important for large enterprises, while entrepreneurs and managers in small and medium-sized enterprises do not pay due attention to the opportunities of Strategic management. One of the reasons for this is that small and medium-sized enterprises are too engaged in carrying out their daily activities and solving their operational problems and there is no time and opportunity for strategic analyses and solutions.

According to different authors, small and medium-sized enterprises, located in the early stages of their development, are more effective in identifying business opportunities than larger and established companies. (Ireland, 2003, p. 963-989) At the same time, SME's are more inefficient in gaining competitive advantages in the process of exploiting these opportunities. This is especially typical for companies that suffer from a lack of strategic behavior. Consequently, they have difficulties in building and maintaining competitive advantages.

Gaining a competitive advantage is not enough in itself, the key to success is the acquisition of a sustainable competitive advantage. In the long term, companies acquire competitive advantages through their skills to develop and build on a set of key competencies that allow them to serve certain market niches better than competitors. Key competencies are unique capabilities that companies develop in important areas such as consumer service, delivering high quality and reliability, innovation, teamwork, flexibility, sensitivity and adaptability to changes in Environment and others that allow them to overtake competitors. Companies can only acquire sustainable advantages if they possess valuable resources that are rare, difficult to imitate and interchangeable. Resources must be valuable, which is associated with their potential to create value. They should be rare, which is associated with their insufficiency and therefore inaccessibility for all companies wishing to possess them. In addition, they must be difficult to imitate

and with a high degree of unhearing, which is associated with providing a lasting competitive advantage for the company.

For the purposes of this study, it is important to devote attention to types of competitive strategies. The most commonly used strategies that lead to the acquisition of competitive advantages can be summarized as follows:

- Personalized service;
- Flexibility and adaptability;
- Specialization and custom production of products and services;
- Effective and speedy decision-making process;
- High motivation and morale of the staff as a result of togetherness and close;
- Relations with the owners and managers of SME's;
- Geographical specialization. Continuous search for new opportunities and niche markets;
- Preserving entrepreneurial behavior and willingness to risk taking;
- Creation of new partnerships;
- Continuous and renewed.

In connection with the realization of these strategies, the concept of strategic entrepreneurship deserves attention. It is a relatively new research area and because of its early development there are different perspectives on its importance and definition. The core of its essence is the merging of the concepts of entrepreneurship and strategic management. Strategic entrepreneurship, according to Kuratko view, is a combination of the opportunistic behavior of entrepreneurship with strategic behavior seeking advantages. (Kuratko, 2009, 1-17)

As a result, strategic entrepreneurship is associated with the recognition and use of business opportunities at the same time as acquiring and retaining competitive advantages. Competition is the basis of a market economy, a powerful incentive for economic growth, improvement of the quality of production, acceleration of scientific and technical progress and reduction of production support. State intervention in the market sector of the economy is increasingly needed. A mandatory function of the state is the activity of creating conditions for establishing, developing and supporting fair competition, as well as by crossing long-term monopolistic and antitrust agreements. Competitiveness strategies are used to create and support competitive advantage. Developing a competitive strategy, the company must find a way to position itself in its industry effectively and long-term, taking into account both the specific branch conditions, the size of its capital and the accumulated knowledge and experience. It is necessary to create conditions under which the new entrepreneur will have access to information required to effectively reconcile his decisions with those of other market participants. Conducting information analysis activities is primarily aimed at providing technological advantages for the company.

4. Conclusion

On the basis of the above, we can conclude that the competitiveness of small and medium-sized enterprises is the ability, through continuous renovation and improvement, to create and sustainably maintain competitive advantages leading to High financial results in the long term. The advantage of small and medium-sized enterprises to large companies is their flexibility and adeptness to market changes, innovation and consumer changes. Competition is the only method of mutual coordination of individual actions without coercion or arbitrary interference by the authorities. Successful application of competition as a principle of social organization allows certain types of coercion in the economic life if this assists the act of competition law.

In a market environment, no undertaking could afford to ignore the real and potential opportunities of its competitors. Long-term success in the fight against competition is rooted not only in the knowledge of the factual opportunities of competitors, their characteristic reactions, but also in building competitive advantages. The changes in the market situation compel companies to update their reactions, but adequately and at a faster pace than competitors. A key element in such a situation is the skillful management of sales and the associated competitive advantages.

Several main conclusions can be made on the topic under discussion:

First: There is a two-way link between competitive advantages and competitive strategies. On the one hand, competitive advantages are the basis for developing an effective strategy and, on the other hand, a successful strategy is one that leads to the acquisition and preservation of competitive advantages.

Second: In order to understand the mechanism for shaping competitiveness, revealing its content and internal links, it is necessary to explore the essence of competitive advantages.

Third: A company has a competitive advantage if it offers customers different and new products on the market, which outperform the products of its competitors.

Fourth: Companies can acquire sustainable advantages only if they possess valuable resources that are rare, difficult to imitate and substitutable.

Fifth: Small businesses are more successful, following a differentiation strategy and thus striving to acquiring competitive advantages based on differentiation.

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THE IMPACT OF INTELLECTUAL CAPITAL ON THE COMPETITIVE ADVANTAGE IN JORDANIAN TELECOM COMPANIES "A CASE STUDY ON ORANGE COMPANY"

Ahmed Hashem Al Assaf¹

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Abstract

The present study aimed to recognize the impact of intellectual capital in achieving competitive advantage in Jordanian telecommunications companies. The study sample consisted of (245) employees, who were selected by a simple random methods, and represents about (42.3%) of the overall study population.

Two study instruments were developed to measure intellectual capital and competitive advantage, both study instruments have appropriate validity and reliability indices, after the data has been collected and analyzed the following results have been found.
- There is a significant impact of intellectual capital dimensions (human capital) on competitive advantage in the Jordanian telecommunications companies, and the value of Beta indicates for a positive direction of the relationship.

- There is a significant impact of the intellectual capital dimensions (structural capital) on competitive advantage Jordanian telecommunications companies. And the value of Beta indicates for a positive direction of the relationship.

- There is a significant impact of the intellectual capital dimensions (relational capital) on competitive advantage Jordanian telecommunications companies, and the value of Beta indicates for a positive direction of the relationship.

Keywords: *Intellectual Capital, Competitive Advantage, Jordanian telecom companies, Orange Company*

JEL Codes: *D41, P42, H32*

1. Introduction

The environment of business organizations faces complex challenges of intense competition and rapid change. The constant transformation of the modern business

¹ Assistant Professor, Business school, Business Administration Department Al - Zaytouna University, Amman, Jordan, E-mail: a.alassaf@zu.edu.jo

environment as a result of the use of the Internet, electronic networks and information technology, This has led to an increase in the demand for highly qualified and skilled workers with expertise and skills in the best use of information technology.

Successful business organizations attract, select and develop working people to enable them to lead those organizations, to care for its customers, their needs and desires, and to exploit the opportunities of different technologies available in the business environment. Therefore, the main challenge for business organizations is Ensure availability of outstanding individuals, and train them, develop their abilities and their skills.

And the need for knowledge of business organizations, the growing need to acquire, develop, and utilize them has become the most effective way to achieve the effectiveness of the activities and operations of these organizations. Intellectual Capital has become a competitive advantage for organizations to compete for and compete to acquire and get it.

At the beginning of the twenty-first century, a number of studies have been launched to explore the possibility of benefiting from the success of business organizations in intellectual capital and to measure and transfer it to all sectors in order to achieve competitive advantage, to improve the chances for organizations to succeed.

The present study aims at identifying the effect of intellectual capital on achieving competitive advantage and applying it to the telecommunications companies in the Hashemite Kingdom of Jordan. This is important for the national economy, which contributes to the gross national product and its results in the comprehensive development and raising the standard of living of Jordanian citizens.

1.1 The study problem and its questions

The study problem Identify the impact of intellectual capital with its dimensions (human capital, structural capital, and relational capital) in achieving the competitive advantage of the Jordanian telecom companies.

1.2 Purpose of the Study

The purpose of the study can be achieved by answering the following questions:

- To what extent the availability of intellectual capital with its dimensions (human capital, structural capital, overhead capital) in Jordanian telecom companies?
- Is there an impact of intellectual capital with its dimensions (human capital, structural capital, and capital) on achieving competitive advantage with its dimensions to the Jordanian telecom companies?

1.3 The importance of the study

The study derives its importance from the following aspects:

-As the environments of business organizations face complex challenges represented in intense competition and the speed of change, and these challenges imposed new tasks for human resources, including attracting a new quality of resources characterized by knowledge and high awareness.

- The importance of the study community represented by the Jordanian telecom companies for the vitality of this sector in the national economy, specifically in the Jordanian telecom companies.

- The importance of the study as it is - and the extent of knowledge of the researcher - first, which dealt with this subject through the analysis and comparison of the impact of intellectual capital in achieving the competitive advantage in the Hashemite Kingdom of Jordan to the Jordanian telecom companies, so this study is a cornerstone or a starting point for academics to build on it.

1.4 Study Hypotheses

This study attempts to test the following hypotheses:

The first hypothesis

There is no impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving the competitive advantage of Jordanian telecom companies, and branch out it the following sub-assumptions:

- There is no impact of intellectual capital (human capital) on achieving competitive advantage in Jordanian telecom companies.

- There is no impact of intellectual capital (structural capital) on achieving competitive advantage in Jordanian telecom companies.

- There is no impact of intellectual capital (relative capital) on achieving competitive advantage in Jordanian telecom companies.

1.5 Procedurally Definitions

The following variables can be identified for study:

First: Independent variable:

Intellectual Capital: Sullivan (1999) argues that intellectual capital is knowledge that can be converted into value. In the present study, it can be defined as intangible assets the outcome of the interactions between the expertise and the knowledge of all human resources in the organization which contribute to improving the efficiency of the internal operations of the company and includes three main elements as follows:

Human capital: Bontis et al (2000) believes that human capital is the individual storage of the organization which is expressed by workers, generating intellectual capital through their skills (skills, education), their attitudes (work behaviors), and the speed of intellectual intuition that enables them from thinking creatively to solve the problems.

Structural Capital: (McElroy 2002) refers to structural capital as all things that support human capital but remains in the company when employees leave their jobs. In the present study, it can be defined as The company's organizational capabilities, which include databases, research and development, organizational structure, regulations and procedures, which contribute to the creation of intellectual property generated from human capital, serving the organization and its internal and external interests.

Relative capital: (Bontis 1998) defines it as all relationships established by the company with stakeholders (customers, suppliers, partners, and government). (Stewart 1997) explained that the purpose of the relationship with external stakeholders is to transfer it to funds.

The current study can be defined as human and structural capital management to create a healthy relationship between the company and external stakeholders reflected by some indicators (customer satisfaction, customer loyalty, customer empowerment, and customer retention).

Second: dependent variable:

Competitive advantage: A dynamic concept based on self-effort and creativity, and the addition of new to superior competitors through quality, high technology and marketing to attract buyers of the product As a milestone recognized by the customer In the facility or in the product, which gives it an added advantage over its competitors.

1.6 The limits of the study

For each practical study or theory of spatial boundaries, temporal limits as well as human boundaries, spatial boundaries are represented in the study sample institutions. The temporal boundary represents the time period extended from the beginning of work on this study to its end, as follows:

1. The spatial boundaries of this study represented by Orang Telecom.
2. Time Limits: The time limits of this study ranged from the beginning of the work of this research until the end of this research, during the period October 2016 to December 2017.
3. Human boundaries: The Human boundaries of this study represented by Orange employees, in various administrative functions.

2. Previous studies

Al-Hawajra (2010) conducted a study entitled "Studying the correlation between capital investment strategies and the competitive performance of institutions". This study aimed at analyzing the Link relationship between Strategies for investment in the knowledge capital by the performance of Jordanian insurance companies. The study concluded that there is a strong positive relationship between investment strategies in intellectual capital and competitive performance of the surveyed companies, The study also pointed out that there is a Interrelated relationship between the knowledge institution and competitive performance in a number of areas Such as the adoption of mechanisms for the documentation, registration and classification of knowledge, indicating that these companies pay great attention to knowledge capital and solidify their knowledge base and put it into proper implementation Thereby enhancing their administrative and managerial capacity.

Al-Saed (2008) conducted a study entitled "The Impact of Intellectual Capital and Internal Audit on Institutional Governance in Jordanian Industrial Companies". The aim of this study was to identify the impact of intellectual capital and internal auditing on the institutional governance of the 64 Jordanian industrial joint stock companies. A random sample of 20 companies was selected from the point of view of the internal audit manager, the board of directors, executives, And the Audit Committee). The study concluded with a set of results: that intellectual capital represents the most valuable asset in the twenty-first century under the so-called knowledge economy, and represents an effective and capable scientific force to make fundamental changes in the course of companies and their various activities, thus contributing to the improvement of the efficiency of corporate governance. The study also concluded that the concept of intellectual capital is a concept used by corporate departments and that there is an impact of intellectual capital and the internal audit profession on corporate governance, on the effectiveness of its activities and on achieving its objectives. The study showed that there is an impact of intellectual capital on institutional governance, which benefited the researcher in formulating the objectives of the present study.

Al-Sherbati (2008) discussed the impact of intellectual capital on the performance of Jordan's pharmaceutical industry organizations, it aimed at examining the impact of intellectual capital on the performance of Jordan's pharmaceutical industry organizations. The study sought to uncover the interrelationship between the three elements of intellectual capital: Human capital, structural capital, and relative capital (as independent variables) and their relationship with the performance of Jordanian pharmaceutical industry organizations (as a dependent variable). The study included executives, senior management and middle managers working in Jordan's fifteen pharmaceutical industry organizations in Jordan, which number about 200 managers. The study concluded with a number of results, the most important of which was: The existence of a direct and

positive relationship between the intellectual capital and the performance of Jordanian pharmaceutical industry organizations. And pharmaceutical organizations focus more on human capital and the relational capital more than their concentration on structural capital. There are strong relationships, interactions and linkages between the three main components of intellectual capital. And that the performance of the organization's intellectual capital can clearly explain productivity and profitability rather than market value.

Clarke, et al (2010) conducted a study entitled "Intellectual Capital and Firm Performance in Australia" The study aimed to measure the impact of intellectual capital on the performance of companies in Australia, listed from 2004-2008. The study uses the value added coefficient of general intellectual capital and its components (human capital, structural capital, relative capital) as an independent variable and their relationship to performance (asset returns, profitability returns, input growth, and employee productivity). The study concluded that there is a direct relationship between intellectual capital and performance, especially the effectiveness of capital use and less effective than human capital, a positive relationship between human and structural capital and their effect on performance in the surveyed years. As well as the existence of a moderate relationship between intellectual capital and physical and financial capital, which affect the performance of companies.

Ngah & Ibrahim (2009) conducted a study in Malaysia entitled "The Relationship of Intellectual Capital Innovation and Organizational Performance: a Preliminary Study in Malaysian SMEs" Aimed to measure the relationship between the components of intellectual capital and innovation on the organizational performance of Malaysian small and medium enterprises, through the ability of these companies to invest their knowledge assets and innovative skills to serve them for survival and continuity. The study concluded that knowledge assets play a large role in increasing SMEs' ability to innovate new goods and products. However, the knowledge capital of these companies is in the stage of childhood.

Huang & Hsueh (2007) conducted a study entitled "The Relationship between Intellectual capital and Business Performance in the Engineering Consulting Industry: A Path Analysis " The study aimed to analyze the relationship between intellectual capital and institutional performance in the engineering consultancy industry: path analysis. The study sought to uncover the interrelationship between the three elements of intellectual capital: human capital, structural capital, and relative capital as an independent variable, and their relationship with institutional performance in the engineering consulting industry as a dependent variable. The study included (101) companies. The study concluded with a number of results: Engineering consulting companies based on structural capital and relative capital showed better performance than those based on human capital. And that human capital has an impact on structural capital and relative capital but the relative capital has a direct impact on the performance of the institution.

While Wang Chang (2005) conducted a study entitled "Intellectual Capital and Performance in Causal Models: Evidence from the Information Technology Industry .in Taiwan" Intellectual Capital and Performance in Causal Models: Evidence from the IT Industry in Taiwan. The study aimed to investigate the influence of the elements of intellectual capital on business performance and finding the relationship between the four elements of intellectual capital (human capital, creative capital, operational capital, and structural capital) From a causal perspective and how they affect performance. The study concluded a number of results, including: That human capital has no direct impact on performance but has a direct impact on other intellectual capital components and thus affects performance. Creative capital, operational capital have a direct impact on performance. The study also found that human capital affects creative capital and processes, creative capital and processes that affect performance, and creative capital directly affects relational capital.

Rindova & Fombrun (1999) conducted a study entitled "Building Competitive Advantage" , This study attempts to describe the competitive environment through four factors that help in building and achieving competitive advantage, which is a network linking the physical and human factors in the institution, and then discuss the six operations carried out by the institution in order to link the four factors referred to, and examine the role of each factor in the achievement of competitive advantage, and has been clarified these factors and dynamics and discuss the case of (IBM)for the computer industry, The study concluded that economic theories that pointed to competitive advantage neglected the human aspects, and that competition can be clarified through a complex network of producers, suppliers and customers. According to this model, this network is based on the analysis of physical and human factors and determining the role of managers and its impact in identifying strategic Alternatives Depending on the surrounding environment and the field of competition in which the institution operates, not only by focusing on different suppliers and markets and their potential relationships but also focusing on knowledge and expectations and creating a sense of organization for the surrounding environment.

3. Methodology

Using descriptive field survey methodology to suit the current study questions and its hypotheses, the following is a description of the elements of the study methodology.

3.1 Population of the Study

The study population is composed of all the employees of Orange Mobile Telecommunication Companies in Jordan. The statistics indicate that their total number

(578) according to 2011 statistics, distributed in the main management and branches in the city of Amman.

3.2 The study sample

The sample of the study consisted of (245) employees and administrators in the simple random way, representing about (42.3%) of the total study population of (578) employees and administrators working in the orange company main management And branches located in the city of Amman. The following table shows the distribution of the sample population by demographic variables.

Table no.1 - Distribution of Study Sample Population by Demographic Variables

Variable	Category	Frequency	percentage
Experience	Less than 5 years	128	52.2
	5-10 years	79	32.2
	10 years and more	38	15.5
Academic qualification	Bachelor and less	100	40.8
	Postgraduate	107	43.7
Administrative position	Employee	38	15.5
	Head of the Department	225	91.8
	Manager	20	8.2

3.3 Study tool

The study tool was developed based on theoretical literature on intellectual capital in addition to a number of questionnaires used in previous studies related to the subject of the study to achieve the objective of the study which is represented in the impact of intellectual capital and competitive advantage:

- First part: Customize to identify demographics of respondents of the telecommunications company (gender, age, years of experience, educational qualification, job location).

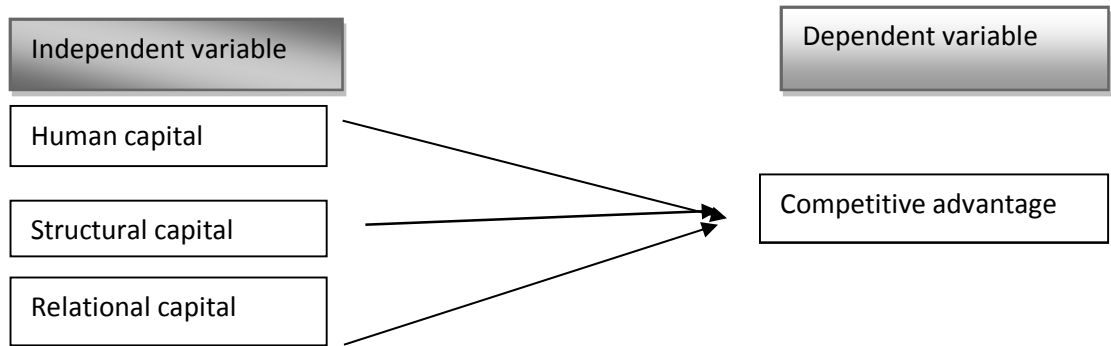
- The second part: Dedicated to terms covering the study variables which are to identify the impact of intellectual capital in its three dimensions on the achievement of competitive advantage in telecommunications companies. The researchers used the Likert Five metric scale (strongly agree, agree, neutral, disagree, and strongly disagree) to respond to the paragraphs of the questionnaire.

3.3.1 Validity of the Study Tool

To ensure the validity of the tool it was presented to a group of experienced and competent faculty members in Jordanian universities, Where the arbitrators made a number of observations concerning the formulation of some paragraphs to be more appropriate within the variables that measure them, and relied on the criteria of 80% or more as a criterion for accepting the amendments proposed by the arbitrators.

3.3.2 Reliability of study tool

In order to verify the reliability of the study tools, the Kronbach Alpha equation was used. It was found that the reliability of the variables of the study was (0.82, 0.79, 0.75) for the intellectual capital variables (Human, structural, relational) respectively, for the questionnaire of competitive advantage of Coefficient of constancy was (0.85), and that all reliability coefficients were appropriate and fulfill the current study purposes.



4. Results of the Study

The present study aimed at identifying the impact of intellectual capital on the competitive advantage of Jordanian telecom companies. In order to answer the study questions and hypotheses, the study data was reviewed and test their hypotheses that appear in the current section.

Results related to the first question: What is the availability of intellectual capital with its dimensions (human capital, structural capital, relational capital) in the Jordanian telecom companies?

To answer this question, the arithmetical averages, standard deviations were calculated and tables (2, 3, 4,5) showing the results associated with this question.

Table no. 2 - Calculation averages and standard deviations of respondents' responses to the human capital domain

Item	Mean	Standard deviation	Rank	Level
The staff holds high academic and professional certificates	4.20	0.94	1	High
The employees of the company have the skills to carry out studies and research necessary to develop the work.	4.02	0.95	2	High
Staff has the ability to apply and use knowledge, and transfer it to practical application.	3.93	1.00	3	High
The company does its utmost to retain employees with high knowledge of work specifications.	3.91	0.93	4	High
Management believes that experience and training are the best ways to acquire practical skills.	3.90	0.98	5	High
Most of the company's knowledge is placed in databases and Manuals	3.89	1.01	6	High
The employees have the skills to solve the problems they face.	3.84	0.97	7	High
The employees have sufficient experience to perform their work efficiently.	3.72	0.96	8	High
The employees of the company know their knowledge and are in line with the latest developments.	3.56	0.89	9	Medium
General average	3.89	0.54		High

Table (2) shows that the mathematical averages ranged between (3.56 - 4.20) The highest average arithmetic was for the paragraph "the workers have high academic and vocational certificates", which averaged 4.20 and a standard deviation (0.94). And that the least arithmetic average was for the paragraph "The employees of the company know their knowledge in proportion to the latest developments" with an average of 3.56 and a standard deviation of 0.89, a general average of 3.89 and a standard deviation of 0.54, which is within the high level.

Table no.3 - The arithmetical averages and standard deviations of respondents' responses to the structural capital domain.

Item	Mean	Standard deviation	Rank	Level
The company has modern equipment to facilitate the completion of work.	4.25	0.85	1	High
The company provides an electronic system to monitor the performance of its employees and to maintain the level of services provided.	4.18	0.92	2	High
The company's management information systems are accurate, modern and timely.	4.09	0.93	3	High
The company documents its achievements through	4.08	0.95	4	High

periodic bulletins and brochures.				
The company provides sufficient computers to complete the various works.	4.03	0.94	5	High
The company has a sophisticated service system.	4.01	0.96	6	High
The company relies on a large degree and variety of software in its work.	3.86	0.97	7	High
The company provides systems to evaluate its relationship with the client	3.74	0.96	8	High
The police have a detailed database of their customers and needs	3.62	0.94	9	High
The company provides a system to address the personal and administrative needs of employees.	3.56	0.86	10	Medium
General average	3.94	0.46		High

From Table (3) it is clear that the mathematical averages ranged between (3.56-4.25) and that the highest average was for the paragraph "The company has modern equipment to facilitate the completion of work", which averaged 4.25 and a standard deviation (0.85). And that the least arithmetic average was for the paragraph "The company provides a system to address the employees personal and administrative needs .The overall average is 3.94 and a standard deviation of 0.46 is within the high level.

Table no.4 - The arithmetical averages and the standard deviations of the responses of the study sample members to the relative capital domain items

Item	Mean	Standard deviation	Rank	Level
The company has a clear vision of enhancing customer loyalty.	4.15	0.96	1	High
The company works to maintain communication with customers	4.06	0.99	2	High
Customers of the Company express their satisfaction with the services provided.	3.99	0.97	3	High
The company maintains special programs to maintain contact with its customers	3.95	0.99	4	High
The company provides new services to meet the needs of customers	3.92	0.98	5	High
The company is keen to quickly implement the services provided to customers	3.87	0.98	6	High
There are several ways to communicate with customers and hear their opinions	3.85	1.01	7	High
The company gives special privileges to customers in order to maintain contact with them	3.60	0.90	8	Medium
General average	3.93	0.52		High

Table (4) shows that the mathematical averages ranged between (3.60-4.15) The highest arithmetic average was for the paragraph "the company adopts a clear vision about enhancing the affiliation of its customers" which averaged 4.15 and a standard

deviation (0.96), and that the least arithmetic average was for the paragraph "The company gives special privileges to customers in order to maintain contact with them" with an average of 3.60 and a standard deviation of 0.90, and a general average of 3.93 and a standard deviation of 0.52, which is within the high level.

Table no.5 - The arithmetical averages and standard deviations of respondents' responses to the items of competitive advantage.

N	Item	Mean	Standard deviation	Rank	Level
1.	The company enjoys a distinct position in the local market.	4.32	0.91	1	High
2.	High-end technology is used to gain a competitive advantage	4.25	0.85	2	High
3.	Growth of the market share of the domestic market	4.18	0.97	3	High
4.	Competition in the company requires the presence of modern technologies in providing new and diverse services to customers.	4.18	0.92	4	High
5.	Diversity and renewal of ways and methods of work	4.08	0.95	5	High
6.	Sales growth in general	4.07	0.99	6	High
7.	The company's distinctive position in the local market	4.04	0.97	7	High
8.	The quality of the services provided in the company is positively reflected on the competitive advantage	4.01	0.96	8	High
9.	Innovation of new services contributes to competitive advantage	3.86	0.97	9	High
10.	There are positions in the company that need to make creative decisions that contribute to the achievement of competitive advantage.	3.74	0.96	10	High
11.	The company poses for more than one product	3.71	0.95	11	High
12.	There is innovation for new products	3.63	0.90	12	Medium
13.	The use of advanced technology helps to achieve competitive advantage in the company.	3.56	0.86	13	Medium
General average		3.96	0.48		High

Table (5) shows that the mathematical averages ranged between (3.56-4.32) and the highest arithmetic average was for the paragraph "The company has a distinct position in the local market" which averaged 4.32 and a standard deviation (0.91). and that the least arithmetic average was for the paragraph "The use of advanced technology helps to achieve a competitive advantage in a large and extensive in the company" with an average of 3.56 and a standard deviation of 0.86, The general average is 3.96 and the standard deviation is 0.86 and it is within the high level.

Results related to the second question: Is there an impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in Jordanian telecom companies?

The second question will be answered by the following hypotheses:

The first hypothesis:

There is no impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in Jordanian telecom companies.

To answer this hypothesis, a multiple regression analysis was conducted to identify the impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in Jordanian telecom companies and Table 6 shows the results.

Table no.6 - Results of the multi-regression analysis of the impact of intellectual capital in its dimensions (human capital, structural capital, and capital) on achieving competitive advantage in Jordanian telecoms companies

	Multi correlation	R ²	F	Sig
First hypothesis	.832 ^a	0.69	180.27	.000 ^a

Table (6) shows that the coefficient of correlation between intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in the Jordanian telecom companies (0.832) and the statistical value of 180.27 at a mean level of 0.05 and less, There is an impact of intellectual capital in terms of its dimensions (human capital, structural capital, informal capital) to achieve the competitive advantage of Jordanian telecoms companies. In order to answer the sub-hypotheses, a simple regression analysis was performed, the results of which are shown in Table (7).

Table no.7 - The results of the multi-regression analysis of the impact of intellectual capital in its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in Jordanian telecom companies in details.

Hypothesis	Multi correlation	R ²	Beta	F	Sig
First	.334 ^a	.112	0.334	30.613	.000 ^a
Second	.796 ^a	.634	420.120	.000 ^a	.796 ^a
Third	.573 ^a	.328	118.242	.000 ^a	.573 ^a

First Sub-hypothesis:

There is no impact of intellectual capital (human capital) on achieving competitive advantage in Jordanian telecoms companies. Table (7) shows that correlation coefficient between intellectual capital (human capital) to achieve the competitive advantage of Jordanian telecom companies (0.334) and that the statistical value of 30.61 at a level of significance of 0.05 and less, so there is an impact of intellectual capital with its dimensions (Human capital) to achieve the competitive advantage of Jordanian telecoms companies. The beta force indicates that the direction of the relationship is positive.

Second Sub-hypothesis:

There is no impact of intellectual capital (structural capital) on achieving competitive advantage in Jordanian telecoms companies. Table (7) shows that the coefficient of correlation between intellectual capital (structural capital) to achieve the competitive advantage of Jordanian telecommunications companies (0.796) and that the statistical value of 420.12 at a level of significance of 0.05 and less, so there is an impact of intellectual capital with its dimensions (Structural capital) to achieve the competitive advantage of Jordanian telecom companies. The beta value indicates that the direction of the relationship is positive.

Third Sub-hypothesis:

There is no impact of intellectual capital (relative capital) on achieving competitive advantage in Jordanian telecoms companies. Table (7) shows that correlation coefficient between intellectual capital (relative capital) to achieve the competitive advantage of Jordanian telecom companies (0.328) and that the statistical value of 118.24 at a level of significance of 0.05 and less, so there is an impact of intellectual capital with its dimensions (Related capital) to achieve the competitive advantage of Jordanian telecoms companies. The beta value indicates that the direction of the relationship is positive.

4.1 Discussion of the Results

The results of the study indicate that through the responses of the study sample individuals on the paragraphs of the field of human capital, the general level falls within the high level, and the highest arithmetic average was for the paragraph "The staff have high academic and professional certificates", and the lowest arithmetic average was for the paragraph "The employees of the company develop their knowledge and adapt to the latest developments". The results also indicated that the responses of the study sample members on the paragraphs areas of structural capital, the general level is also at the high level, where the highest arithmetic mean of the paragraph "the company has modern equipment to facilitate the completion of the work" the lowest average was for the

paragraph "The company provides a system to address the employees personal and administrative needs".

As for the results related to the responses of the study sample members on the paragraphs of the area of Relational capital, the general level is at the high level, the highest average was for the paragraph "The Company adopts a clear vision on enhancing the affiliation of its customers. The lowest average was for the paragraph " company gives a special privileges to customers in order to maintain contact with them".

The results in relation to the responses of the study sample members on the paragraphs of the field of competitive advantage occurred at the general level within the high level, The highest average account was for the paragraph "the company enjoys a privileged position in the local market" and that the lowest average was for the paragraph "The use of advanced technology helps to achieve a competitive advantage vastly and extensively in the company".

With regard to the hypotheses of the study, the results were as follows:

The first hypothesis:

There is no impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving competitive advantage in Jordanian telecoms companies. The results indicated that there is an impact of intellectual capital with its dimensions (human capital, structural capital , Relational Capital) to achieve the competitive advantage of Jordanian telecoms companies.

First Sub-hypothesis:

There is no impact of intellectual capital (human capital) To achieve the competitive advantage of Jordanian telecom operators. The results of this hypothesis indicate that there is an impact of intellectual capital with its dimensions (human capital) on achieving competitive advantage in Jordanian telecom companies. The beta value indicates that the direction of the relationship is positive.

Second Sub-hypothesis:

There is no impact of intellectual capital (structural capital) on achieving competitive advantage in Jordanian telecoms companies. While the results showed that there is an impact of intellectual capital with its dimensions (structural capital) on achieving the competitive advantage of Jordanian telecom companies. The beta value indicates that the direction of the relationship is positive.

Third Sub-hypothesis:

There is no impact of intellectual capital (relative capital) on achieving the competitive advantage of Jordanian telecom companies. The results showed that there is

an impact of intellectual capital with its dimensions (relational capital) on achieving the competitive advantage of Jordanian telecom companies. The beta value indicates that the direction of the relationship is positive.

The second hypothesis

There is no impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving the competitive advantage of Jordanian telecom companies. The results indicated that there is an impact of intellectual capital with its dimensions (human capital, structural capital, relational capital) on achieving the competitive advantage of Jordanian telecom companies.

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THE THEORETICAL AND METHODOLOGICAL BASES OF PEACE MARKETING

Prokopenko Olha¹, Bozhkova Viktoriya², Chayen Samuel³

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Abstract

. The article deals with the analysis of theoretical and methodological bases of peace marketing as the sphere of social interaction of various subjects, oriented to formation of society's negative attitude to any expression of aggression and support of peace all over the world.

The aim of this research is to determine the theoretical and methodological bases of peace marketing. Accordingly, the set of the following challenges was formulated: to define peace marketing; determine the concept, mission of peace marketing, its purposes and tasks; outline the methodological foundations of marketing of peace; provide examples of implementation of peace marketing concept in practice; give recommendations for peace marketing development and improvement.

The essence of peace marketing conception, its mission, goals and challenges are fully investigated. The methodology of peace marketing is outlined. The examples of implementation of peace marketing conception are provided, and the recommendations for its development and improvement are given.

Keywords: *peace marketing, concept and methodology, mechanism, infrastructure support, institutional norms*

JEL Codes: *M30, M31, M 38*

"Seek peace and pursue it" (Psalms, 15, 14)

"From my earliest youth, I have known that while one is obliged to plan with care the stages of one's journey, one is entitled to dream, and keep dreaming, of its destination. A man may feel as old as his years, yet as young as his dreams. The laws of biology do not apply to sanguine aspiration..."

¹ International Humanities University, 33 Fontanskaya road, Odessa, Ukraine; Meritt Group Ltd., 11/49 Mazowiecka str., Warsaw, the Republic of Poland;

² Sumy State A. S. Makarenko Pedagogical University, 87 Romenskaya str., Sumy, Ukraine;

³ Sumy State University, 2 R.-Korsakova str., Sumy, Ukraine; Knesset (Israeli Parliament), Kiryat Ben-Gurion, Jerusalem, the State of Israel

Israel's role in the Middle East should be to contribute to a great, sustained regional revival. A Middle East without wars, without enemies, without ballistic missiles, without nuclear warheads.

A Middle East in which men, goods and services can move freely without the need for customs clearance and police licenses.

A Middle East in which every believer will be free to pray in his own language - Arabic, Hebrew, Latin, or whatever language he chooses - and in which the prayers will reach their destination without censorship, without interference, and without offending anyone.

A Middle East in which nations strive for economic equality and encourage cultural pluralism.

A Middle East where every young woman and man can attain university education.

A Middle East where living standards are in no way inferior to those in the world's most advanced countries.

A Middle East where waters flow to slake thirst, to make crops grow and deserts bloom, in which no hostile borders bring death, hunger, and despair.

A Middle East of competition, not of domination. A Middle East in which men are each other's hosts, not hostages.

A Middle East that is not a killing field but a field of creativity and growth.

A Middle East that honors its history so deeply that it strives to add to it new noble chapters.

A Middle East which will serve as a spiritual and cultural focal point for the entire world".

(from Nobel Prize Speech of Shimon Peres)

1. Introduction

All social achievements are created due to commercial and noncommercial activities. Herewith, in the latter kind of activity non-material values, but no less important ones, are often created: necessity for the state management, defense, security, functioning of legislative, executive, and judicial authorities, free health care, social welfare, education, religious freedom, spiritual development, stability, etc. Safe and decent life of society members, as well as partial solution of global requirements (fighting against international terrorism), depend on these factors. Thus, the special role in providing the stability and successful development of society belongs also to noncommercial scope of activity.

If we analyze the fulfilling one of the major functions by our civilization, providing of peace and stability, then it is possible to make disappointing conclusions, because:

- military conflicts permanently appear and are fomented in different regions of the Earth (Ukraine, Israel, Syria, etc.);

- the number of victims of military conflicts is increasing (in 2014 it was 180,000 people (Armed Conflict Survey 2015));
- international and local terrorism has already become not an exclusive phenomenon but rather a stable one (growth of terrorism in the EU countries and other regions);
- social conflict is brewing due to increasing number of refugees and unwillingness of inhabitants of peaceful areas to accept them.

Every 113th resident of the planet is a refugee (TV Channel 24), who has to leave his home and look for a shelter in other regions for various reasons. And in accordance with survey results (conducted on 24.06-08.07.2016, 16,040 people at the age of 16-64 years took part) 44% of Swedes, 40% of Poles, 45% of French, and 48% of Italians stand for closing the borders of the EU. At the same time in Hungary and Turkey a lot more of respondents (55% and 64 % respectively) answered this question positively, and most people of the UK and Spain, contrariwise, believe that the EU must continue to accept refugees (50% and 61% respectively) (Survey).

On the other hand, organizations of different levels were created by the world community, the activity of which is directed to defend peace (European Union is an economic and political alliance of 28 European countries with the purpose of regional integration in problems of common external policy and security policy; NATO is a military-political alliance of several European and North American countries, the aim of which is to repel the external aggression; Brit Tzedek Shalom is an American-Jewish organization, which successfully organized the grassroots movement in support of the conflict between two states through negotiations and others).

Of course, first of all, these problems should be solved by politicians at state and international levels. But, if the world community speaks out clearly about these problems, and they are solved at different levels, through different channels (Goodwill Ambassadors, academics, etc.), then, definitely, the effectiveness of such measures will be higher.

2. Analysis of recent researches and publications

Scientists researched the certain aspects of peace marketing from different positions. Thus, Aaron Ahuvia conducted research on mass movements, the external policy of the USA towards the Israeli-Palestinian conflict from the point of view of social marketing, psychology, and public opinion (Ahuvia). F. Kotler (Kotler, 1995) and E.V. Romat (Romat, 1995) analyzed the philosophy of the activity in general.

Shimon Peres, the ninth president of the State of Israel was a visionary wizard of Peace. He used many methods, media, and organizational structures in order to market the idea of peace. In his books, "The New Middle East – A framework and processes toward an Era of Peace" and "Battling for Peace" he shows how peace is not only the

ending of a war situation but rather an opening for a Green Middle East where the various countries can manage together their scarce water resources in order to combat desertification. To support his arguments, he uses economic and philosophical tools and even quotes Jean-Jacques Rousseau who said "The fruit are for all and the land does not belong to anyone". With that principle, Peres elaborates on the thought that water in the Middle East belongs to all. He shows the differences between economics of war and economics of peace and the advantages of such economics (Peres, 1993; Peres, 1995).

Recently, attention has been paid to the religious issues of marketing of peace (Goswami, 2017). We can also observe significant practical steps to promote the idea of peace (Rold, 2016). But, in our opinion, theoretical and methodological bases of peace marketing are covered not enough and require the scientific study, what we began to write about lately (Bozhkova, Prokopenko & Chayen, 2018).

3. Setting objectives

The aim of this research is to determine the theoretical and methodological bases of peace marketing. Accordingly, the set of the following challenges was formulated:

- to define peace marketing;
- to determine the concept, mission of peace marketing, its purposes and tasks;
- outline the methodological foundations of marketing of peace;
- to provide examples of implementation of peace marketing concept in practice;
- to give recommendations for peace marketing development and improvement.

4. How to make Peace Marketing a methodological process? Noncommercial Marketing as a Base for Peace Marketing

One of effective instruments and, at the same time, means for overcoming described problems regarding growing tension in society, is Peace Marketing, that is able to change social priorities, vectors of development of relations between states on the basis of rational and emotional impact.

Actually, ***noncommercial marketing*** is defined as the sphere of social interaction, which contains the directed activity of various subjects, the aim of which is not to achieve certain economic goals (making a profit), but try to obtain results satisfying the requirements of a certain society (Romat, 1995).

To noncommercial marketing the following types of marketing can be included: social marketing (Ahuvia), political marketing, state marketing, and, in a certain sense, ecological marketing, marketing of ideas, marketing of sport, marketing of education, marketing of culture, etc. (which do not pursue the economic aims only at the first stage).

As it is well known, the theory of classical marketing was crystallized by F. Kotler (Kotler, 1995) on the base of practical experience, so, the availability of the broad base of

practices in noncommercial sphere can become the basis for foundation of the theory and the methodology of peace marketing.

Taking into account the fact that there does not exist a methodology for marketing of peace, and from a theoretical point of view the noncommercial marketing of ideas is the closest to it, let's try to systemize and generalize the available experience of providing stability and peace by means and instruments of this type of noncommercial marketing.

5. Theoretical Foundations of Peace Marketing

So, *peace marketing* is the sphere of social interaction of various subjects, oriented to formation of negative attitude of society to any expression of aggression and support of peace all over the world.

The **concept** of peace marketing presupposes the formation of the public opinion that condemns aggressors and those, who support them.

The **mission** of peace marketing is to establish peace throughout the world and mutual understanding among people all over the world.

The main **task** of peace marketing is to decrease the amount of conflicts (ideally – their disappearance); maximization of the social effect after the liquidation of military, terroristic, and other conflict. That means:

- 1) maximum satisfying of socially important noncommercial requirements of the society in stability, housing, food, etc.;
- 2) global widening of peace ideas and influence on the maximum possible quantity of population;
- 3) optimum use of limited public resources (financial, ecological, and others like that) for achievement of the mentioned tasks.

Let's consider in detail the foundations of peace marketing on the basis of components of the well-known concept "4P" (the abbreviation consists of the first four words: *Product, Price, Place, Promotion*) by F. Kotler.

Product is the idea of the world-wide understanding of peace marketing. It is necessary to create such an idea, which:

- meets explicit and implicit, as well as actual and potential needs of society, or its individual members (that is quite difficult, taking into account the difference in religion, habits, traditions, and so on, among different peoples);
- ensures the full satisfaction of the most important social needs of the society;
- creates the required image of the idea and provides its support among all segments of the population;
- promotes the formation of optimal environment for citizens.

Price – for noncommercial peace marketing the value of the idea is the most important, which allows:

- to create and maximize the social effect;

- to minimize the expenses for weaponization and support of armies;
- to win in the fight against aggressors at the global level.

The methods of spreading the idea or ***distribution*** (*place*) must provide the effectiveness of ***delivering the main ideas of peace marketing through appropriate channels to the maximum amount of the planet population***. For instance, if the Internet is not available in China, then peace-making ideas can be spread through the Chinese, which live in all regions of the world, but maintain the contacts with relatives.

Stimulation or ***promotion*** allows to influence the society members by means of marketing and interpersonal communications.

Extremely important is the problem of disseminating truthful communications and practices of world-wide dissemination of independent information on each conflict on the planet. Online illumination of conflicts can undoubtedly affect their course and social cohesion in society.

The tools of communication that have an impact on the world community can be: advertising, PR, propaganda and others. It is difficult to determine the most important one among them, because each one aims to achieve a certain goal, and together - on solving the urgent problems of peace for mankind.

Thus, using the motives of emotional orientation, attractive colors, and interesting objects, the social (noncommercial) advertisement can influence on the representatives of different races, religions, etc., in printed Mass Media (fig. 1) and in the Internet.

Figure no. 1 Printed advertisement “Peace”



Source: Social advertisement of peace in the Internet

Especially effective marketing tools in modern conditions are Internet tools. This also applies to peace marketing (Illiasenko, Ivanova, 2015) (fig. 2–3).

Figure no. 2 Advertisement of peace in the Internet in video hosting YouTube



Source: Advertisement of peace in the Internet in video hosting YouTube

Figure no. 3 Social advertisement “Children of War” in the Internet in video hosting YouTube



Source: Social advertisement of peace in the Internet

The advertisement of social orientation can spread not only from the side of the state, but also from the side of manufacturers of food products, for example (fig. 4).

Figure no. 4 The social advertisement in Pinterest “Make pasta but not war”



Source: Social advertisement of peace in the Internet

A Visit of Marilyn Monroe and Elvis Presley to the American soldiers became the most well-known PR-actions, that greatly influenced not only lifting the spirit of military men, but also increase of those who wish to serve in the army and improving the attitude of citizens to soldiers.

6. Principles and Mechanisms of Peace Marketing

In addition to the theoretical foundations discussed above, the methodology of peace marketing includes:

- principles of restoration and development of peace,
- institutional norms,
- infrastructure support,
- mechanisms,
- models of development.

Let us discuss in detail these components.

In our opinion, the *principles* of restoration and development of peace are best formulated in the UN Charter, namely (The Charter of the United Nations and the Statute of the International Court of Justice, 1945):

- principles of justice and international law,
- principles of equality and self-determination of peoples,
- principles of cooperation in support of international peace and security, including principles governing disarmament and arms control,
- the principle of the primacy of the interests of the population of territories,

- the principle of good neighborliness,
- the principle of sovereign equality,
- principles of law recognized by civilized nations.

Institutional norms of peace marketing, in our opinion, should be incorporated into the ideology, theoretical outlooks and models of each nation, through the prism of which people perceive and appreciate the world around, and therefore, formulate their own behavior patterns. The ideas of peace marketing should be higher than political and social ones.

The ***infrastructural support*** of peace marketing includes all organizations of the world that directly or indirectly implement in their work the conceptual foundations of world peace, is at the global level:

- United Nations (UN) – the organization of independent countries united in the name of universal peace and social progress (The Charter of the United Nations and the Statute of the International Court of Justice, 1945);

- Council of Europe (CE) - the oldest international political organization in Europe, created to build a united Europe based on the principles of freedom, democracy, human rights and the rule of law;

- North Atlantic Treaty Organization (NATO) – the intergovernmental international organization in the field of defense, security and politics;

- The United Nations Educational, Scientific and Cultural Organization (UNESCO) - the specialized agency of the UN that, through the development of cooperation between States in the fields of education, science and culture, seeks to achieve the ultimate goal of securing peace and international security, respect for human rights, mutual respect for people and peoples.

Also, the list should include organizations operating at the level of individual territories (the political and economic Association of Southeast Asian Nations – ASEAN (Association of Southeast Asian Nations), the Organization of African Unity – OAU, etc.) and independent organizations engaged in charity in the name of the world.

The ***mechanism*** of implementing peace marketing can be detailed in terms of organizational, economic, motivational and other components.

In particular, the organizational component includes managing and providing subsystems that specify the subjects, objects, models and interrelations of the system as a whole.

The economic component of the mechanism of peace marketing is based on the understanding that wars have not only a terrible personal and emotional cost. Wars have also an economic cost that can be measured. They are not sustainable. They destroy industries, they pollute land, water and air and damage many physical entities.

In an outstanding analysis of the Second Civil War in Sudan (1983–1993) Nadir A.L. Mohammed (Mohammed, 2017) shows the economic costs of the war. He shows,

for example, that many livestock were killed, namely the national herd was estimated in 1983 at 20.5 million cattle, 19.3 million sheep, 14.8 million goats and 2.8 million camels.

The war killed 6.6 million heads of cattle, 2 million sheep and 1.5 million goats. Industrial projects worth over 100 Million USD had to stop working. It is estimated that losses in tourism during the war amounted to 607 million USD.

The Ukraine-Russia conflict since 2014 has also caused severe economic costs (Kalachova, 2016). Thus, GDP of Ukraine fell in 2014 by 6.8% and in 2015 – by 9.9%.

These few examples show that war has real economic costs, which affect economic sustainability.

The motivational component of the mechanism of peace marketing includes a range of motives that are significant for different peoples. It is important to have a positive motivation for the formation of peace, as well as negative motivation for the deployment of conflicts.

Among the development models currently associated with peace marketing should be distinguished: model of sustainable development, models of economic development.

Taking into consideration the impossibility to solve the outlined problem radically once and for all, we believe, that at the modern stage the following measures on the development and improvement of peace marketing are expedient:

- it is required to allocate budget funds to all advanced states for improvement of peace marketing conception;
- improving international law can expand the possibilities of third countries and empower their rights to interfere between conflicting countries.

Implementation of the mentioned propositions will allow gradually to decrease the amount of conflicts and to minimize their consequences as well as to prioritize Peace as the leading priority for the development of society.

Conclusions

Let us summarize the mentioned above and emphasize:

1. Taking into account the existence of different types of noncommercial marketing (state marketing, etc.), the availability of existence of peace marketing has been proved as a separate type of marketing activity in the field of social interaction of various entities, aimed at forming a negative attitude of society towards any manifestations of aggression and support for peace throughout the world;
2. The expediency and necessity of using peace marketing by all progressive countries has been justified;
3. The concept of peace marketing, based on the generally accepted world-wide concept of "4P" by F. Kotler and aimed at shaping the world public opinion towards the condemnation of aggressors and all those who support them, has been defined;

4. The mission of peace marketing, its goals and objectives, which are generally aimed at establishing peace and mutual understanding among people all over the world, have been identified;

5. The methodological foundations of marketing of peace, which include principles, institutional norms, infrastructure provision, mechanisms, models of development, have been outlined;

6. The examples of implementation of peace marketing concept in practice have been given;

7. The recommendations for peace marketing development and improvement have been formulated.

Towards a peaceful and sustainable world – Possibilities for further research

The results of this research can be the ground for further scientific inquiries and used in the practical international activity of states and socially oriented activity of product manufacturers. In addition, it is clear from this article that wars are not sustainable. Since the UN Conference for the Human Environment, which took place in Stockholm in 1972, many mechanisms have been formed to save our common environment. The Montreal Protocol has proven to reduce concentration of Ozone depleting chemicals. The annual meetings on Climate Change have also shown remarkable cooperation between nations to mitigate climate change. The main question that comes up is: since obtaining sustainability is not enough and wars continue damaging the world, shouldn't the world wake up to the need in combining tools of keeping sustainability together with marketing of peace?

It seems that only the strong combination of Peace Marketing together with taking care of a sustainable planet, will bring us to a peaceful and sustainable world.

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CHANGES IN TOURISM SUPPLY IN THE AFTERMATH OF POLITICAL INSTABILITY AND TERRORISM

Radostina Robertova Dimitrova¹

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Abstract

This article aims to reveal the connection between changes in tourism supply and the effects of political instability and terrorism on the tourism industry. The relationship, similarities and common features between the fluctuations in political relations and the threats of terrorist attacks are highlighted. Emphasis is placed on the formation of tourism supply during unstable political relations. Planning in the tourism sector is widely defined in the face of threats of terrorist acts. Attention is focused on changes in the way of supply and consumption of tourism products in the context of the two studied phenomena. The author defends the thesis that unstable political relations both locally and internationally, as well as terrorist attacks, cause long-lasting and often irreversible negative changes in tourism supply.

Keywords: *political instability, terrorist attacks, tourism supply, tourist products, irreversible negative changes.*

JEL Codes: L83, Z32

1. Introduction

Tourism is proving to be one of the export goods in the world. The tourism industry has been found to cause significant direct and indirect economic impacts on almost all countries. It has important impact on regions and communities around the world. In many developing places, it is the most viable and sustainable economic development option. In recent years, tourism flows have been affected by **three major factors**:

- strong exchange rate fluctuations;
- decreasing oil and other commodity prices;

¹ University of National and World Economy, Department "Economics of Tourism", 8 Dekemvri Str, Sofia, 1700

- increased global security and safety concerns.

The tourism sector is, in its essence, highly vulnerable to external influences such as natural disasters, political turmoil, economic crisis and terrorist attacks (Mansfeld, 2006, p. 240). These unpredictable factors may have an adverse impact on the industry and on the economy of the country as a whole. The **object of research** in the article are the changes in the tourist supply. The **subject of research** is political instability and terrorist threats.

The scientific article aims to analyze and discuss the effects on tourism supply due to conditions of political fluctuations and terrorist attacks. In order to achieve this goal, the following **research tasks** are solved:

- exploring the connection between political instability and terrorism;
- analyzing tourism supply under conditions of unstable political relations;
- considering tourism planning under conditions of terrorist threats.

2. Relationship between political instability and terrorism

Tourism is very sensitive to economic, environmental and socio-political events affecting tourists' willingness to travel. Concepts of terrorism, political turmoil and war seem at first unrelated to the tourism supply and its corresponding consumption. Their deeper study reveals they have very **similar characteristics and distinguishing signs**:

- **terrorism** is expected to have detrimental effects on **tourist** arrivals and tourism offering;

- **terrorism** data has become more **important** to the **tourism** and travel industry since attacks in recent years;

- terrorist attacks and violence have been considered a **mainstay** of the tourism collapse in recent years;

- the **various forms of instability** such as civil-war, social unrest and transitions to and from regimes have proven to have impact on tourism supply and its consumption;

- **political stability** and safety are **prerequisites** for tourism and its supply;

- statistics show that **political unrest** has influenced tourist arrival numbers significantly;

- they have **undisputed relationship** as terrorism fuels political and social unrest as a result of the shockwaves;

- their assumed link can be found across **multiple case studies** of terrorist situations over the last decade;

- both discussed phenomena could possibly **cause or trigger each other** if not properly managed.

The consequences of political instability for tourism are significant. Safety travelling and risk issues are deepened as they have been studied over a long period of time. However, when it comes to the link between terrorism, political turmoil, as well as

political instability and tourism, the issue continues to be compounded by **unpredictable international political situations**.

Political instability and tourism share some common characteristics such as the participation of citizens from different countries and their importance during trips (Zhou, 2016, p. 8). Severe political turmoil threatens tourists and restricts tourist flows while the **negative influence** decreases or completely disappears. Due to this fact, many studies confirm that political instability and terrorism can not be separated. In many cases, tourists are often subject to **terrorist attacks** because they are considered ambassadors and representatives of hostile governments (Baker, 2000, p. 61). Assaults are aimed directly at tourists and destinations to achieve greater impact from attacks.

3. Tourism supply in the midst of political instability

Tourism is an industry related to national and international politics. The international nature of its supply positions it in the field of global politics. In recent years, tourism has been increasingly used in targeted political actions as it is perceived as an instrument for economic and social change. Like any business, it is **highly sensitive to the political environment** which it develops in. The driving force of the industry has always been consumer confidence. When a country experiences political upheaval or terrorist attacks, potential tourists may be warned not to visit the country. In times of increasing unrest and uncertainty, the tourists pull back from their usual holiday plans. This in turn could have a significant impact on tourism supply.

Political instability is often defined as a **condition of a country where the basic functional preconditions for control and maintenance of the social order are unstable and intermittently interrupted**. It can be considered from three points of view:

- a tendency to change the regime or the government;
- a political upheaval or violence in a society;
- the volatility of government policies that are subject to frequent changes.

In the context of globalization, a conflict in a region can affect world tourism supply and consumption as a whole. Even when a country's characteristics are highly valued and can't easily be replaced, attacks on tourists can **seriously harm** the tourism industry in the country. For a number of reasons, violent incidents are likely to affect tourist supply both at the same time and with a delayed impact. Tourists are highly sensitive to the **negative perception and image** of tourist destinations.

Violence can affect a tourist destination long after the end of the phenomenon and even when stability has been restored. Perceptions of political stability and safety are prerequisites for visiting tourists and stimulating tourist supply. Violent protests, social unrest, civil war, terrorist acts, perceived human rights violations or even the threat of these activities can cause a change in tourists' plans.

Tourism supply is faced with a series of long-lasting crises, one of which is the political instability that has been spreading in recent years. The existence of this implies the **destabilization of the economic performance of the tourism sector**. Tourism demand generally encourages economic growth where political instability is low. Tourism is heavily impeded in countries where political instability is high.

There are many possible factors that can divert the tourist flows from the affected destinations. However, war, terrorism or political instability have a far greater psychological negative effect on potential tourists when planning their vacations (Cavlek, 2002, p. 480). More than any other reason, they are a determining factor in the cases of “**deferred tourist demand**” where tourists postpone or completely cancel their trip. This is also a common situation in countries that are culturally rich and attractive (Parusheva, 2010, p. 25) but can not develop their full potential as a tourist destination due to these insurmountable obstacles (Parusheva, 2018, p. 130) These political crises can lead to the declaration of a state of emergency, which will increase the undesirable effects on tourism. Travellers become much more reserved with their spending or even hold off on booking trips completely.

4. Tourism planning in the face of terrorist threats

Terrorism is considered to be the most serious threat to international tourism. One of the most popular definitions defines terrorism as “**the intentional use or threat of using violence by individuals or sub-national groups to achieve a political or social purpose by intimidating a large audience beyond that of the immediate victim**”. It leads to much more severe and negative impact than any other man-made (crime, international conflicts) or natural (hurricanes, earthquakes, floods) disasters (Cavlek, et al, 2000, p. 330). Political instability can lead to terrorism when civil society denies the freedom to express political dissent, leading to protest.

Understanding terrorist targets can help unravel the link between terrorism and tourism. Targeting terrorist activities to tourists or the industry itself is deliberate and helps terrorists achieve goals such as publicity and the destabilization of the economy. Tourists can be subject to terrorism because of their tourism style that can demonstrate apparent and lavish consumption of tourism goods and services.

The effects of terrorist activity do not only concern stakeholders and services that are directly related to tourism such as hotels, airlines, guides, and so on. (Parusheva, 2013, p. 240). They also affect those who supply goods and services to companies working in the tourism industry. Particularly important are the consequences of terrorist events, mainly from an **economic point of view**. Indeed, the impact of such attacks on tourist supply is very significant. The sharp decline in international arrivals, overnight stays and hotel occupancy is a direct and eloquent result when countries are affected by similar events.

The way tourists choose their vacation today in conditions of unstable political relations and terrorism has also changed. Responding to their needs and requirements, tour operators **adapt their products and services** (Dimitrova, 2018, p. 148). Niche travel operators are trying to target the people looking to get away from it all. A large number of tour operators are directing their tourists to “safer” destinations, as the tourism industry continues to feel the effects of recent terrorist attacks in North Africa and Continental Europe. Others take advantage of the situation and offer their products with great discounts.

Popular trips to nearby all-inclusive destinations such as Egypt, Tunisia and Turkey were heavily affected by terrorist attacks and instability. Violent demonstrations negatively affected tourist arrivals for a long period of time. In the last decades, they have been a major **economic feature** in the formation of tour operator’ supply. Terrorist attacks that targeted foreign visitors caused damage to the important tourism industry, something that these and many other countries have struggled to overcome.

After these events, travel organizers were forced to focus their efforts and resources on other destinations, though not very suitable for mass tourism. There is a trend in which tourists begin to avoid exactly such high-risk crowded places. They are rated as **highly sensitive** to attacks and terrorist assaults. Perceiving the risk of terrorism can cause concern when traveling to a destination. Different levels of risk perception, along with other internal factors, can determine the motivation of tourists to travel.

In case of a terrorist attack, it is very likely that there is a problem in the trip. Airports, rail stations, ferry ports, roads can be closed even if they are not a direct target of attack. Another reason is the frequent strike of local residents or employees in the sector. In such cases, **additional accommodation costs** can occur. The value of any pre-booked trips, excursions or activities that will not be realized remains unused. Due to these facts, the industry gradually introduces travel insurance covering terrorist acts that cause **disruption to tourists' travel plans**. Passengers are not only concerned about the risk of a terrorist attack, but also about the destruction and chaos that may follow, which leads to a waste of time and money. Tourists are increasingly looking for travel insurance, including coverage in the event of terrorism.

The supply of tourist products is highly susceptible to such events as they occur in the final destinations. Due to this fact, there are changes in the type of transport used, the accommodation and the **security measures** taken by the host and the outgoing destination. After several terrorist attacks around the world, governments and tourism companies began to recognize the effects of terrorism. They are continually developing more effective recovery strategies to manage these unforeseen cases in the most effective way.

The tourism supply including tourist boards, agencies, hotels and airlines is able to apply techniques to help restore a particular city or region after a terrorist attack. They can offer concrete **counter-terrorism measures** to fight global terrorism and increase

security. It is necessary to develop tours, packages and breaks in accordance with security requirements. They must offer safe accommodation and provide **full information** to tourists in advance of the current situation of the destination they are planning to visit.

5. Conclusion

Tourism is one of the fastest growing sectors in the world and tourism supply is undergoing continuous diversification. Changes in social, political and economic developments globally will probably boost the demand for foreign tourism in the coming years. This is also due to the expected rise in the living standards of many developing countries. There is an indisputable relation between terrorism and tourism, which must be actively managed in terms of security. Tourism supply must take into account factors such as employment planning and policies, analysis and emergency management. The rise in political instability and terrorism necessitates a reassessment of various policy issues in the field of tourism. The tourism sector, which has a tremendous prospect of playing an important role in boosting the economy could do better if political stability is provided. Terrorism can permanently harm a tourist destination, both socially and economically (Albu, 2016, p. 1). It has become a means of solving political, cultural and religious problems by focusing on tourism as a niche that can be a tribune for specific purposes. The tourism industry depends to a large extent on the public perception of destinations as a safe and secure place to visit.

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ONLINE TOURISM PLATFORMS AND THEIR EFFECT ON THE PARTICIPANTS IN THE TOURIST MARKET

Ralitsa Radostinova Dimitrova¹

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Abstract

The scientific article aims to examine the impact of online tourism platforms on the various players in the tourist market – tourists, tourist companies and the population. The emphasis is placed on the opportunities the internet provides for the tourism industry. Particular attention is paid to the use of social networks as a factor for the development of online tourism. Examples of online tourism platforms and their contribution to the development of the tourism industry are outlined. The author defends the thesis that online tourism platforms have a positive effect on all participants in the tourism market.

Keywords: *online tourism platforms, participants in the tourism market, internet, positive effect, destinations.*

JEL Codes: *L83, Z30, Z31*

1. Introduction

As the internet penetrates the everyday life of the majority of the population, the ways of distributing travel products and their volume are changing. Travel agencies and tourism service providers are aware of the positive effects that online tourism platforms provide.

The subject of study of this article is the online tourism platforms. **The subject of research** is their effect on the participants in the tourist market.

The scientific article **aims** to explore and discuss the impact of online tourism platforms on the tourism market. To accomplish this purpose, the author puts the following **research tasks**:

- analyzing the impact of online tourism platforms on consumers;
- assessment of the effects from the use of online platforms by tourism businesses;
- consideration of the impact of online tourism on the destinations and population.

¹ University of National and World Economy, Sofia, Bulgaria, 1700 Sofia, Student city “Hristo. Botev”, Department “Economics of Tourism”.

2. Impact of the online tourism platforms on consumers

The emergence and development of online tourism platforms is a natural reaction on the part of the participants in the tourism market. As the **internet** penetrates people's daily lives, tourist businesses are moving to online space as a place to distribute their products.

Online tourism is developing at a rapid pace due to the availability of information related to destinations, attractions, maps, impressions and opinions of other tourists who have visited certain places, creating the conditions for a holiday choice and a good vacation. Numerous offers of accommodation, special offers, last minute bookings, early booking, tours, cruises, hotels and flights, present in the online environment, and the easy access to them from home or the office, facilitate the purchase of tourist packages at the same or lower prices than those of the agencies (Sofronov, 2018, p. 233). Online space attracts the attention of potential tourists through the enormous opportunities to choose more and more frequent trips.

The internet enables **tracking and analyzing consumer behavior**, which is a major driver for improving sales of travel services. It is influenced by many factors that can be grouped into the following categories:

- personal factors;
- social factors;
- situational factors;
- economic factors.

Through their understanding, the needs of the individual can be identified (Fratu, 2011, p. 120). Because of this, online tourism opens up new opportunities for the tourism industry. It is actively used by all participants in the tourist services market. Therefore, the internet **no longer provides a competitive advantage** for a particular company, but rather it is a **mandatory element** of the means of advertising and distribution of tourist products and services.

Online tourism platforms evolve and develop in response to consumer interests and their internet focus. Today, people are doing everything on the internet – looking for information on different topics, communicating, shopping. Virtually there is not any part of life that is not covered by online space (Parusheva, 2017, p. 268). The tourism industry is developing extremely dynamically. As part of it, online tourism has a major merit in this.

The most common advantages of the system are: a huge market; no similar products exist; minimum investments for the partners; a better correlation between supply and demand. In addition, the benefits for the clients are many:

- more information without looking outside;
- minimum costs and maximum information;
- individually targeted and very profitable offers;

- easy access to information about various tourist services;
- better information on tourist services;
- convenience for the customers (Cosma, 2006, p. 359).

These are the main factors that determine the success and development of online commerce in general and tourism online platforms in particular. Customers are aware of and appreciate the benefits of this type of choice and purchase of tourism products and services. This is why the focus of travel companies is shifting to online supply.

Until recently, tourism businesses that use the internet to increase sales and to reach a greater number of users emphasized and relied on developing their own sites. This trend remains in the background after the entry of online platforms that combine **offers from different vendors and for different but complementary services**. From booking a hotel accommodation, purchasing tickets for cultural events, airline tickets, rent-a-car, restaurant reservations to offers for a combination of services – **online platforms offer a wide range of products and services in one place**.

And while on-site travel agencies can also offer a vast majority of all these components, the internet allows for some basic consumer benefits:

- they can easily and quickly **compare terms and prices** from different vendors (via different platforms or a platform that does this instead of them – TripAdvisor);
- they have the opportunity to read **opinions of other tourists** who have already benefited from a product;
- most of the platforms provide **an average score** of all users who have used and commented on the quality of the travel service;
- they have access to **various participants in the tourist market from around the world**, ie. have significantly wider choice.

The quality of the reservation platform is of particular importance for attracting and retaining the interest of online users of travel services. In general, it can be divided and categorized into the following categories, which positively influence the intentions of users to reserve and purchase travel products and services online:

- quality of information;
- quality of the system;
- quality of the online services (Elci, 2017, p. 5).

Tourism market participants should maintain their online platforms at a high level as regards the quality of products and services and the ease of use of the system itself. Otherwise, there is no way to deal with growing competition and ever more innovative portals for booking and purchasing travel products and services.

3. Effects of using online tourist platforms for the businesses

From the point of view of the tourist enterprises, the positives are too many. Apart from having access to a significantly higher number of potential tourists, the internet is an

appropriate means of maintaining a good image. **Mouth-to-mouth advertising** has proven to be an extremely effective method of attracting new customers and creating loyal ones. Online payment and booking platforms for tourism products open a similar opportunity through user reviews and ratings.

Another positive for tourism companies is **the existence of social networks**. Through them, tourism engages an even greater part of people's leisure time - both through the purchase of travel services and through **Facebook advertising, Instagram, Twitter**. In 2018, out of 7,593 billion people, internet access has 4,021 billion people, that is, about 53%. Of these, 3,196 billion people are actively using social media. This means that 42% of the total population and 79% of people who use the internet actively use social media in their daily lives (Chaffey, 2019, p. 1). In addition to accessing a large number of users, social media also provides the ability to target ads to a specific type of users. Thus any tourist company can target those tourists who would be interested in the products it offers. In this way, advertising costs become significantly lower and, equally important, many times more effective.

Not only social media make advertising and distribution of tourist goods economically more profitable. Supply and marketing are directed largely at the online market (Parusheva, 2017, p. 340). This means lower costs for paper promotional materials, for employees, as well as a significant reduction in the cost of an office space for the tourist firm. The office of a travel agency, for example, has to meet certain requirements – about location, information boards, qualification of staff and others. This requires **additional costs that companies avoid by redirecting their business towards the internet**.

The access to new markets, provided by the internet, is also of particular importance. Tourism agents with limited market influence, due to their size, already have access to a much larger market, on account of the new technologies (Mihajlovic, 2012, p. 153). Consumers can make a more profitable and informed choice because of the **access to multiple vendors**. Similarly, tourist businesses can reach a greater number of potential tourists, thanks to the internet as a whole and online tourist platforms in particular.

The online systems help tourist organizations to improve their economic activities, to identify the target segment correctly and easily, to differentiate their bid from competitors and market their position. Other benefits for the tourist organizations are:

- easy delivery of promotional materials;
- reducing advertising costs;
- saving personnel costs;
- saving time to carry out the main activities;
- automated and complex aggregation of processed customer data (Cosma, 2006, p. 360).

4. Impact of online tourism on tourist destinations and population

Tourism and its rapid development in recent years have a huge impact on the overall economic development worldwide and on the cultural and educational achievements. In the first place, a great part of the essence of tourism and tourist trips is culture. **Cultural tourism** enables travelers to explore other customs and traditions. The presence of monuments, museums and other cultural attractions is among the main factors in choosing a tourist destination.

Access to information, provided by the internet, is a basic prerequisite for the increasing advertising of certain destinations or a group of destinations in the online space. Moreover, online reservation services for tourist services increasingly include sections such as **“Hotel Surroundings”** (www.booking.com), **“Things to do”** (tripadvisor.com) and more. Thus, besides the place of accommodation, the attractions in the vicinity are also advertised. The goal is for tourists to choose a place that will be convenient during their stay and, in turn, **to see the local cultural and natural landmarks**.

Particularly popular in the last few years are also booking platforms for visiting a cultural and historical sites. Again, this attracts attention to the destination and promotes sights that are less frequently visited (often a package consists visiting a famous and unpopular one).

No less important is the effect on the population of the visited destinations. Some **negative effects** are observed:

- euphoria – tourists are welcomed by the community without control or planning;
- apathy – tourists are taken for granted by the community, accepted as local;
- discomfort – reaching “saturation” from the tourism industry, the community is beginning to change;
- tourism leadership – process leaders continue to develop infrastructure instead of limiting;
- antagonism – local people show their annoyance from tourism and tourists (Paul, 2012, p. 502).

The term **“overtourism”** describes destinations in which hosts or guests, locals or visitors, think that there are too many visitors and that the quality of life in the area or the quality of experiences has deteriorated unacceptably. This is the opposite of **responsible tourism**, which deals with the use of tourism in order to make better places to live and visit. Visitors and guests often experience the worsening at the same time and rebel against it (Goodwin, 2017, p. 1).

However, positive influence prevails in most cases. On the one hand, the positive economic effect is strong. Tourism creates new jobs for the local population, local government has a larger budget and, accordingly, an opportunity for investment in infrastructure. On the other hand, local people have the opportunity to get acquainted with

people of different nationalities, to establish lasting contacts with them, and the precondition for **intercultural exchange** is created (Parusheva, 2018, p. 152).

Online tourism increases the impact of these effects. Unknown destinations become popular, people travel more, as they have more opportunities, historical, cultural and natural sights are preserved, restored and popularized.

5. Conclusion

Tourism is a major industry in the world economy. As such, it is influenced by the penetration of internet technologies into people's everyday life and takes advantage of the opportunities that online space offers.

Online platforms for booking and purchasing travel products and services play an important role in the development of the tourism industry. They **affect all market participants** as they cover the whole process - from choosing, buying, using and evaluating the tourist product. The internet is becoming a major and indispensable advantage for the tourism industry. Although they have some negative impacts on their minds, **online tourism platforms have a positive effect on all the players on the tourism market.**

In conclusion, online tourism increases the impact of the positive and negative effects for all participants on the travel market. Nevertheless, the **positive effects are much more than the negative.** This does not mean, that there is no space for improvement in the use of the internet for travel purposes. On the contrary – **all participants in the tourism industry need to be more responsible and to pay attention to the destructive effects of the fast development of tourism.**

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ENVIRONMENTALLY RESPONSIBLE BEHAVIORAL INTENTION: A CONDITION FOR COMPETITIVENESS OF THE TOURIST ENTERPRISE EMPIRICAL STUDY IN BULGARIA

Rositsa Manzurova¹, Rayna Pashova²

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Abstract

This paper aims to present the results from an empirical study and to assess the impact of external factors on the competitiveness of the tourism business - such as green and environmentally sustainable hotels, as well as to analyze ecologically responsible behavioral intent of tourists as a condition for the competitiveness of the tourist enterprise.

The current research sheds light on some important issues such as the fact that socially-minded consumers look for deeper interactions with hotels as well as their willingness to pay more for the use of green hotels and green practices and the analysis of ecologically responsible behavioral intent of tourists as a condition for the competitiveness of the tourist enterprise. This investigation may enable operators to gain a better insight for determining strategies that could be adopted or developed to improve consumers' positive attitude and interest towards green hotels and services.

Keywords: competitiveness, tourism, environmentally behavioral

JEL Codes: M14, Z32

Introduction - Analysis of Recent Research and Publication

The consequences of global warming are already a fact that mankind faces on a daily basis. This leads to growing global environmental concerns. Due to increasing environmental awareness and the trend to reduce carbon emissions, green hotels have become an alternative business direction in the hospitality industry. Hotels that take an environmental direction of development and offer green products and services, such as

¹ Faculty of Economics, SWU "Neofit Rilski", Blagoevgrad, Bulgaria, PhD candidate,
renypashova@yahoo.com

² Faculty of Economics, SWU "Neofit Rilski", Blagoevgrad, Bulgaria, PhD candidate,
renypashova@yahoo.com

purchasing green goods and conservation of water and energy are considered green hotels.

According to UNWTO, tourism in the green economy refers to tourism activities that can be maintained, or sustained, regardless of their social, economic, cultural, and environmental contexts: “sustainable tourism”. Sustainable tourism is tourism that takes full account of current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities. It is not a special form of tourism; rather, all forms of tourism may strive to be more sustainable (UNEP, UNWTO 2005).

A clear distinction should be made between the concepts of ecotourism and sustainable tourism:

“The term ecotourism itself refers to a segment within the tourism sector with focus on environmental sustainability, while the sustainability principles should apply to all types of tourism activities, operations, establishments and projects, including conventional and alternative forms” (International Year of Ecotourism, 2002).

There are differences in principles, scope and definition when it comes to concepts such as "ecotourism", "sustainable tourism", "responsible tourism", "green tourism", etc. "Green travel" is increasingly used, but it is a very generic term and should be used more precisely.

Ecotourism is a particular kind of alternative tourism closely associated with areas that are environmentally and culturally sensitive. It was developed in an endeavor to prevent the problems and repercussions resulting from traditional mass tourism (Pipinos and Fokiali, 2009). Since ecotourism contributes to both environmental conservation and the economy (Ross and Wall, 1999), it has become a significant topic in the tourism field (Weaver and Lawton, 2007). Several studies have examined the factors that could influence tourists' visitation intention and willingness to pay more for ecotourism products, such as tourists' ecotourism attitude and interest (e.g., Lai and Nepa, 2006; Singh, Slotkin, and Vamosi, 2007). While the evaluation of tourists' ecotourism attitude and interest is no doubt a basic prerequisite for successful implementation of ecotourism ventures, an investigation of the antecedents of individuals' ecotourism attitude and interest could even be more meaningful for ecotourism operators. This investigation may enable operators to gain a better insight for determining strategies that could be adopted or developed to improve consumers' positive attitude and interest toward ecotourism.

In this connection, it should be noted that the Green hotels are defined as ‘environmentally-friendly properties whose managers are eager to institute programs that save water, save energy and reduce solid waste, while saving money, to protect our one and only earth’ (Green Hotel Association, 2017). However, while this kind of definition is common in the literature and widely-accepted, there is still no specific universal standard with which to measure whether or not a hotel is to be considered a green hotel (Huang, 2016). There are, in fact, more than 800 different green certifications available

with which to judge if a hotel merits being labeled as such (Green Hotel Association, 2017).

The hotel industry pursues green practices since the 1990s due to changing economic levels and a strong focus on customer service (Claver-Cortes et al., 2007). A number of enterprises offering tourism services are involved in corporate social responsibility to expand brand awareness across different audiences, gain retention of employees and improve their competitive advantage (Bohdanowicz & Zientara, 2008).

With regard to clarifying the essence of competitive advantages, the issue of their sources is also important. A source of competitive advantage is understood to be the factors of the internal and external environment of the compared subjects and objects that give real or potential opportunities for success in competitive struggle. Keeping the sustainability of competitive advantages over a long period of time requires the improvement of their sources.

Numerous studies have shown that economic benefits can be gained in hotels through the implementation of environmental and social initiatives. In order to achieve a competitive advantage, the hotel has to practice those things that competitors cannot copy or those that are difficult to follow. Companies can build a competitive advantage from many sources, such as superiority in quality, speed, security, design and reliability, along with lower costs, lower prizes, etc. On one hand „in terms of competitiveness abstractions are unacceptable" (Stankova, 2007).

Stankova points out that competitiveness has as a meaningful content the ability to satisfy certain and imagined but still well-defined in the context of green tourism needs. On the other hand, a good study of these needs is an important prerequisite for ensuring competitive advantages in the tourist markets.

The study of the competitiveness of the product in terms of its cost and price limits the factors into two groups: production and consumption, according to the value of the product and its value. Consequently, the concrete manifestation of the competitiveness of the product is limited to the ratio between its quality and price, which is considered to be the most important characteristics of the products. (Dimitrova, 2014) According to Velev and Dimitrova, external factors of competitiveness are: macroeconomic; natural-climatic; availability of capital, labor market of the necessary manpower, research resources; demand conditions; competition; commitment and support with local competitive enterprises and those of the supporting industries including intermediaries and distributors (Velev, 2004).

An important focus in the context of the influence of environmental factors is put by Hammer and Champy, for whom if an activity is to be competitive, it must be optimized in response to dynamic environment, while recognizing that the available resources are limited (Hammer and Champy, 2001).

In this context, the purpose of the study is to conduct an empirical study and assess the impact of external factors on the competitiveness of the tourism business - such as

green and environmentally sustainable hotels, and to analyze the ecologically responsible behavioral intent of tourists as a condition for the competitiveness of the tourist enterprise.

To achieve the objective of the survey, an approach and a methodology for statistical characterization of the impact of external factors on the competitiveness of enterprises based on survey data are applied.

Methodology

The current study developed a survey instrument which included two major parts. The first section of the survey queries the type of hotel that a respondent most frequently uses, the respondent's attitude to conduct eco-friendly travel and the willingness to the use of green hotels as well as willingness to pay for these services at a higher price. The second section of the survey consists of inquiries to accumulate the respondents' demographic characteristics. Questions include gender, age, education level, profession, marital status, number of children, and income level. The questionnaire used in conducting the empirical survey is composed of questions that responders respond to by evaluating their level of perception on each of the indicators for analyzing and assessing the impact of external factors on enterprise competitiveness. For this purpose is attached five-grade scale to assess, as the grade on each of the indicators is determined in the range of 1 to 6.

The data was collected via an online survey using Google Forms in March 2019. The survey was distributed via social media and gathered 83 responses for a period of 2 months. 11 participants' responses were disqualified because those surveys were not complete. As a result, 72 responses remained for the main analysis. The processing of the data from the study and the analysis was done through SPSS.

Analysis and discussion

Out of 72 participants, 15 were male and 57 were female. The mean age was 40.5 years with a median of 41 years.

Tourists find it hard to evaluate the advantages of a sustainable hotel, while others may be even sceptical about sustainable tourism altogether.

Table 1: Data distribution by gender

Q 5. GENDER				
		Frequency	Percent	Valid Percent
Valid	female	57	79,2	79,2
	male	15	20,8	20,8
	Total	72	100,0	100,0

Source: own table by data of own survey

Among the participants, 12.5 % had secondary education degree or are university student, and the majority of respondents have higher than secondary education distributed as follows: 4.2 % Bachelor's degree, 62.5 % Master's degree and 20.9% PhD- doctorate - postdoc degree (Table 2). About 20.8 % of the respondents' annual household income was under 600 EUR; 45.8% was between 600.01 and 1000 EUR; 33.3% was over 1000.01 EUR.

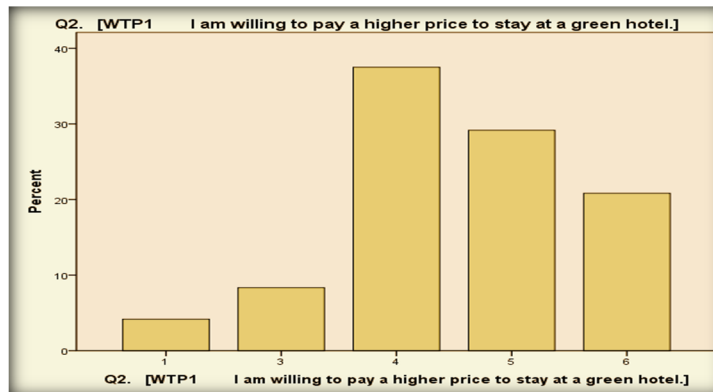
Table 2: Distribution of data by education feature - Q 10. Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2. secondary education (College and Lycee)	3	4,2	12,5	4,2
	3. university student	6	8,3	12,5	12,5
	4. bachelor's degree	3	4,2	12,5	16,7
	5. master's degree	45	62,5	12,5	79,2
	6. phd- doctorate - postdoc	15	20,9	12,5	100,0
	Total	72	100,0	100,0	

Source: own table by data of own survey

A total of 15 respondents indicated that they will pay a higher price to stay at a green hotel; only 3 of the participants reported that they don't want to pay more for staying at a green hotel.

Figure no. 1 Ratio of respondents that they would pay more for green service



Source: authors' own survey

For the purposes of the present study, a correlation analysis was made because correlation describes the relationship between two variables. Although there are a number of different correlation statistics, the one that is used here is the Spearman's correlation coefficient. This statistic describes the size and direction of the linear relationship between two continuous variables (generically represented by X and Y), and ranges in value from -1.0 (perfect negative relationship) to $+1.0$ (perfect positive relationship); if no relationship exists between the two variables, the value of the correlation is zero.

The correlation analysis of the data shows that there is a significant correlation between the variables „willingness of people to travel in an environmentally friendly way“ and the variable „personally obliged to travel in an environmentally sound way, such as staying at a green hotel room“ is significant with correlation coefficient .257*. Table 3 shows the correlation.

Table no. 3

			Q2. [WTP3 I would be willing to spend extra money for an eco-friendly trip.]	Q2. [SO2. I feel personally obliged to travel in an environmentally sound way, such as by staying at a green hotel room]
<i>Spearman's rho</i>	Q2. [WTP3 I would be willing to spend extra money for an eco-friendly trip.]	Correlation Coefficient Sig. (2-tailed) N	1,000 72	,257* 72
	Q2. [SO2. I feel personally obliged to travel in an environmentally sound way, such as by staying at a green hotel room]	Correlation Coefficient Sig. (2-tailed) N	,257* ,029 72	1,000 72
*. Correlation is significant at the 0.05 level (2-tailed).				

Source: authors' own survey

For the subsequent analysis of correlation between the variables “I feel personally obliged to travel in an environmentally sound way, such as by staying at a green hotel room” and “I am willing to pay a higher price to stay at a green hotel room” the Pearson product–moment correlation coefficient is used here. It shows that the correlation is significant at the 0.01 level (2-tailed) is .522**.

Table no. 4 - A correlation between the variables on the obligation to travel on an ecological basis and the willingness to pay a higher price

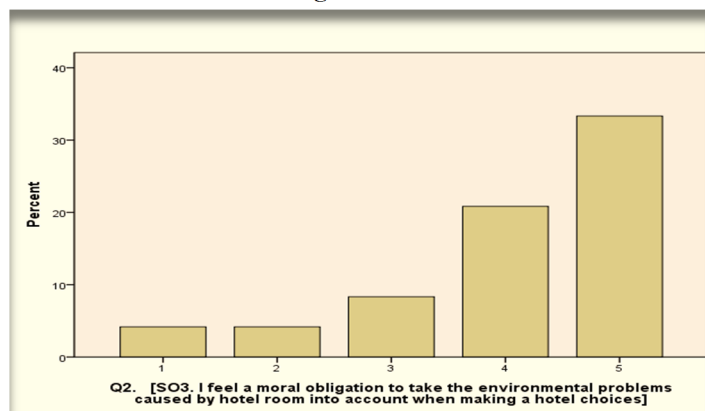
		Q2. [SO2. I feel personally obliged to travel in an environmentally sound way, such as by staying at a green hotel room]	Q2. [WTP1 I am willing to pay a higher price to stay at a green hotel room.]
Q2. [SO2. I feel personally obliged to travel in an environmentally sound way, such as by staying at a green hotel room]	Pearson Correlation Sig. (2-tailed) N	1 72	,522** ,000 72
Q2. [WTP1 I am willing to pay a higher price to stay at a green hotel room.]	Pearson Correlation Sig. (2-tailed) N	,522** ,000 72	1 72

** . Correlation is significant at the 0.01 level (2-tailed).

Source: authors' own survey

Researchers have indicated that realizing the seriousness of environmental problems increases the demand on eco-friendly products / services (e.g., Laroche et al., 2001; Manaktola and Jauhari, 2007).

Figure no. 2



Source: authors' own survey

Given this, it can be inferred that many individuals lack information / knowledge about green hotels or not even know of the existence of green lodging establishments. Of course, marketers in various types of green hotel operations should be more proactive in

informing current and potential customers of their green facilities, practices, and programs. Additionally, in the current study, interesting differences were found when comparing respondents who have stayed at a green hotel versus those who have never stayed at a green lodging operation. The experienced group of customers scored significantly higher on intentions to visit and to pay more. Therefore, marketers should reinforce their customer retention strategies with the realization that once hotel customers experience the favorable green attributes of a hotel. They are likely to develop positive attitudes toward green accommodation establishments. When individuals have a more positive attitude, it follows that their behavioral intention will be more positive (Ajzen & Fishbein, 1980; Chen & Tung, 2014). In other words, an individual's positive attitude towards a certain behavior strengthens his/her intention to perform that behavior (Han et al., 2010).

While the current research has shed some lights on several significant issues, there are some limitations that reveal opportunities for future studies. First, the current study did not classify the customer groups in accordance with the types of hotels (eg, economy, mid-scale, upscale, or luxury) when examining attitudes, demographics, and intentions. Future studies should investigate whether similarities / differences in eco-friendly intentions / behaviors exist among groups of customers in various segments of green hotels. Second, this study used a Web-based survey method to collect data. Thus, samples were limited to those with access to a computer and online network.

Another finding is that the respondents with a higher educational degree have more awareness to the environment, use often green hotels and are willing to pay more for it. In support of this statement an example from another survey conducted from The World Values Survey can be given, which is a global network of social scientists studying changing values and their impact on social and political life. The collected data show that the higher a person's level of education is, the more likely he/she is to express concern for the environment. Furthermore in the 2010-2012 World Values Survey, when forced to choose between protecting the environment versus boosting the economy, those respondents with secondary education favored the environment more than those with less than secondary education.

The completion of higher levels of education does not automatically translate into more responsible behaviour towards the environment. Data from the International Social Survey Programme on 29 mostly high income countries similarly showed that the share of those disagreeing that people worry too much about the environment rose from 25% of those with less than secondary education to 46% of people with tertiary education (www.worldvaluessurvey.org).

Conclusion

Today, companies are assessed based on business ethics, social responsibility and socio-economic information as their stakeholders are increasingly interested in climate change. This global trend encourages hotels to turn to green practices. However, more efforts should be made to inform the public about green hotel practices, helping to choose green hotels and more engaging in green consumption. We claim that the successful management of green hotels would not be possible if the benefits of green products / services can not be effectively communicated (Pickett et al., 1995).

When the results of this survey are applied in the practice of the hotel industry, hoteliers should be encouraged to look at their green initiatives as part of the guest experience. Hotel owners can expand their traditional analyses on the target market by including the level of environmental concerns of guests and using this information to justify investing in green practices.

As the study shows, socially conscious consumers seem to seek deeper interactions with hotels. These are guests who frequently visit middle-class hotels and above average and can no longer be seen as passive visitors who only need to sleep somewhere but rather as conscious consumers looking for emotional satisfaction from the contribution to protecting the environment. Hotel owners can expand their traditional analyses on the target market by including the level of environmental concerns of guests and use this information to motivate green investment.

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