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## INFLUENCING FACTORS FOR ATTRACTING INDUSTRIAL COMPANIES WITH FOREIGN CAPITAL IN RUSE REGION (BULGARIA)

### ВЛИЯЕЩИ ФАКТОРИ ЗА ПРИВЛИЧАНЕ НА ИНДУСТРИАЛНИ КОМПАНИИ С ЧУЖДЕСТРАНЕН КАПИТАЛ В РУСЕНСКИ РЕГИОН- (БЪЛГАРИЯ)

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**Abstract:** *Observing the state of the industry in Ruse region (Bulgaria) we can notice that many of the industrial enterprises are wholly owned by foreign companies or have a large share of foreign investment in their capital. This fact points to the possibility of exploring the motives of those foreign investors choose Ruse to build their enterprises. The paper represents a study, performed in 2015, which explores the views of the economic entities, operating in the region of Ruse (NUTS 3 level) on the current status of localization factors in the region, and how these factors influence the activities of the companies surveyed. The study is aimed at industrial companies located in the region of Ruse, which are wholly owned by foreign companies or have a large share of foreign investment in their capital.*

**Key words:** *localisation, foreign direct investments, industry studies, regional development.*

**JEL Codes:** F210; F230; L600; R110.

#### **Introduction**

The process of globalization has a huge impact on traditional industrial structures. Increasing competition has led to a greater variety of products at low prices, produced at low costs, triggered by the necessity of vendors to develop rapidly in accordance with the needs of buyers. Nowadays, the customer requirements for specific products with fast delivery require highly flexible and easily adjustable production systems and overall production strategies. In order to respond to the increasing level of complexity in production management, industrial companies started to divide the production processes into separate stages that could be located in different countries or regions. This allows producers to have access to cheapest raw materials for their business at lowest transport costs with the usage of almost global communication infrastructure.

Foreign direct investments (FDI) are key element in that intensive international economic integration. They are motivator for establishment of direct, strong and long term connections among economies and could foster the development of entrepreneurship locally, as well as improving the competitive position of the two participating economies – the host country and the country of origin of the investor. FDI also enable the transfer of technologies and know-how among economies. Additionally, FDI allow the host country to sell its products on international markets and as a result they form an important source of capitals for number of host economies. This transfer of production capacity and capital funds are constantly increasing its importance and encourage the study of all factors, which motivate investors to make reasoned decisions for localization of their production units.

From socio-economic view the term localisation is characterised by the process of localisation of production units, additional activities, social and infrastructural objects on a particular territory (Stoicheva, 2006). This process is also connected with construction of new and reconstruction and modernization of existing facilities, and implementation of approach for establishment of their impact on the overall spatial organization of the social-economic system (Vasileva, Geneshki, Dochev, Popov, Velkovska, Manolova, 2001).

Factors, which influence the territorial location of production, could be very diverse, with different intensity and course of action. The classification of factors is performed depending on the nature and specific conditions of production and in their evaluation should be taken into account the status of the productive forces in a given territory and the stage of socio-economic development.

Despite its diversity, the factors of territorial location of production can be classified into two main groups: territorial (or) direct locational factors and extraterritorial or indirect factors (Vasileva, Geneshki, Dochev, Popov, Velkovska, Manolova, 2001). Application of a specific methodological approach for factor evaluation in specific economic sectors that have strong importance for the regional development, would bring new opportunities for elaboration of adapted strategies for business development (Antonova, D., M. Kirova, D. Pavlov, S. Kunev, N. Venelinova, I. Kostadinova, 2016; Kunev, 2009; Kunev, Antonova, 2014; Kunev, Antonova, Ruskova, 2014)

## 1. METHODOLOGY OF THE SURVEY

**Main goal of the study.** The main objective is to explore the opinion of economic entities, operating in Ruse region (NUT 3 level - European single classification for regions with at least 150,000 inhabitants and maximum - 800 000 inhabitants), on the status of localization factors in the area and how these factors influence the activities of the surveyed companies.

**Tasks.** The following tasks are formulated: to design a questionnaire, which include factors operating at national and regional level; to interview the companies within the sample; to analyze the profile of the surveyed companies; to examine the scores given by businesses about the importance of key localization factors and conditions; to examine the scores given by companies about the current status of the main localization factors in Ruse region.

**Object of research.** The study is aimed at industrial companies located in the region of Ruse, which are wholly owned by foreign companies or have a large share of foreign investment in their capital.

**Subject of research.** Localization factors of national importance and those operating at regional level are examined. The focus is on the impact and the current status of the factors at regional level due to the specifics of the object of study.

**Sample.** The questionnaire was send to 15 companies and 9 organizations fill the questionnaire at the end. The sample is not statistically representative, but qualitative due to quantitative marks given by the business entities.

**Approach.** A questionnaire with three main parts is used to collect the information. In the first part the companies evaluate the impact of these factors of the location of their organization in a particular region. The second part allows respondents to appraise the current status of the same localization factors and conditions, but for the region of Ruse and the Bulgarian economy. The selection of the localization factors and conditions in the questionnaire is based on a detailed study of theoretical materials related to the location factors of production organizations and factors for attracting foreign direct investments in the region. Each of the two parts contains localization factors divided into two groups - factors at national level and factors at regional level. On the other side, the factors at regional level are grouped into 5 subgroups - economic factors, social factors, infrastructural factors, market factors and factors and conditions for local governance and development. The first subgroup - economic factors and conditions - consist of 9 factors, the second subgroup, social factors and conditions, includes 6 factors, third and fourth sub-group consists of 5 factors - infrastructural and market factors and conditions. The last subgroup is a subset of the factors and conditions for local governance and development, including 10 factors.

The third part of the questionnaire is a company profile of the respondent companies incorporating the statistical information for companies as the legal form, year of establishment, activities and headcount. The figures bellow display sample questions, which were included in the questionnaire.

Part A. Evaluation of the impact						
Factors at national level						
A1.	In your opinion how these FACTORS and CONDITIONS may influence the location of your organization in a particular region?	1 Without influence	2 Little impact	3 Partial influence	4 Strong influence	5 Very. strong influence

Fig. 1. A sample question for evaluation of the impact of a factor in the questionnaire

Part B. Evaluation of current status						
Factors at national level						
B1.	In your opinion what is the current status of these locational FACTORS and CONDITIONS?	1 Very poor	2 Poor	3 Satisfactory	4 Good	5 Very good

Fig. 1. A sample question for evaluation of the current status

The questionnaire was used in two versions - printed and electronic.

## 2. ANALYSIS OF THE RESULTS OF EMPIRICAL RESEARCH AMONG BUSINESS ORGANIZATIONS IN RUSE REGION

### 2.1. Profile of the respondents

The company profile of respondents is built using information on the legal registration of the organizations, the year of creation of the enterprises and their location. Regarding the legal status a significant proportion of respondents are established and operate as SA - Joint Stock Company (67%), Ltd. - Single-member limited liability company (22%) and LTD - Limited Liability Company (11%). Almost all of the surveyed companies are located in the town of Ruse (89%) and the remaining 11% are located in smaller cities in radius 50 kilometers. The following table represents the businesses involved in empirical research, together with the nature of their activities and the origin of their capital.

Table 1. Origin of the share capital in the surveyed enterprises

Enterprise	Type of activity	Origin of the capital
1	Textile manufacturing	Israel
2	Production of cosmetics and pharmaceutical products	Greece
3	Production and sale of electronics	Israel
4	Manufacture of paints, varnishes and others	Malta and Romania
5	Galvanizing and sale of metal products	Italy
6	Shipbuilding and ship repair	Germany
7	Design and construction of tools and metal working equipment	Italy
8	Production of non-metallic minerals	Germany
9	Production of ceramic tiles	Spain

### 2.2. Analysis of results

*Comparison between the scores for the current status and the impact of the studied factors.*

A key aspect of our study is the ability to compare the impact of a factor for choosing the region for location with its current status in the region. Based on this comparison, we would know which factors or group of factors are with the greatest impact and we can determine their status in the region at the moment. If the results are not satisfactory, we should give recommendations and the authorities should make changes leading to increase of the marks for their status. The next table shows comparison of the average scores for impact with the average scored for the current status of all groups of factors.

Table 2. Comparison between impact and status of the studied factors

Group of factors	Average score for impact	Average score for current status
<b>Factors at national level</b>	<b>3.58</b>	<b>2.84</b>
Factors at REGIONAL level		
ECONOMIC factors and conditions	3.52	3.02
SOCIAL factors and conditions	3.43	2.56
INFRACTRUCTURAL factors and conditions	3.96	3.44
MARKET factors and conditions	2.80	2.60

Factors and conditions for LOCAL GOVERNANCE and DEVELOPMENT	3.12	2.51
<b>Average score for factors at REGIONAL level</b>	<b>3.36</b>	<b>2.83</b>

Infrastructural factors and conditions have the highest score for impact and current status. If we compare both average scores - 3.96 score for impact and 3.44 score for current status, we can notice that the factors have a major influence on the choice of location, but their current status in the region of Ruse, according to respondents is lower than necessary - with an average grade of 3.44, tends to be just satisfactory. This means that in the region the authorities need to make changes related to the improvement of the infrastructure in the region.

When we compare the average scores for impact and current status of the factors at the national level, the average score for impact - 3.58, leads us to the conclusion that this group of factors has a strong influence, but their status is currently less than satisfactory. For this reason, the National Programme for Development "Bulgaria 2020", aimed to turn Bulgaria into a *"country with a competitive economy, providing conditions for the complete social, creative and professional realization of the individual through intelligent, sustainable, inclusive and territorially balanced economic growth"* is a step to improve the condition of factors at national level. (Obshtina Ruse, 2013)

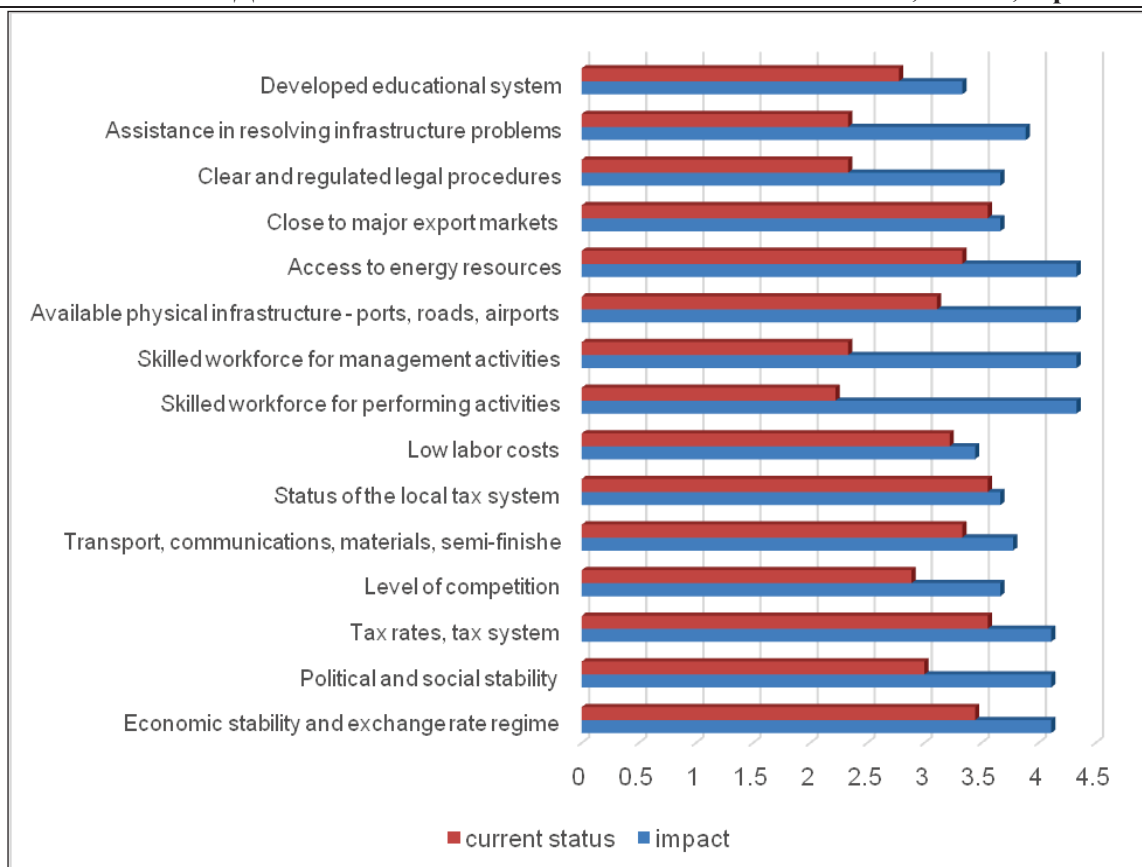
The difference between the average scores for impact and current status of economic factors and conditions is not very large - the impact is scored as partial influence (3.52) and the status is satisfactory, which puts this group in the middle of the ranking of factors by impact and status.

According to the respondents the group of factors and conditions with the smallest impact on the choice of location is the group of market factors, with an average score of 2.80, which means that the current status is weak. On the other hand, the group of factors for local governance and development, which has the lowest current status – 2.51 - has a partial influence on the localization choice, which means that the authorities at Ruse should take steps to improve the administrative services and the quality of work of the municipal employees.

When we calculated the overall average of the scores by groups, we can come to the conclusion that most of the groups of factors have a strong influence, but their current status in the region at the moment is unsatisfactory.

### **2.3. Critical factors for attracting foreign investment in the industrial sector of Ruse**

After the analysis of all addressed in the questionnaire factors we can conclude which are the factors with the greatest impact on the decision of the investors where to locate their industrial enterprises. Figure 3 visually represents the most influential factors of all groups of factors.



**Fig.3. Critical factors for attracting foreign investment in the industrial sector of Ruse**

After determining the most influential two or three factors in each group, we could summarize which are the most important of the so-called critical factors. From the chart (fig.3) we can notice that the factors with the highest scores of impact are: availability of skilled workforce for management and performing activities, available physical infrastructure, and access to energy resources. The factor with the lowest score for current status is the availability of skilled workforce for performing activities, followed by the factor availability of skilled workforce for management activities. The ratio high score for impact and low score of current status determines a factor as critical. From our empirical study of industrial foreign companies in Ruse the results lead to the fact that the most critical factors in the area are associated with skilled workforce - for performing activities and for management. In conclusion, we should take measures to improve the skills of the workforce.

Based on analysis of results of the empirical research among industries in Ruse region and the formulated guidelines for improving the critical factors for attracting foreign investment in the industrial sector of Ruse, we can summarize the following **recommendations**:

- Improvement of the quality of the workforce in the region through: adapting of education and professional training in accordance with the needs of investors, fostering stronger relations between higher education and the labour market, intensifying the link between research, deployment and production;
- Analysis of the current status of the workforce in the region and comparing the results with the requirements and needs of investors; performing of expert evaluation of the investors' need of qualified labour force
- Modernization of the transport and energy supply infrastructure in the region for supporting the industrial capacity of the companies and solving of some environmental problems;

- Implementation of the "one stop shop" approach in the administrative services, provided by the local and regional authorities and enlarging the scope of the electronic services for the business.

### Conclusion

The empirical study, described in this paper, is based on interviews of nine industrial companies with foreign capital, operating on the territory of the Ruse region (NUTS 3 level). The factors, analysed in the study were divided into five groups – economic, social, infrastructural, market and those of local governance. This approach enabled the determination of the groups with highest impact and the groups with the lowest score for current status, according to the respondents. In result, the factors with critical significance for attraction of foreign direct investments in the industry of Ruse region were distinguished and this could be used for launching of measures for improving the investment climate in the region. For example, improvement and modernization of infrastructure and educational system, intensifying the communication among educational institutions, local authorities and business entities, together with some tax incentives and long term regional strategy are some of the recommendations for creating favorable investment and business environment that would attract and retain foreign investors in the regions of Bulgaria.

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