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ФАКТОРИ ЗА УСПЕХ ПРИ ФУНКЦИОНИРАНЕТО НА ЛОКАЛНИ ПРОИЗВОДСТВЕНИ СИСТЕМИ

LOCAL PRODUCTION SYSTEMS SUCCESS FACTORS¹

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Abstract: In the study are considered current issues related to the analysis of the success factors of LPS. Therefore, inductive approach has been applied in terms of the specifics of the factors, which influence determines the development of LPS in different countries. The growth of LPS is closely related to the specific resources in regional systems, which impact their endogenous potential.

Key words: local production systems (LPS), success factors, endogenous potential, development.

In the present study local production systems success factors are derived based on the experience of developed and successfully applied cluster strategy for whiskey production in Scotland, for the development of relations between companies in a given sector and their ability to create and maintain a network interaction to achieve dynamic objectives in Germany, Denmark, Sweden and Norway, and in other developed countries, as well as for sanitary ware and fittings, for electrical equipment and manufacture of cables and wires in Bulgaria. The inductive approach has been applied. Irrespective of the specificity of the factors with significant influence on LPS establishment and development in different countries, these

can be grouped by type of impact on their development, which was made at of this study.

1. Critical success factors for LPS establishment and functioning in EU member states

LPS development depends on the availability of specific resources in regional systems. Each regional system has its endogenous potential, that is an essential prerequisite for socio-economic development. The supranational, national, regional and local development strategies in the EU member states are focusing on the approaches for its effective use. The endogenous potential could be characterized not only by its material nature but also by its intangible one. The first group of **tangible assets**

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comprises the availability of natural resources (resource potential degree of absorption, the level of its usage), concentration/deconcentration of production and market structures (quality of industrial buildings and constructions in use, technical and social infrastructure, market structures degree of development and its trends), geographical location and cultural heritage of the regional system etc.

Essential for LPS establishment and development are also the **intangible assets** directly related to the technological development of business entities in LPS. They could comprise: technical and technological factors (intellectual capital capacity, changes in the value system, interaction between education and science on the one hand, and the economy of the regional system, on the other hand, investment policies and priorities of the technical and technological changes. Significant influence on LPS establishment and effective functioning have the normative legal factors (state of the law and degree of approximation with the European legislation, efficiency of the judicial system to comply with the European standards for working conditions, environment, training and staff development at European level. Last but not least one should emphasize on the traditions, values and norms shared by the local community, as well as the interaction between the stakeholders in order to achieve maximum transparency and honesty to the public, to the people who live in the area where LPS are operating¹, combined with investors policy

¹ In this regard the regional marketing has an important role to play. Through it a balance in the divergent interests of multiple actors at local level could be achieved. Without the rational use of this tool government bodies and local self-government would not be able to realize much needed market transformations in regional economy. These bodies are not able to create a favorable investment climate not only to attract investors from outside, but also to retain already established and functioning business entities. And last, but not least - through regional marketing bodies of state administration and self-government can

commitment to local issues related to education, infrastructure, and integration of LPS business entities partners to the investment results in the abovementioned areas.

In the old member states of the EU, there are good practices in the field of endogenous development and spatial-economic interaction: Germany - Baden-Württemberg region, the region of Wales in the UK, the region Grenoble- Melan, the region of Turin, Northeastern and Central Italy and others. The economic growth of the regions in Northeastern and Central Italy is due to the extraordinary coincidence of a number of circumstances: Both Northeastern and Central Italy has a well established infrastructure; these areas are inheritors of a great tradition in the field of local government; the economic activities specialization allows for production processes fragmentation in small and medium-sized enterprises that have achieved sustainable technological autonomy; strong expansion of small and medium enterprises performing even tertiary functions; expansion of the activities of enterprises without socially insurmountable conflicts; highly skilled workforce. Taking into account the Italian experience one could conclude that LPS development largely depends on the possibility of the human capital to implement its production function. In order to do so, a strong political will is required, motivated not only by the principles of economic efficiency, but also by the principle of territorial solidarity.

In Bulgaria, the spontaneous processes of endogenous development and spatial-economic interaction are still less common. However, the experience of the establishment and development of regional clusters forms incorporating business

attract the stakeholders to the cause of LPS future development.

entities in the municipality of Sevlievo², as a variety of LPS, will be shared. The development of regional cluster forms of companies is a prerequisite for successful partnership with local authorities to achieve competitive advantage. The initiative for their creation belongs to the business. However, the role of local authorities in the process should not be underestimated. Local authorities can not only speed up the process of regional clusters establishment by creating a favorable investment climate, but can also directly participate in the clusters. All participants in the regional industrial clusters have complementary interests, there is interdependence between them, their business strategies are harmonized, thus balancing their objectives and interests, they share the same values and management practices.

The Sevlievo municipality economic boom is related to the following circumstances:

- the favorable location of the municipality;
- well-developed and diverse potential combined with gained experience and traditions that result in

¹The municipality of Sevlievo is developing two clusters. *The first one* is bringing together manufacturing companies producing sanitary fittings and sanitary ceramics. The central role in that cluster is performed by the united company Ideal Standard - Vidima AD, a leading manufacturer of sanitary fittings and sanitary ware and a leader in the areas of product distribution management in Eastern and Western Europe and commercial activities management of the multinational company Ideal Standard International in Eastern Europe. Supporting actions have an important role in cluster development. These include the processing of raw materials for the ceramic industry in the Minerali Industriali Bulgaria, Italian company; Hamberger Bulgaria Ltd, the only subsidiary of the German company "Hamberger" exported outside Germany, Bulgarian-Italian Company Sibi Ltd., Biomet Distribution Center etc. *The second cluster* operates in the area of electrical equipment, and cable and wire production. That cluster has two major companies: ABB Avangard (specialized in engineering and manufacturing of equipment for medium and high voltage products and service products), and EMKA AD (producing enamelled copper wires, round and rectangular copper and aluminum wires with paper, glass-fiber and foil-fiber insulation and more).

the multi-sectoral economic development of the municipality;

- adaptive capacity of different economic sectors to the local, national and international business environment;
- key sector in the local economy is industry, and industry has the highest growth potential;
- high share of manufacturing in net incomes from sales and a steady trend of relative preservation of its contribution to the gross production of the municipality and the region;
- the enterprises of the processing industry determined the shape of the local economy;
- production processes in leading companies allow for phase fragmentation, which is a powerful provocateur for the development of new enterprises as first, second and third order subcontractors;
- the investment policy of the municipality aims to promote local, national and foreign investors by creating a favorable investment climate.

As a result of endogenous and spatial-economic interaction the Sevlievo Municipality has become a local production system, i.e. there is cooperation of the firms not only in a narrow, but also in a broader sense. It affects not only the forms of conscious cooperation (consortia or service centers), but also cooperation as a result of the power of intuition, i.e. cooperation prompted by subconscious mind, in terms of building trust and common ground in the relationship between companies. As a result of the relationship between the companies and between the businesses and the territory, the economic agglomeration becomes a key to the companies' population - strategic suppliers from Germany and Italy are attracted. In this respect, an important role is performed by the business association "Sevlievo 21st Century", which proved to be a catalyst for economic stability and favorable business

climate and a benchmark for public-private partnership in the country.

In Scotland, a strategy was developed for the development of business clustering in different regions, supported by the governmental development agency - "Scottish Enterprise" and "Highlands and Islands Enterprise". It is applicable to sparsely populated mountain and island regions, and concerns the production of whiskey. In this case the critical success factors are³:

- Availability of ideal natural conditions (including water);
- Workers are capable and there is a tradition of making whiskey;
- There are developed, related and supporting industries such as bottling, cooperage, distribution and packaging;
- The industry is dominated by a few large companies, but they face strong competition from similar products, substitutes of the alcohol market;
- The existence of the government regulation, especially the condition that the product with the brand name "**Scotch whisky**" must be distilled in Scotland has led to regional industry clustering in four main areas (Speyside, Highland, Lowland and Islay), with the most favorable conditions;
- Increasing employment through the development of both the main and related, and supporting industries.

Typical is also the high level of cooperation and network relationships in the industry, which are crucial for the development of a successful cluster. The key institution supporting the networking is the Scottish Whisky Association (SWA), an organization representing all major players in the industry. It supports also the connections to other structures and encourages the companies in the sector to work together to

³In **Danson, M and Whittam, G.** *The Scotch Whisky Industry - current performance and future prospects - priorities for improvement*, prepared for The Scottish Trades Union Congress and The Scotch Whisky Association, 1999.

create synergy in their activities. An example of the latter is the creation of lobbies and the independent policy conducting oriented towards the protection of the image and reputation of the brand "**Scotch Whisky**". SWA has an important role in the development of the cooperation between industry and the Heriot-Watt University in Edinburgh, where courses for brewing and distilling are organized⁴.

In Germany LPS are usually distinguished from other cluster structures because they agglomerate the economic activity around specific local resources, traditional industries and/or business relationships to include in the system additional sectors and / or new activities that make the economic structure more complete and to expand the opportunities for the regional system development. In this case the integration consists in the relationship between companies in a given sector, their ability to establish and maintain an interactive network, as well as to collaborate to achieve dynamic goals. Thus, the integration is an indicator of the capacity of the system to start up new activities in different but complementary sectors. In this respect, the production integration allows to increase the competitiveness of LPS based on the relation "quality of production - production integration", and to generate economies from the local production scope. More precisely, production integration has a positive impact in the following areas:

- Quality improvement and reinforcement of the reputation not only of the particular products and services but also of the relevant territorial unit as a whole, due to the transfer of positive image;
- Customer loyalty creation as a result of LPS high production quality that occurs in a positive attitude towards a specific location.

⁴ In **Atterton, J.** *The Role of Civil Society and the Business Community in Rural Restructuring*. Scottish Office, 1999.

For example, in the Nuremberg region areas with relatively high importance to the region and containing the potential for future development are selected. Their selection is made with the participation of representatives of Trade unions, the Chamber of Commerce, regional and local business organizations and associations, as well as representatives of the Bavarian region. One of the first results is the Plan for the Economic Nuremberg Region⁵, in which the conceptual directions for regional development have been marked, as follows: Medicine, Pharmaceuticals and Healthcare, Communications and Media, Energy and Environment, Transport and Logistics, New materials and Sources of raw materials. The selection of the above mentioned areas has been carried out on the basis of two criteria: the first - areas that have relatively high importance to the region and the second - to contain potential for development.

In Germany "local stakeholders" have a key role to play in LPS establishment and development not only because they are implementing regional strategies and plans but also because these stakeholders are directly involved in their development. That approach in local governance leads to what Courlet⁶ calls "social activities" where "local stakeholders" interact and contribute with their own skills and resources to the socio-economic development of the territory. Storper⁷ also stresses that 'stakeholders' active participation in local governance is facilitated by the social capital. Social capital contributes to regional development by encouraging the exchange and dissemination of knowledge, ideas and know-how and by provoking a relationship of trust between "local stakeholders", thus

⁵ <http://www.cluster-excellence.eu/3555.html> (2010)

⁶ **Courlet, C.** L'économie territoriale. Grenoble: PUG. 2008

⁷ **Storper, M.** The resurgence of Regional Economies, ten years later: the Region as a nexus of untraded interdependencies.// European Urban and Regional Studies, 2, 1995, pp. 191-221.

increasing local competitiveness and attractiveness. Examples of specific public measures to promote the cluster and network development in Germany are:

- **BioRegio-Competition:** This competitive environment is the basis for the establishment and strengthening of a regional infrastructure for biotech companies in a limited number of regions ("Strengths strengthening").
- **BioProfile and InnoRegio,** innovative regional development nuclei, learning regions: These measures aim to improve the existing secondary strengths through intensification of network connections and create a unique profile in the different regions..
- **Peak cluster – competitive environment of the Federal Ministry for Science and Research, First tour 2007/2008:** It relies on the strategic development of high-performance clusters of science and economy, in order to accelerate the incorporation of ideas into products, processes and services;
- **Bio industry 2021 - Competitive environment cluster for the development of new products and methods in industrial biotechnology, as of 2006;**
- **Cluster Offensive Bavaria (as of 2006):** Oriented towards promotion of 19 cluster platforms (networking, communication skills), but not for individual actors potential transformation i.e. networking is based on the foreground.
- **Regio cluster North Rhine-Westphalia, Hesse offensive cluster, Higher competitive conditions in the Federal Saxony, Regional cluster competitive environment in Baden-Württemberg, promoting regional networks Mecklenburg-Forpomen, Cluster initiative in Central Germany: Initiatives of individual federates, incl. initiatives beyond their limits, started in 2007/2008 for the promotion of clusters and network connections, etc.**

These measures encourage networking in certain technological fields or advanced branches, as well as between the existing concentrations of businesses, higher education institutions, non-university research institutes and other supporting organizations (innovation active promotion through further development of existing regional configurations of actors). The objective of these measures is to equalize existing regional gaps in economic structure, through the instrument of building clusters and contribute to job creation within the industrial policy for added value increase. Expectations regarding the results are based on the assumption that by applying innovation and economic-policy measures it is possible:

- To create a critical mass of companies, higher education institutions, etc., as a prerequisite for the development of local production systems;
- To excite and stimulate growth and intensify cooperative exchange processes between the cluster structure participants and as a result, to realize policy stability, effectiveness and efficiency of economic processes through leveling the innovative capacity within a national or international perspective.

In Denmark, particular attention is paid to the development of local innovation systems in the furniture industry and wireless communications. The economic growth in the regions where these sectors are developed is due to the establishment of stable and flexible inter-relationships based on a high level of trust between partner businesses, local norms and established practices of dialogue between company managers and workers in the local community, as well as to the formalization of the cooperation between companies and universities through the establishment of an Association. Product line experimentation and rethinking are based on the ideas of workers who become

a key mechanism to companies' innovation. In other words, a major source of innovation are the interactive innovation activities carried out through the vertical network interaction between manufacturers and their suppliers, as well as through the horizontal interaction network leading to the provision of more diverse product lines. Sustainability of these relationships in local production systems is achieved by sharing the common values and standards for the management of the companies in the cluster structure. It could also be achieved through the region's traditions in entrepreneurship, the craftsmanship of products belonging to a single economic community and local solidarity.

In Southern Sweden, where some of the largest food producers in Sweden are located, LPS establishment and functioning is based on new technologies. These LPS have high capacity for innovation and growth compared to the traditional food industry. Around the University of Lyund there are some big companies for research and development in the field of healthy food and food supplements. These companies interact with the university, the traditional food producers as well as with local research institutes in the field of cluster healthy products marketing. Typical for food production LPS is the wide range of innovative support for the food sector.

In Southeastern Norway leading forces in the local electronics industry are: the system of intermediaries in e-business companies and the firms for industrial manufacture of components, details etc. These cooperate with national and international research organizations, universities and other clients of their innovative activities. The cluster structure is characterized by networks between staff in different companies as well as by the provoked by the mobility of the workforce .transfer of knowledge. Since most of them are specialized manufacturers of components and software they have an important role in the innovation process, the

transfer of prototypes in real production or to address common technological problems.

In LPS Sevlievo, Bulgaria emphasis is on the ability of the companies to implement obvious advantages - an increasing productivity and profitable competitive positions. The significant improvements in the last two points are the result of established relationships between geographically related companies that generate semi-formal networks. These networks make it possible for businesses in the municipality to perform much wider and more complex functions in comparison with the individual companies. Such an agglomeration supports the emergence and operation of the inherent to the developed market economy, so-called regional system self-financing mechanisms. In fact, the economic viability of the municipality of Sevlievo depends both on the internal diversification of production in vertical and horizontal lines and the change in the structure of product supply and demand. In particular, it is determined by:

- the interlinking of businesses that are leaders in the cluster networks, and many other companies and organizations that are technology related or are performing service and maintenance activities, transport services and logistics, applied research;
- the ability of the companies to derive maximum benefit from external links, through logistics platform organization and SAP center establishment;
- the companies have an important social mission. They perceive that mission as an engine of their business by investing in: modern waste water treatment equipment, thus caring for the environment and the health of the workers; health care when buying modern equipment for diagnosis and treatment; cultural heritage for its development and conservation; Christian values preservation. Investments in

infrastructure are considerable: construction of a gas pipeline; investments in a fiber optic cable to improve telecommunications in the municipality; building of own four-star hotel; development of vocational and language education; development of sports;

- the ability of the companies to adapt to the inevitable over time structural changes⁸ „including development and implementation of the concept of production and distribution integration at national and international level.

Companies' cooperation in the cluster network aims at integrating their efforts to enhance the competitiveness of the regional industry in compliance with the requirements and the pressure of the European markets. As a result of cluster's functioning and development a technological synergy effect is achieved through the production of related products and services and assemblies and details. The companies in the cluster cooperate not only between them but also with local authorities in order to improve the technical and social infrastructure. They make use of the common opportunities for human resources educational and qualification improvement, for advertising and promotion of products to attract investors.

Residents of the Sevlievo Municipality are strongly attached to their native land. They cherish traditions and respect the experiences of their predecessors. They also appreciate the the capabilities of scientific and technological progress in order to achieve economic and social progress⁹. The Sevlievo Municipality is a model of endogenous development in the

⁸ Georgiev, Ivan and Tsvetan Tsvetkov. Comparative innovative analysis of industrial companies in Bulgaria and EU. UNWE Annual Book, Sofia, 2004.

⁹ Boeva, Bistra. University - Business Interaction in the Conditions of Bulgaria's accession to the EU. Economic Alternatives, N 2, 2005.

country¹⁰, accompanied by increased and efficient use of natural, economic and human potential combined with the provision of high level of services to the population and economic entities. All this leads to increased productivity and competitiveness of the regional economy¹¹. According to Vassil Kanev, Managing Director and Chairman of the Board of Directors of "Ideal Standard - Vidima" AD¹² until mid-2012 there is no exact recipe for success. He underlines the following two major factors: **1. cohesion between the policy of "Ideal Standard - Vidima" AD and the Municipality management policy; 2. presence of a management team characterized by will and professionalism, conviction of all company staff.** But this is not enough. The Managing director continues: "...maximum transparency and honesty towards the society, the people who will deal with the investments, compliance with European standards and labor conditions, the environment, joint long-term strategy, staff training and development, compliance with the European criteria - so we come to the essence of success. We developed a policy of investors' commitment to local issues such as education, health, infrastructure and other social issues, i.e. a balanced approach for the investor and for the region."

The analysis of the presented case studies of EU countries allows to conclude that the

¹⁰Data provided by the municipality of Sevlievo state its population has 41500 inhabitants, of which 26800 live in the municipal center. In 2011 the industry occupied 76% of the total volume of the gross production in the municipality. There are 1200 firms, including 7 large companies employing over 250 people each. Net sales per capita are above average. The unemployment rate is 6.7% in the national average - 10.1%. Gas supplied are 100% of the enterprises in the industrial sector, 100% - public and administrative buildings, and household gasification reached 41%.

¹¹In times of economic crisis, the unemployment rate in the Sevlievo municipality is 4.1 percentage points lower the average unemployment rate in 2011

¹² At present „Ideal Standart – Vidima” AD is a part from Ideal Standard International.

LPS model allows the realization of sustainable local development, which is based on: increasing competitiveness and attractiveness of the territorial unit; local goods and services quality promotion; provision of better quality of life for the population. The technical and economic, as well as the social and environmental challenges that shake the world, are changing the spatial behavior of the business entities. There is a growing flexibility in the behavior of the business entities in the choice of raw material sources. In no lesser extent various forms of plasticity of these entities could be observed regarding the mode of raw materials transport, applied technologies and the depth of their processing.

2. Strategic study of LPS business entities claims to regional environment throughout the whole chain, "requirements formulation – requirements feasibility"

Constantly changing conditions foster the spread of activities on intraregional, national and supranational level. One should also take into account the fact that the factors that drive changes do not act one way and unimpeded. For example, technological innovation, products' update and shortening of their life cycle, together with the production factors continuous updating,

create new problems related to the human factor and its ability to adapt¹³. Business entities are faced not only with the need to adapt to the regional environment, but also to actively participate in the process of creating the necessary conditions for its

¹³ Here the link is indirectly expressed by the Human Development Index (HDI), whose characteristics are contained in the 2006 Report on Human Development of the United Nations Program. According to this indicator Bulgaria is 54th out of 177 countries with a HDI of 0.816. Accordingly it belongs to the group of countries with high degree of human development and overtakes Romania, which is at the 60th place. In recent years, our country climbs up by one place in the ranking on this index, and compared to the position in 2002 (62nd) it progressed significantly in order to enter the group of countries with high degree of human development. In 2007, this trend to move forward continues again and our country is ranked 53rd, while Romania remains at the level achieved in the previous year. The top of the ranking in 2006 has been occupied by Norway, Iceland, Australia, Ireland and Sweden. Noticeable are the place occupied by some of the new EU member states: Slovenia - 27th, Cyprus - 29th, Czech Republic - 30th, Hungary - 35th. As for the countries neighboring Bulgaria, which are not members of the EU Turkey is farthest from Bulgaria. According to its HDI the country is ranked 92nd. As to Macedonia it is ranked 66. There no data on Serbia for this indicator. Despite the fact that the information is not complete, we can definitely say that according to the index of human development the Balkan countries are very slowly approaching each other. As a result the attractive power of the Balkan countries for investments will be different. In 2010, substantial changes occurred in the Balkan countries in terms of HDI. Bulgaria (58th place) is lagging behind Montenegro (49th place), Romania (50th place), Croatia (51st place). The top of the 2010 ranking has been occupied by Norway, Australia, New Zealand, Ireland and Liechtenstein Countries such as Greece – 22nd place, Austria – 25th place, UK - 26th place, Czech Republic – 28th place, Slovenia – 29th place, Slovakia – 31st, the Cyprus – 35th place, Hungary – 36th place, Poland – 41st place also change their place in terms of HDI. Of course one should also take into account the fact that for the calculation of the index a new methodology has been used. As a result of its application values calculated are lower than the values calculated with the old methodology. With the new method of calculation the standard of living is based on the natural logarithm of the gross national product (while in the old methodology the gross domestic product was used) per capita in relation to the purchasing power. For more information: <http://bg.wikipedia.org/wiki>

future development. The internal regional environment can in some cases emanate messages of "absorption" of the business initiatives, and in other cases - create barriers of technical, organizational and psychological character. Technical barriers correlate most often with the unsatisfactory level of technical infrastructure, while the organizational barriers mainly affect the management systems and are related to the public administration imperfect work. As to the psychological barriers they most often result from insufficient training of the population in the region to adopt the novelties. Regional marketing is the instrument through which the region's notion is enriched in specific aspects, as well as the projected notion of the "image" of the region is presented. Marketing aims to inspire confidence in the economic agents concerning regional environment through the image, based on information on the realities from the position of today and tomorrow. Regional Marketing facilitates the identification of the niche in which a community is different from the others. The determination of LPS business entities' claims to the environment is inevitably linked to its strategic learning as a fundamental element in the chain "requirements formulation – requirements feasibility". The fragmented direct and indirect studies of the internal regional environment and of the prospects for its development carried out by the entities that make decisions to expand and build new LPS entities lead to the formation of a positive or negative idea of this environment. In the process of studying the environment the business entities consider not only the thesis that the past course of one variable affects the expectations of its future course. Business entities able to plan the trajectory of the development of a variable, can use a much wider range of information than that contained in its past development. They form their predictions of regional environment changes based on the

most important and significant economic and non-economic data. The way they will react to the expected changes in the regional environment largely depends on the type of the regional economic policy followed. Business entities, forming LPS, are directly involved in the local development and have common interests in terms of regional dynamics in the future. In particular, they consider not only the realities of the internal socio-economic space. To a greater extent the business entities are turning their attention to the potential possibilities for variation of the target orientation in the space development. These possibilities do not appear automatically. They are synthesized as a result of continuous research and applied work. As a rule, local strategies, plans, programs and projects are developed on the basis of preliminary studies results. The business entities carry out their activities in compliance not only with the image they have built in terms of intra-regional environment, but also with the role that have been assigned or is assigned to them in terms of implementation of regional environment development activities. The search for support among business entities and the public about regional development is a major task of the regional authorities. Much more significant, however, is to seek the likely effect of the planned action by the regional authorities and the unique contribution of the stakeholders (business entities and public) to the process of strategic planning and the strategic plan implementation. The indirect effect of this should be sought in the LPS competitiveness improvement, not only at national, but also at supranational level. Among the key points that characterize the connection thus presented is the re-evaluation of the planning process logic. Until the beginning of the XXI century in most cases it was based on the motion of the planning process from the present to the future. Modern times challenges require

to seek to release from that predetermination. The right direction here is the implementation of the strategic perspective for the development of the intra-regional environment based on the motion from the future to the present¹⁴. The main subjective factor for the realization of the strategic perspective for the development of the intra-regional environment based on the motion from the future to the present, is the regional authorities' administrative capacity. A targeted survey of national strategic reference frameworks of the Balkan countries in terms of priorities shows that the administrative capacity is present directly or indirectly. Greece (one of the oldest member states) as well as Romania (one of the newest member states) defines directly as a strategic priority the administrative capacity building. For Bulgaria the priority is presented indirectly. Undoubtedly, the implementation of the strategic priorities will depend on the administrative capacity of the countries.

3. Key organizational success factors for LPS business entities

The profound and complex changes in the conditions of the business environment of today's LPS make it extremely difficult to guarantee their existence and to ensure their long-term success. The orientation of the organizational goals towards such performance indicators as income, profitability and liquidity is insufficient, because these indicators deteriorate quite rapidly and the leadership of the organization is unable to respond in due time. This is due to the fluctuations of those operational variables that result from realized earlier changes. In connection with the development of information systems for organization management, that supports the process of selection of key variables for success, Daniel stated that the success of a

¹⁴ Manov, Vasil. The Reforms in the Post-socialist Society. The Bulgarian Experience. Moskva, Economics, 2000, pp. 291-306. /in Russian/

particular market in a given sector depends on some small number of dominant factors (three to six). He says they are "key activities that the organization needs to perform extremely well in order to ensure its successful existence"¹⁵.

LPS business entities' key success factors should be included into the strategic planning process. Their disregard can turn the results achieved by the organization in casual and short-dated. Thus, on the basis of the conducted strategic analysis as a starting point for organization strategy development factors for its success are formulated. On the other hand, the definition of (strategic) success factors could be considered as an independent diagnosis method in the context of the strategic analysis.

Success is a positive result from an effort or is the occurrence of desired impact. In other words, success is the achievement of a goal. Moreover, it should be noted that the perception of the success, respectively of the failure, depends to a greater extent on the harmony between the result achieved and the personal expectations, rather than on the absolute amount of the achievement itself. This is the reason for the difficulties in the objective measuring of the success, as it is a subjectively perceived phenomenon. Achievement that exceeds the expected level is seen as a success otherwise it is marked as a failure. Thus, success could be defined in a broader context as the degree of achievement of the objective operationalized with the help of indicators. More complicated is the determination of the degree of achievement of the goal by means of several indicators. In that case it is necessary to make a summary assessment. Using that assessment the cumulative final result is obtained and it is based on the individual values of a set of indicators. Only then it is possible to determine the degree of achievement of the goal by implementing an appropriate

grading scale. Thus, one could conclude that success is defined as determined as the extent of achievement of the goal determined by means of appropriate indicators. Moreover, each of the indicators could be a complex value, i.e. it could incorporate several sub-indicators. Key success factors are variables that form the basis of the competitive strategy of the organization and therefore can not be specifically defined. They are characterized by several particularities:

- Key success factors are variables that affect in a given way both the success and the failure of the organizations in LPS.
- They have a decisive impact on the success of organizations in LPS. Therefore their number is limited to those variables for which there is a cause and effect relationship between them and the success of the organization.
- Key success factors are influencing both the long-term success of the organizations and their long-term performance.
- Key success factors could be defined by using different measurement scales, allowing their operationalization while developing effective organizational strategies.

Organization key success factors identification is connected with problem solving that inherently are characterized by a growing complexity. It is determined by the variety of internal and external causes for realization of the organization and the interdependencies between them. Thus, the following principles should be applied: gradual detailed description and aggregation of success factors; objective coordination of success factors; temporal coordination of key success factors. Central to the development of an effective strategy is the analysis of the organization strategic potentials for success. They

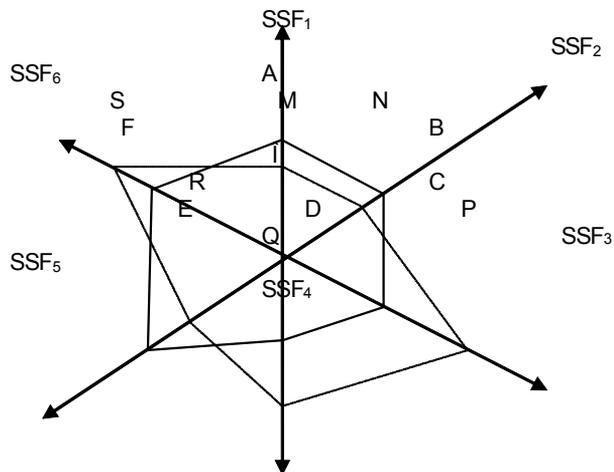
¹⁵ Daniel D., 1961, p. 116

include all specific to the organization product and market prerequisites for success during the period considered. Their creation requires a long period of time in which the necessary production capacity, market shares, distribution channels are established¹⁶. Thus, through mastering of important and dominant skills it is possible to realize in a long-term perspective better results than the competitors. Accordingly, the strategic potentials for success were associated with substantive requirements for production, and the quality and skills of the labor force of the organization. In addition, they are determined vis-à-vis the competitors and their existence is linked to

the inability to be easily copied by them. Last but not least, the strategic potentials for success include a small number of critical conditions and skills of the organization, which over time could be subject to changes under the influence of the environment in which the respective business unit operates.

Fig. 1 presents the interdependencies between the strategic success factors (SSF) and the strategic potentials for success (SPS). The coordinate axes represent the defined strategic success factors (SSF1 to SSF6) and upon them are presented the strategic potentials for success of the organization (points A, B, C, D, E, F).

Figure 1.
Relationships and dependencies between strategic success factors (SSF) and strategic potential for success (SPS)



¹⁶ In Gälweiler, 1990, S. 26

One could observe the following dependences: The more distant are the points representing the SPU from the beginning of the coordinate system (point O), the greater are the respective potentials. Moreover it is possible that the achieved potentials increase or decrease, which will lead to a change in the location of the corresponding points on the coordinate axes. With the dotted line, and the points M, N, P, Q, R and S are depicted the strategic potentials of the main competitor of the organization. As the potentials are inherently relative values (vis-à-vis the competition) there is no other objective measure of their level.

In conclusion, it should be emphasized that the socio-economic development of LPS is determined by their endogenous potential. That potential is influenced by a

variety of factors that differ in strength and direction: natural resources, manufacturing, technical and social infrastructure, market structures, geographical location and cultural heritage of the regional system, national, regional and local development strategies in the European countries, technological factors, regulatory and legal factors; education system in the country and others. Therefore, the development of effective strategies for LPS development requires identification in due time of the key success factors that in an appropriate way could be combined with the potential of organizations involved in the relevant LPS. This, in turn, is a viable means of ensuring LPS long-term ascending development in terms of resource constraints, including time shortage, variability and unpredictability of the business environment.

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