Attractive Investment Images in Southeastern Europe: the Case of Varna, Bulgaria[1]

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Abstract

Attracting foreign direct investments (FDI) constitutes one of the primary aims of the regions and cities of Southeastern Europe after the fall of communist regimes in 1989. In order to satisfy this aim, cities are characterized by a plurality of efforts to create their images based on their distinctive characteristics and in this way attract investments and specialized human resources. Factors such as agglomeration economies, access to European markets, urban infrastructure, as well as qualitative 'soft' factors such as the quality of life and urban aesthetic, are considered as location criteria for business establishment in potential locations. The aim of the paper is to examine the attractiveness of the city of Varna as an investment destination by using primary data derived from empirical research on Varna's firms. The firms evaluate a variety of factors (urban characteristics), defining Varna's advantages as an investment destination. These advantages were then used to create the proposed 'investment image' of the city.

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1. Introduction

Since the fall of the Berlin Wall in late 1989, great changes have taken place in the former socialist countries of Central and South-eastern Europe and the Soviet Union. The liberalization of trade and international flow of foreign capital and specialized human resources are well known factors that have led to fundamental economic and social restructuring, particularly visible in the post-socialist cities after 1989 (Castells 1992; Tsenkova and Nedovic-Budic, 2006:350; Tøndel, 2001; Filipovic and Petrakovic, 2005). On the other hand, competition on the international level has become so intense and intrinsic to local development that cities have to take a more entrepreneurial stance in order to remain at the top of a region and enhance their attractiveness to potential capital, residents and visitors (e.g. Hall and Hubbard, 1998; Williams, 2002; Hinderlink and Titus, 2002). A fundamental variable in the context of cities' competition is FDI attractiveness (Parkinson, 1991; Louri, *et al.,* 2000; MacKinnon and Phelps, 2001; Berkoz, 2001), which contributes to regional development by increasing the capital stock and the productive capacity (Ioannides and Petrakos, 1999; Iammarino and Santagelo, 2000). Post-socialist regions and cities consider the creation of an attractive investment image one of their main priorities

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in order to become a competitive investment destination. Capital metropolitan cities like Prague, Warsaw and Budapest (European Cities Monitor, 2005; Metaxas, 2006), but also other urban centers such as, Lodz, Rostock, Poznan, Basel (Deffner and Metaxas, 2005; Florek, 2006; Johnson, 1995, etc.) have improved their images in the last decade in order to increase their competitiveness, as well as to establish a sound presence and play a crucial role in the European and International market. For Southeastern European cities, the transition periods have involved economic and social decline alongside the initial efforts invested in economic and social restructuring. The establishment of an attractive investment as well as cultural image received great attention over the last two decades. Especially in the last decade, as the region has stabilized and is approaching integration into the European Union, the new role of cities as promoters of post-industrial development, and as places attracting investment in various well-known productions and activities, has been established. Cities, such as Belgrade, which was named "The city of the future" in Southern Europe for 2006/07 (FDI Magazine, 2006), Plovdiv, as a modern and vibrant urban centre, Zagreb as an economic, scientific and cultural centre in Croatia, are seeking to develop business, culture, tourist and leisure policies in order to attract potential target markets and to fortify their economic development.

Taking into account all the above, the article aims to investigate the potential advantages of Varna, Bulgaria, in becoming a competitive investment destination in attracting foreign capital. In order to satisfy this aim, the article uses original empirical data from a survey conducted among city firms (local and foreign). Based on the findings of the survey, we attempt to outline the investment profile of the city, highlighting its most distinctive characteristics. More specifically, the structure of the article is the following. In the next section, the relationship between firm competitiveness and urban advantages is examined and the survey questions are set, focusing on the city of Varna. In the third section, a background of recent studies present Bulgaria and Varna as investment destinations, while in the fourth section we present the methodology, the profile of the survey and the profile of firms which participated in the survey. In the fifth section, Varna's profile is analyzed. In the sixth section the findings of the survey are presented. In the seventh, the suggested investment profile of the city is presented. In the last section, the article offers important conclusions for both the firms and the city of Varna.

2. Firm Competitiveness, Urban Assets and Location Choice Criteria

Recent studies have shown that the competitiveness of firms is dependent on a variety of factors on both the macroeconomic and microeconomic levels. Macroeconomic factors include taxation, the cost of investments, the cost of research (Chen and Williams, 1999; Rogoff *et al.,* 2004); microeconomic factors include the size and age of the firm (Sapienza, 1991), its ability to attract foreign capital, the absence of planning (Timmons, 1994), the absence of effective management, as well as environmental conditions (Gaskill *et al.,* 1993), that could be obstacles to the firm's competitiveness.

Beyond these factors, however, firm competitiveness is also formulated by the distinctive characteristics or advantages (urban assets), of the firm's location (Begg, 1999; Deas and Giordano, 2001). Several studies examine various factors (urban infrastructure, labour factors, development of networks in European and international markets, factors concerning quality of life – environment, etc.) that are related to the decision-making process of mainly multinational firms as they search for a base location [Meyer, 1996; Lankes and Venables, 1997; Chakrabarti, 2000; Tietjen and Myers, 1998; Scott, 1995, etc.]. For example, studies have shown that foreign firms' decisions concerning choice of location are possibly influenced by their intention of exploiting the benefits from agglomeration economies that exist in the areas of interest (Head et al, 1995; Nachum, 2000; Nachum and Keeble, 2003). Moreover, transportation costs, as well as land and labour costs, are basic factors in the firms' decision-making, (Harrington and Warf, 1995; Miller, 1977; Zhu, 2000), while the role of a place image is crucial in the development of existing economic activities and the attraction of new ones (Kotler et al, 1993; Harvey, 1989). Finally, the availability and the quality of universities and research centres is a factor that influences firms' competitiveness, especially in the fields of technology and innovation (Doutriaux, 2003; Doutriaux and Barker, 1995).

However, the selection of the proper place for firms' establishment is based on the traditional market theory of supply and demand. The criteria evaluated each time by a firm concern, of course, what this area offers– in relation to the competing areas – as well as the capacity of the area to plan and implement the proper competitive promotion policies in order to attract potential target markets.

In addition, a number of the particular factors that compose an urban environment will be presented. The selection of these factors is based on a report by the CEC (1993). This report groups a number of factors (regional and urban characteristics) that serve as location choice criteria. Both the EU report (CEC, 1993) and recent studies (Fest, 2000; Funck, 2000; etc.), apart from traditional economic factors (local market size, labour and land costs etc.), pay particular attention to factors such as the availability and quality of cultural and social organizations in the cities, leisure and education facilities, the existence of investment promotion and support offices and the existence of private – public partnerships. This list is further enhanced with reports from other studies such as D'Arcy and Keogh's (1998, 1999) on land value, Rogerson (1999) and Donald's (2001) on quality of life, Kowalska and Funk's (2000) on

culture, Craglia *et al.,* (1999) on international connections, etc. These factors are used in the present study as well and evaluated as pros or cons for the city of Varna in order to investigate whether Varna can become an attractive investment destination and what the distinctive characteristics of the city are based on, so that a city image as a potential investment destination can be produced and promoted to potential target markets.

Before we start the presentation and the analysis of the case of Varna, a brief presentation of Bulgaria as an investment destination is presented in the following section.

3. FDI in Bulgaria and Varna: Background Studies

The collapse of the communist system in 1989 gave rise to a fundamental change in the development of the states of Central and Eastern Europe, including Bulgaria. On 25 April 2005 Bulgaria signed an Accession Treaty with the European Union and has been an E.U. member since January 2007. For the last five years, the Bulgarian economy has grown steadily at 5% on average, driven mainly by exports and investments (Southeast Europe Investment Guide, 2006: 43).

FDI in Bulgaria has originated mainly from within the EU – more than 75%. Of particular interest is that Greece (the only EU country that neighbors Bulgaria) has invested close to a quarter of a billion US dollars every year for the last four years (Totev, 2005:95). An increasing number of Greek enterprises became active in the areas of South Bulgaria, near the Greek borders, because of the low labour and transportation cost, which helped the creation of an export base (Bitzenis, 2006).

Recent studies have shown the existence of a variety of factors that constitute criteria for the establishment of foreign direct investment in Bulgaria. For instance, in July 2000, KPMG conducted a survey of 230 companies, including 140 of the largest investors according to the FIA (Foreign Investment Agency). The survey included two issues – providing profiles of foreign investors, and descriptions of the investment conditions in Bulgaria. The research shows that the most preferable mode of FDI is majority holdings. Foreign companies say that their main motives for investing in Bulgaria are: the existence of established relations with regular customers from the region, the market potential, the geographical position of the country and the existence of a skilled labour force and low labour costs as a part of the total production cost (KPMG, 2000; Jordanova, 1999; Iankova and Katz, 2003). Furthermore, research carried out in business services that were created after 1996 in Bulgaria that focused on the regions of Varna and Burgas shows that the geographical position of the cities and their industrial characteristics were the main criteria for attracting these businesses (Kolarova, 2003). Similar conclusions have been expressed by Iammarino and Pitelis (2000), who focus their study on Greek outward FDI in Bulgaria and Romania, reporting that the main motives, among others, for business establishment were the geographical position, the investment incentives, the low labour costs and the increase in domestic and regional market share. Less important factors were the proximity of EU markets, transportation costs, the political and economic climate and domestic resources of raw materials. Finally, a very recent study of 64 foreign companies was conducted by Bitzenis (2007), and regarded the determinants of FDI in Bulgaria during the post-communist 1990s. Among other findings, the study showed the significance of geographical proximity as well as the importance of low labour costs for export-oriented companies. Similar results were reported by Iammarino and Pitelis (2000). Furthermore, the findings indicate the importance of cultural closeness and strong historical links (Bitzenis, 2007)[1]. Table 1 shows the investment inflows at the top 10 Bulgarian destinations, measured in USD$ for the period 1992-2003

No	THE TOP 10 REGIONS	SOFIA CITY	VARNA	SOFIA	BOURGAS	PLOVDIV	GARBROVO	LOVECH	PLEVEN	SLIVEN	BLAGOEVGRAD	TOTAL
	COUNTRY OF INVESTOR											
1	TURKEY	1203	205	12	400	1153	61	55	18	149	20	3276
2	RUSSIAN FEDERATION	1225	743	53	350	302	67	57	57	57	62	2973
3	GREECE	1575	52	56	60	547	38	18	35	62	745	3188
4	CHINA	2733	12	5	4	51	2	1	1		7	2816
5	SYRIA	1747	136	5	43	216	2	2	33	3	7	2194
6	ARMENIA	356	323	12	378	564	7	4	28	39	35	1746
7	ITALY	895	69	46	56	360	10	39	21	2	64	1562
8	FYROM	232	9	9	6	38	5	3	9	1	830	1142
9	UKRAINA	490	255	15	163	123	33	6	32	7	36	1160
10	GERMANY	757	146	33	89	115	30	29	13	5	29	1246
	TOTAL	11213	1950	246	1549	3469	255	214	247	325	1835	

Table 1 Distribution of the top 10 foreign investors (countries, by number of projects) in the top 10 Bulgarian destinations in USD$

2 For further information see Bitzenis (2007) Determinants of Foreign Direct Investment: Evidence from Multinationals in the Post-crisis Era of Bulgaria in the late 1990s. Southeast European and Black Sea Studies, 7(1): 83-111

ADVANTAGES	Studies	DISADVANTAGES	Studies
The geographical position	KPMG, 2000; Jordanova, 1999; Iankova & Katz, 2003; Kolarova,2003; Iammarino & Pitelis, 2000; Greek Embassy in Sofia, 2007	Access to EU markets	Iammarino & Pitelis, 2000
		Urban transport facilities Quality of Urban Environment Limited and underdeveloped business infrastructure	Regional Development Plan, 2007-2013
Low labour costs	Greek Embassy in Sofia, 2007; Totev, 2005; Bitzenis, 2007	Low capabilities of educated labour force	Spiridonova et al, 2000
Access to national markets and establish relations with customers	Totev, 2005; KMPG, 2000	Business climate	Iammarino & Pitelis, 2000; Spiridonova et al, 2000
		High risk of investment and trade development	Totev, 2005; KPMG, 2000
Skilled labour force	KPMG, 2000; Jordanova, 1999; Regional Development Plan, 2007-2013	Bureaucracy and corruption	Totev, 2005; KPMG, 2000; Bitzenis, 2007
Telecommunications and services facilities	Totev, 2005	State authorities and business organisations attitude towards businesses	Totev, 2005
The market potentialand the emerging Bulgarian market	Iammarino & Pitelis, 2000; KPMG, 2000; Bitzenis, 2007	Lack of experienced managerial human staff	KPMG, 2000
Cultural and Historical Heritage	Regional Development Plan 2007-2013	Low financial investment incentives	Bitzenis, 2007
Stable country political environment	KPMG, 2000		

Table 2 Advantages and disadvantages of FDI attraction on national level

Grouping most of the findings of the empirical researches mentioned above, Table 2 presents an analysis of the advantages and disadvantages of Bulgaria as a foreign investment destination. The main aim of this analysis is to award those factors that are the main assets on a national scale and to provide some comparative conclusions (at the end of the paper) in relation to an evaluation of the relevant factors in the case of Varna.

4. Research Profile and Methodology

This study collected primary data from 90 firms from all production sectors (industrial/ manufacture, commerce, services and tourism). It took place from May 2003 to June 2005 and used questionnaires and personal interviews. The questionnaire includes open-closed questions in five groups of questions; for the answers a Likert scale was used (1-10)

Production Activity	n	%	Type of ownership	n	%
Industrial/ Manufacture	35	40,2	Local	70	80,5
Commerce	28	32,1	Local with foreign participation	11	12,6
Services	10	11,5	Foreign*	6	6,9
Tourism	14	16,0			
Total	**87**	**100,0**	**Total**	**87**	**100,0**

Table 3 Firms included in the study by production activity and character

[Likert, 1932; Stathakopoulos, 2005:134]. Each interview lasted 25 to 45 minutes. All the firms had over 20 employees, and 80% were local. Research took place within 50 km of the city center. Interviews were made with high level managers and also business-owners. Each interview was certified with the signature of the responder, who filled in the questionnaire and the business stamp.

Table 3 presents profiles of the firms included in the study according to their production activity and character. As we can see, 72.3% of the firms are industrial and commercial enterprises, while the rest belong to the service and tourism sectors. All firms have over 20 employees, with an average of 87 employees. This study then concerns Small-Medium Enterprises. In addition, the majority of the firms are local (80.5%), while a small percentage include foreign participation or are exclusively foreign investors. This means that the evaluations of the specific firms are greatly important both for local development and the planning and implementation of solid development policies.

At this point we have to make clear something very important. In order for a more comprehensive analysis to be made and to reach final conclusions, the analysis includes both the evaluations of local firms, which are the majority, and the evaluations of foreign (or with foreign participation >30%) firms, which make up only a small percentage of the respondents. The main objective of this analysis is to determine, according to estimations made by firms, if and to what extent Varna can become an attractive investment destination. Of course, there are differences between estimations made by local and foreign firms, mainly concerning the importance of factors they evaluate, and for this reason it is interesting to report both sides. As far as the reliability of the conclusions is concerned, based on the small percentage of foreign firms, we cannot claim to derive general conclusions as to what is considered important by foreign firms in general. In the present analysis, however, we can observe an intense tendency of these firms in relation to their evaluations of Varna's characteristics and the extent of their differences from the evaluations made by local firms. Moreover, the conclusions of the analysis will be evaluated according to their advantages/disadvantages analysis mentioned above in order to see whether there is any coincidence of views concerning the advantages and disadvantages in terms of the attraction of FDI on a national level.

5. The Region of Varna: Profile

Varna occupies an area of 205 km^2 on verdant terraces descending from the calcareous Frangen Plateau (height 350 m) along the horseshoe-shaped Varna Bay of the Black Sea, the elongated Lake Varna, and two waterways bridged by the Asparuhov most. The region of Varna has a population of 490.000 people, 70% of whom live in the city of Varna, the third largest city in Bulgaria. The city is becoming the centre of a growing conurbation stretching along the seaboard to the north and south (mostly residential and recreation sprawl) and the lake valley to the west (mostly transportation and industrial facilities). The city lies 470 km north-east of Sofia; the nearest major cities are Dobrich (45 km to the north), Shumen (80 km to the west), and Burgas (130 km to the south-west). Varna is accessible by air (Varna International Airport), sea (Port of Varna Cruise Terminal), railroad (Central Train Station), and automobile. Major roads include European routes E70 and E87 and national motorways A-2 and A-5; there are bus lines to many Bulgarian and European cities from two bus terminals (Municipality of Varna, 2007).

Map of Bulgaria and the position of Varna
Source: www.infohub.com

The production profile of Varna region is predominantly determined by metal and mechanical engineering and machine building, including shipbuilding and ship repairing, chemical industry, transportation by sea, as well as light and food industry, textile industry, and construction. Numerous companies are working in the fields of shipbuilding, ship repair, production of diesel engines, radar technology, medical technology, production of household appliances, building material and building, furniture production, textile production, canning of fruits and vegetables, alcoholic and alcohol-free beverages, meat products and dairy products (Varna Chamber of Commerce and Industry, 2007). Varna and the surrounding area attracted $418m between 1992 and 2001, accounting for 10% of the total inward foreign investments in Bulgaria. The city's port forms a part of one of the major logistics routes between Europe, Russia, Ukraine, Caucasus and Asia. Varna's international airport is the country's second largest airport after Sofia with connections to 35 countries and 101 cities around the world. In September 2004, *FDI*

Magazine (a *Financial Times* Business Ltd publication) proclaimed Varna *South-eastern Europe City of the Future*, citing its strategic location, fast-growing economy, rich cultural heritage and higher education (FDI magazine, 2004).With the nearby towns of Beloslav and Devnya, Varna forms the Varna-Devnya Industrial Complex, home to some of the largest chemical, power generating and manufacturing plants in Bulgaria, including the sites of the two largest cash privatization deals in recent history.

6. Definitions of Varna's Advantages and Disadvantages

The first group of factors that is examined concerns the existence of *agglomeration economies and access to European markets*. More specifically, this group includes six variables (factors) regarding the accessibility to customers and suppliers, the existence of foreign firms and supporting services, as well as the accessibility to national and European markets. Previous studies have shown that all the factors above are of major interest for foreign investors in expanding their activities in potential locations. Several studies (Waits *et al*, 1997; Nachum, 2000; Nachum and Keeble, 2003) support that firms tend to locate close to large customers and suppliers, important competitors, aiming for direct access to the final sales points and consequently the minimization of product distribution costs and to exploit the benefits of agglomeration economies that exist in the areas of interest (technology, innovation, etc.) In addition, the easy access to the new market's means, direct satisfaction of customers' needs and increase of firms' competitiveness against other competitors are all considered factors (Blakely, 1994:148; Doeringer *et al.,* 2004; Papadskalopoulos *et al*., 2005).

Regarding the case of Varna, the research shows that both local and foreign firms that were asked in this research evaluate the city of Varna as a destination with an attractive geographical position (figure 2). The direct access to suppliers and customers, as well as the accessibility to other national markets are the two main advantages cited. At the same time –and because there is a major concentration of mean values – a score slightly over the average (5.5), i.e., between 6.0 and 7.0, supports that Varna combines all the characteristics of a good geographical position, which derives from it being a harbor and the gate of Bulgaria to the Black Sea. Therefore, because of the medium mean values and the high standard deviations that the examined factors received, the geographical position of Varna is distinguished among the firms' appreciations. More specifically, the firms overall estimate that all the factors that are examined constitute advantages, but they differ in whether they are especially strong advantages. The main differences arise in their evaluations of the

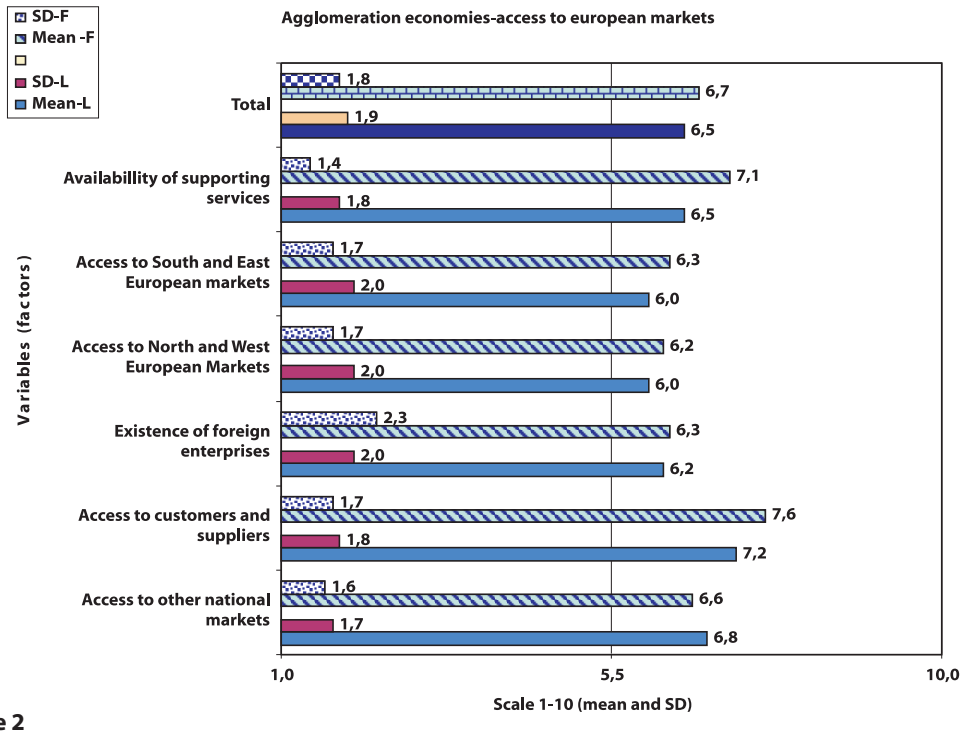

Figure 2
Agglomeration economies – access to European markets (mean, SD) [1= the least important, 10= the most important]

'availability of supporting services,' where foreign firms give a quite high mean value (7.1) and also a low standard deviation in relation both to the local firms and to all the factors examined. Generally, the total evaluation indicates that agglomeration economies and access to national and European markets formulate an attractive position for the city, one capable of attracting foreign investment.

The second group of factors that is examined concerns the existence of some very important *characteristics* and *policies* on a regional level and, more specifically, the availability of strongly attractive investment motives, the existence of low local taxes and finally, and most crucially, the local authorities' attitude towards businesses (figure 3). Previous studies have defined that the role of local authorities is important, since they contribute to the creation of a dynamic business climate, supporting the competitiveness of the existing firms but also the attractiveness of new ones (Fuller *et al.,* 2003; Leeming, 2002; Bennett and Krebs, 1991; Syrett, 1994, etc.). Furthermore, local taxes, as well as a well balanced tax system on a national scale play a crucial role in attracting foreign investment (Budryte, 2005; Desai *et al.,* 2004; Leibfritz *et al.*, 1997). Of course this is not entirely correct, since that econometric analysis and other surveys of international investors showed that tax factors are not the most important for multinationals in deciding on the location of their investment (Shah, 1995; Morisset, 2003; Morisset and Pirnia, 2001). Furthermore, FDI in SEE countries has been primarily privatisation-led and, in most cases, market-oriented (horizontal) as opposed to export-oriented. This type of investment is less likely to be influenced by corporate income tax incentives (OECD, 2003).

Regarding the case of Varna, the whole view presented is quite troubling. Both local and foreign firms regard all the factors of this group as disadvantages, since all mean values are under the average (5.5). At the same time, without the values of standard deviations being low, they present a relevant homogeneity regarding their value, with the exception of the standard deviations (1.8 and 1.7) of the factor 'availability of strong investment incentives.' This fact leads to the conclusion that the factors related to the creation of an attractive business climate in the area are evaluated as disadvantages, something on which all the sample firms agreed. These appreciations are acceptable, if we take into consideration that, since 1992, all Bulgarian cities have faced a new period of challenges and changes that influence the operation and the whole profile of the municipalities. Since 1999, Bulgarian cities are obligated to adopt a city development strategy – CDS – which constitutes the base for a long-term development strategy (Tsenkova, 2004; Driscoll, 2002). For the first time, the Municipal Government has become the main administrative unit. Hence, local authorities should reconstruct themselves and become oriented towards important changes such as the acquisition of know-how and experiences, the development of partnerships with the private sector, the increasing demand for education and continuing training, the need for specialized staff with skills and knowledge in the fields of management and legal affairs (Kapitanova and Minis, 2003).

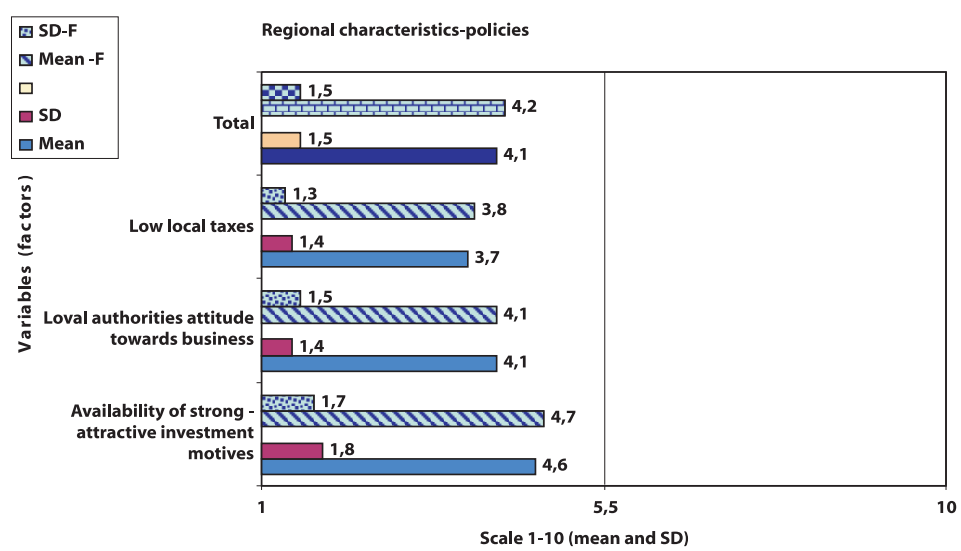

Figure 3
Regional characteristics - policies (mean, SD)
[1= the least important, 10= the most important]

The next group of factors that is examined concerns *labour* factors, focusing especially on the availability, the quality and the specialization of human resources. Particular attention has been paid to the existence of good labour relationships and labour ethics on a local level. The significance of these factors in firms' competitiveness has received great attention since the decade of the 60s, notably in the older studies Herzberg *et al*., (1959) and Locke (1976), as well as in more recent studies (Tietjen and Myers, 1998; Parsons and Broadbridge, 2006).

In the case of Varna (figure 4), the research shows that local firms regard all labor factors as disadvantages, since the mean values are below the average (5.5). The important point is that there exists differentiation among firms' opinions regarding the significance of these factors and how they contribute to the creation of a city's competitive image, since standard deviation values are very high (1.8 to 2.4). This fact is obvious in all the factors, especially in the 'availability of human resources.' Local firms perceive that the city lacks human resources, since the region of Varna holds the highest percentage of employment (46%), vis-a-vis 42.4% on a national level and the rest of the cities in the Northeastern Region whose unemployment rate is below the mean national rate (Regional Development Plan, *2007-2013*, 2007:5). Despite the fact that many higher education establishments are gathered in the city of Varna (5 universities and 5 colleges) in relation to the rest of the cities of the Northeastern Region (Regional Development Plan, *2007-2013*, 2007:5), the local firms named this factor a disadvantage, something that is also supported by the Regional Development Plan, in which a number of professional fields are not incorporated in the curricula of the secondary and higher educational establishments in the region. At the same time, the level of professional qualification of the workforce, especially of the unemployed, is not fully adequate to the requirements of the market and the infrastructure of professional training and re-training in the region is still underdeveloped (Regional Development Plan, *2007-2013*, 2007:6). However, a clear differentiation is observed in the estimations of foreign firms. These firms estimate that labor force availability, much more its quality and specialization, are advantages for Varna, which is something that opposes the views of the local firms. The next two factors, good working relations and morality in work, are given mean values very close to the average (5.5), showing that these factors are neutral; that is, they are considered neither an advantage nor disadvantage for the city.

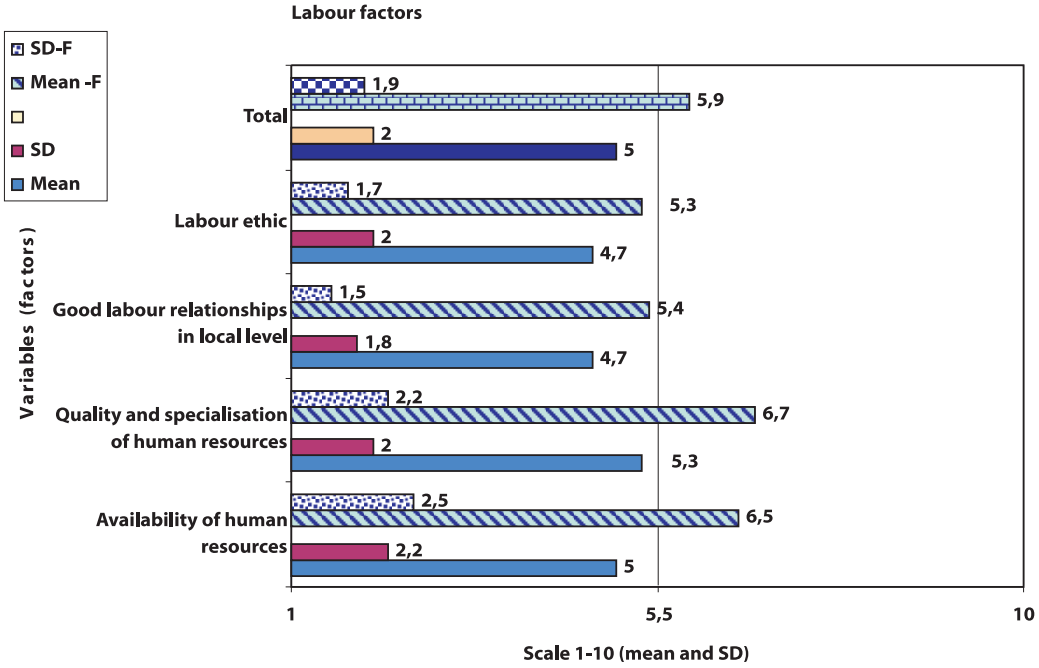

Figure 4
Labour factors (mean, SD)
[1= the least important, 10= the most important]

The next group of factors considered concerned cost. We examine the cost of labor and the cost of land use. Recent studies, especially in the models of New Economic Geography, show that firms avoid locations in regions with high production cost (land use, labor and transport costs) [Fujita et al., 1999; Love et al., 1999; Disdier and Mayer, 2004, etc.].

Regarding the case of Varna (figure 5), the research shows that all firms evaluate cost factors as strong disadvantages for the city. It is important that the foreign firms regard the low costs in labor and land as disadvantages, which is a fact that contrasts with most of the empirical studies mentioned above. We will assert that there is a logical explanation for this, which is that the low labor cost is related with the low quality and efficiency on the work that takes place, something possibly influences both the final product and the total competitiveness of firms against other firms with more qualitative products. This hypothesis is endorsed, up to a point, by the estimations made by foreign firms on labor factors in figure 4. On the other hand, the low cost of land use could lead to the spatial concentration of some declining industrial forms of business that negatively influence the effectiveness of the local economy's development.

The fifth group of factors examined concerns Varna's urban infrastructure. More specifically, these include all the types of the city's connections – forms of transportation as well as the existence of telecommunications and networks that operate effectively. These are related to the direct products' distribution, easier access to markets, the minimization of products' cost, as well as the final products' price (EU, 2002; European Communities, 2003:14). On this point, the new economic geography studies support that the minimization of transportation costs, and through the improvement of transportation facilities, enforce the concentration of economic activities, especially in big urban centers, where firms enjoy all the benefits of co-existence and the development of relationships with other businesses (Gao, 2004).

In the case of Varna (figure 6), the research shows that both local and foreign firms believe the current urban infrastructure constitutes an advantage for the city. All factors receive mean values much higher than the average (5.5), with the dominant factor being 'telecommunications' which, besides the high mean values that it receives (8.0 and 8.2), presents the lowest standard deviations as well (1.8 and 1.2). This fact means that there is strong consent on the significance of this factor among all the sample

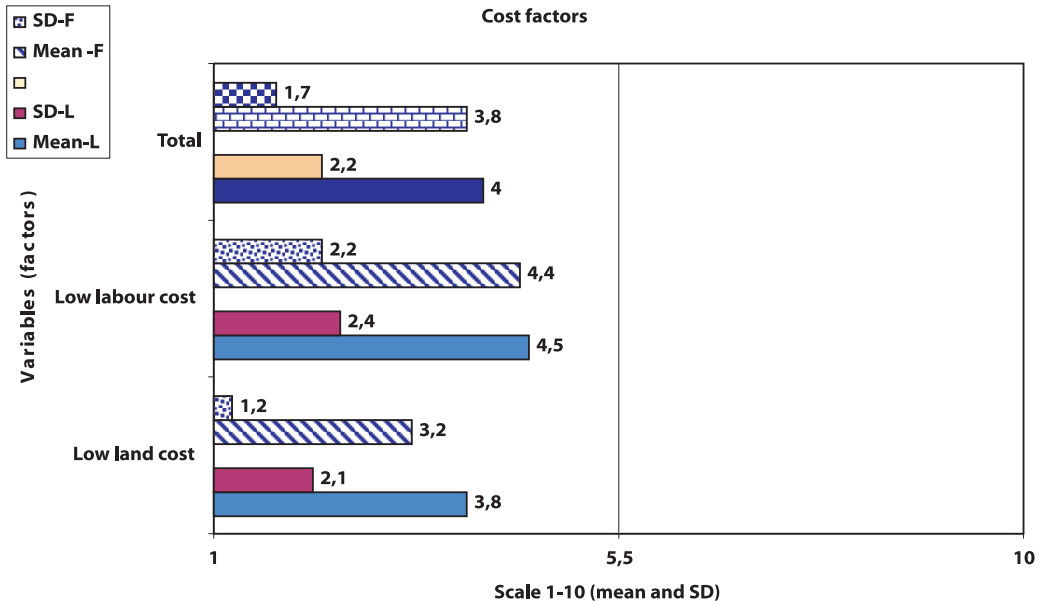

Figure 5
Cost factors (mean, SD)
[1= the least important, 10= the most important]

firms. Air and sea connections were also evaluated as very important, proving the important role of the Varna port and airport. Land infrastructure is considered less important, a factor which also presents strong variations among firms with regard to its importance. Foreign firms evaluate non-land transportations as very important advantages for Varna for the attraction of FDI, highlighting the importance of the city as a port in the greater region of Black Sea and the Balkans. Another important fact is that all the firms recognize the importance of urban infrastructure for the city, while the rather high values of typical deviations show differences on the part of firms with regard to the characterization of these factors as advantages or sound advantages. Combining the factors of urban infrastructure with those of agglomeration economies and those of access to European markets, we assert that the geographical position of Varna is awarded the role of the main advantage of the city and constitutes the axis of its competitive image.

The next group of factors concern 'soft factors' and, especially in the current analysis, those related with urban aesthetic and the attractiveness of the natural environment. These factors have received great attention, especially in the last two decades, proving their high importance for cities and also firms' competitiveness (Hall, 1998:115; Jansen-Verbeke and van Recom, 1996; Jensen and Leven, 1997; Craglia et al., 1999). In addition, according to studies of the 80s (Boyer and Savageau, 1981), it constitutes a significant factor of firms' competitiveness, but received more value and attention in the 90s (CEC, 1993).

In the case of Varna (figure 7), the research shows all the firms consider soft-qualitative factors advantages for the city of Varna. Means receive high values (≥ 6.8), while standard deviations are not particularly high. Firms understand that the current aesthetic image of the city, but also the natural environment, combine to form a powerful city profile, capable of attracting new businesses and investments. Especially in the case of foreign firms, the combination of these factors constitutes a significant parameter for their development, something that certifies the great attention that these factors have received as basic criteria for foreign firms' establishment in an area.

The last group of factors that is examined is related to the trio of 'research – development –education'. Several studies have shown that the availability and the quality of Universities and research centers constitute a factor in firms' competitiveness, especially in the fields of

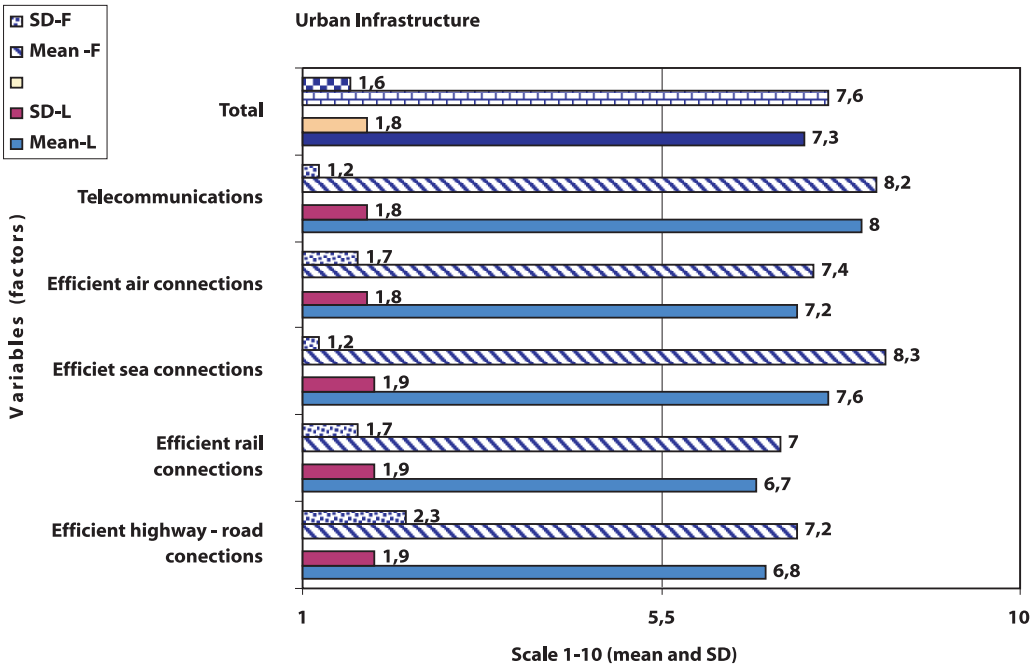

Figure 6
Urban infrastructure (mean, SD)
[1= the least important, 10= the most important]

technology and innovation (Doutriaux, 2003; Doutriaux and Barker, 1995). Consequently, firms preferred to be located in areas that provide high levels of specialization, research and education. In addition, most firms, through the development of partnerships with universities and research centers, were able to become fields of research and work on a local level (Shane, 2002).

In the case of Varna (figure 8), the research shows that generally both local and foreign firms evaluate the factors of research, development and education as advantages but not strong ones. Mean values are between 5.5 and 7.0, while they enjoyed high standard deviations. This fact points out the problem of specialization and the quality of human resources, something that has been noticed also in the analysis of labor factors above. A significant exception is the high mean of 'quality of continuing training and education' that foreign firms give to this factor. The results show that foreign firms evaluate with higher values and lower standard deviations two of the three factors of this group, but the total mean for all firms is between 6.0 and 7.0 (not strong advantages). The combination of the outcomes of these two groups of factors (labor and research-development-education) leads to the conclusion that Varna does not lack so much in universities and research institute facilities, but it lacks actually in the quality of the fields of specialization, research and know-how. Consequently, we can assert that these factors, working together, constitute an important disadvantage for the city of Varna, something that influences the whole image of the city as an 'attractive investment destination' negatively.

7. A Proposed Image for Varna as an Investment Destination

The configuration, or differentiation of city image, has attracted the attention of many specialists in the last 20 years (Lamboy and Moulaert, 1996; Hope and Klemm, 2001; Hall and Hubbard, 1998:12). The creation of a city image as a 'final productive good' is not random, since it is directly related with the nature (character) of its identity (strong or weak), and also with the distinctive characteristics that constitute the main components of each city's 'uniqueness' (Jenkins, 1999; Metaxas, 2003). Following the definition of Kotler *et al* (1999: 160), the image is the sum of beliefs, ideas and impressions that people have about a place. The images represent a simplification of a large number

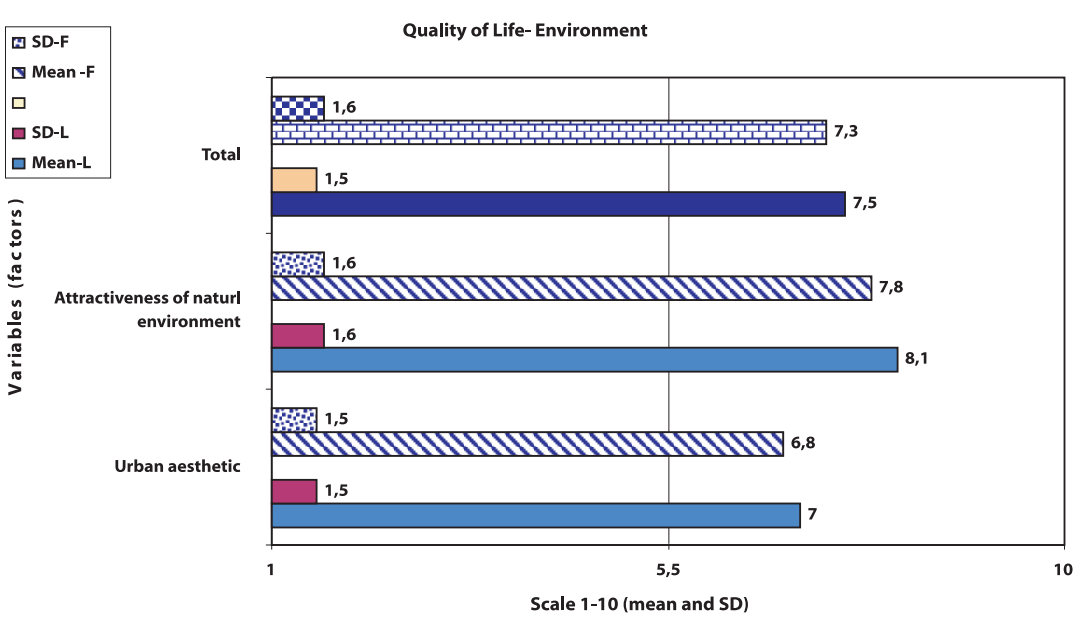

Figure 7
Quality of life - environment (mean, SD)
[1= the least important, 10= the most important]

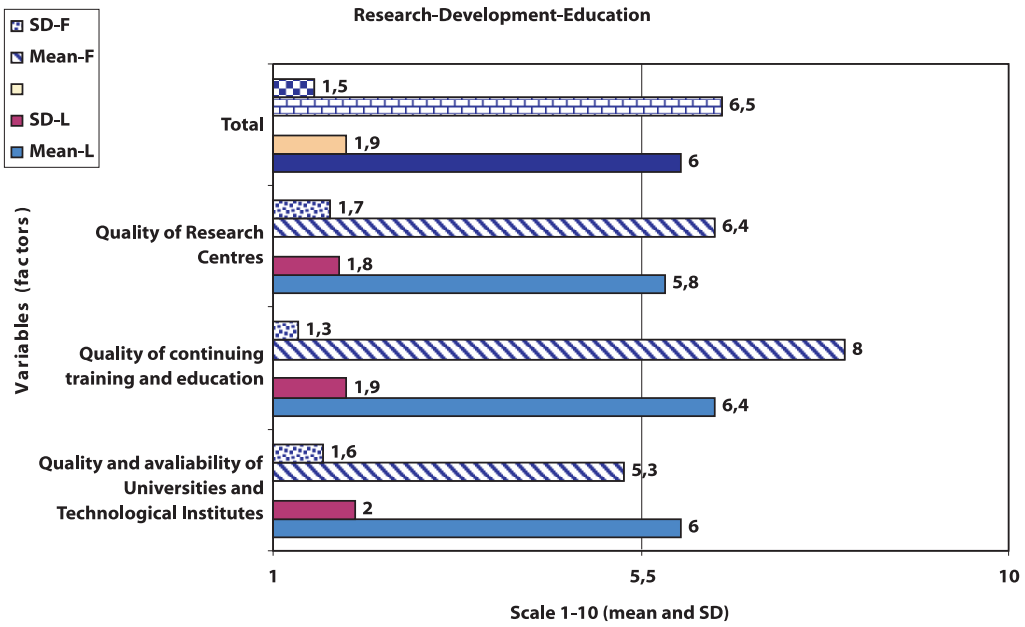

Figure 8
Research – Development – Education (mean, SD)
[1= the least important, 10= the most important]

of associations and pieces of information connected with that place.

In the case of Varna, the creation of this city's image as an investment destination starts with the city's attempt to attract investment activities based on its distinctive characteristics and the advantages of its environment. The positive aspects in Varna's internal environment include its high accessibility (by air, sea, rail and road) and the large size of the local market – an urban agglomeration with supranational significance. Considering these characteristics as the core of Varna's image as an investment destination, a proposed image is presented in figure 9. Furthermore, two more advantages of Varna are presented, that is, the factors of research – development – education (as availability of infrastructure), along with the factors of quality of life and environment. These factors work as satellites of the total investment image of the city, supporting the factor of 'geographical position.' Based on this model, we will assert that the city of Varna and the wider area are likely to attract foreign investments, mainly in the industrial/manufacturing and service sectors. The two main poles (agglomeration economies and access to markets along with urban infrastructure) are interrelated, the one complementary to the other's usefulness.

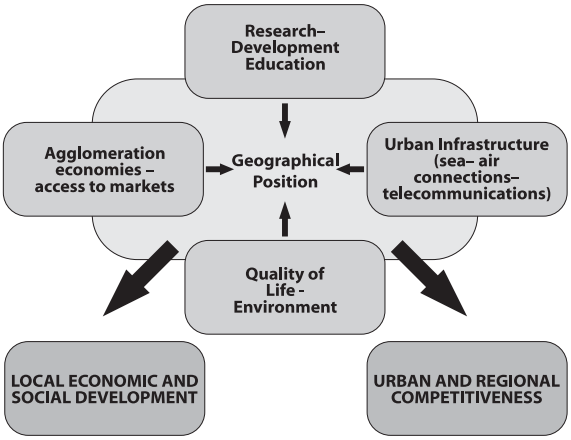

Figure 9
A proposed image of Varna as investment destination

We can support, to a certain extent, that the suggested city image is further supported by the results of the analysis of advantages/disadvantages of Bulgaria as an investment destination (table 2). Factors such as geographical position, which has to do with agglomeration economies and accessibility to national and foreign markets, are taken into

serious consideration. There are differences, of course, such as in urban infrastructure, and this is logical since cities like Varna and Burgas have a quite satisfactory infrastructure in comparison with other cities in Bulgaria, mainly because of their geographical position and their population size.

Of course, the scenario presented according to this model generates a series of questions which have to be investigated and answered. For example, a) What kind of investments and from where should the city of Varna pursue? b) Does the city of Varna have the capacity and the proper favorable political and economical environment to attract and sustain the creation of new investments? c) Do the local authorities have the required know-how and specialization in order to support the image of Varna through specific policies such as place marketing and place branding? d) Is there common representation of development interests among all the city's actors (local authorities, firms, development organizations, decision makers, residents, etc.)? e) since the factors of cost and labor, as well as factors that concern mainly the role of local authorities towards firms, emerge as major disadvantages for Varna in the analysis above, How can the local authorities and decision makers of the city proceed to the adoption of the proposed model of Varna's image and its overall support in the potential target markets?

The above questions are only a few of the many that concern a destination that is trying to build a dynamic, competitive and attractive investment image in the context of new competitive European and International markets.

Conclusions and Suggestions

The aim of the article was to outline the potential for a medium size city of southeastern Europe to become an attractive investment destination. To satisfy this aim, using the HERAKLITOS programme, the study attempted to record and analyse Varna's potential. Through primary research, the advantages and disadvantages of Varna were evaluated by local and foreign small-medium firms of all the production sectors that are located in greater Varna. Based on the research findings, the study made the following important conclusions.

First, both local and foreign firms participating in the research estimate that the main advantage of Varna is its geographical position, as the city has a port and is the main entrance to the Black Sea. This fact is able to allow the concentration of firms, mainly industrial and commercial ones, in the area. In the firms' evaluations one can notice some differences in opinion as to how strong the advantages are of the factors of this group. A second advantage for Varna, which is directly linked to its geographical position, is urban infrastructure. More specifically, all firms stress the importance of communications and air and sea infrastructure, while for land facilities a difference in opinions is noticed with regard to their importance. The combination of the factors that compose the groups 'agglomeration economies – networks' and 'urban infrastructure' – renders Varna's geographical position its main advantage for the attraction of foreign investments. Finally, a third group of factors that are estimated as advantages are those of the aesthetic image of the city and its natural environment, which are likely to supplement the city's benefits, since they are seriously taken into consideration by foreign firms that are considering establishing themselves in the area.

Second, all the firms deem the rest of the groups of factors as disadvantages. There are two points here that need more analysis. First of all, the factors 'research – development – education' are regarded by the firms of Varna as advantages. However, in direct relation with this estimation, we find the negative assessment of the group 'labor factors' and especially those concerning the existence of qualitative and specialized human resources. The combination of these two estimations leads to the conclusion that Varna, on the one hand, is not deprived of infrastructure in research, development and education, but lags behind in issues concerning quality, specialization and know-how. The co-existence of these factors constitutes a quite strong disadvantage for the city, affecting the dynamic of its investment profile. Also, as a result of this analysis, there is an appreciable difference among the foreign firms concerning the importance of 'labor factors' which, however, we cannot consider a given fact for all foreign firms, first because the mean values received for the factors of this cluster is just over the average (5.5) and second because the sample of the foreign firms is rather small and not as representative as we would like it to be. A further disadvantage is the absence of sound investment incentives. All firms in the research estimate that the total current business environment is not a factor for the attraction of new investments, a fact that is linked to the lack of experience and absence of know-how on the part of local authorities to plan and implement competitive and developmental policies.

Third, Varna's image as an investment destination involves a limited potential which, however, is likely to work positively for the city. The two main axes of the creation and support of the city image are agglomeration economies – access to European markets and urban infrastructure. The article asserts that, following these two axis, there must be more attention and effort on the part of the city so that the combination of these factors will create added value for the city as well as the firms. Consequently, the city authorities, in co-operation with the private sector, should plan and undertake an initiative for the support and promotion of the city image through strategic planning procedures (i.e., place marketing

strategies), so that the whole effort will create the best possible outcome.

Fourth, one can notice a dysfunction in the relations between the public and private sectors. The firms recognize the dynamic of the city, but they also attach great importance to the factors which compose the negative profile of the city. Considering the fact that the current research presents and analyses small-medium local firms' estimations, we will assert that the findings and the conclusions of the research are very significant for both the firms and the city itself. At the same time, they bring to light a more general overview of problems and disadvantages potentially shared among many other cities with the same characteristics as Varna on a national level.

Finally, comparing the region of Varna with the rest of Bulgaria (according to the results of the analysis in table 2), we infer, first of all, that the geographical position of the city is its main advantage, which is something related to both the creation of agglomeration economies and the development of relations and access to markets in the interior. These views are especially important because they reflect the views of foreign firms on a national level, and also a portion of Varna's firms, while at the same time point out the views of the local firms (through the estimations of the firms of Varna) on the importance of geographical factors and networks for all Bulgarian firms. Furthermore, a cheap labor force is proved to be an advantage for the country, contrary to what the firms in Varna believe. On a national level, there is no clear appreciation of the importance of urban infrastructure but both the local and foreign firms of Varna consider it the main advantage of the city. To a certain extent, this points to the better quality of the infrastructure of Varna in comparison to other Bulgarian cities. There is a concurrence of views among foreign firms (including those based in Varna), as to the existence of a specialized labor force, whereas the local firms of Varna do not share this view. Finally, the total entrepreneurial condition and climate throughout the country is regarded as a downside, showing the nature of the role that authority centers play in reference to the quality and availability of investment incentives, the legal framework and the high risk rate created for investments by all of the above factors. What is important is the fact that these evaluations are expressed by both foreign and local firms of an important city like Varna, which has participated in studies during the last few years. Consequently, dissatisfaction from national and local authorities is common and is intensely expressed.

In conclusion, we can say that there are some factors that are strong advantages (location and accessibility to markets) or strong disadvantages (local and national authorities attitude towards firms, quality of investment incentives, legal framework) for both foreign and local firms, while there are strong differences in firms' views on factors concerning other factors (urban infrastructure). The essential point, however, is that each city/region has its own potential and characteristics on which to base its future development and competitiveness after clear identification and strategic planning, and Varna is no exception.

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