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## GUIDELINES FOR PROMOTING ENTREPRENEURSHIP IN THE INDUSTRY OF REPUBLIC OF BULGARIA

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### ABSTRACT

Encouraging entrepreneurship in the industry is a topic of great importance for most of European countries. European institutions focus on it regularly which turn embraced a more its policymakers and scientist. This specific and political attention accelerates many initiatives aimed at promoting entrepreneurship in the industry at European national, regional and local level.

The purpose of this report is to focus on some of the latest guidelines for promoting entrepreneurship in the industry of the Republic of Bulgaria.

**Key words:** industrial policy, family firms, one stop shop

The European Union perceives entrepreneurship as key to regional development and economic growth. Moreover, it is defined as a “mechanism to exit the financial crisis”(1). In this regard, each Member State of the European Union was given the task of creating the necessary conditions for stimulating entrepreneurship – which has become a priority of economic policies.

The purpose of this publication is to highlight some key areas to stimulate entrepreneurship in the industry of Republic of Bulgaria.

### 1.1. Promoting entrepreneurial interest by empowering young people.

This direction has an activity N1 in “Small Business Act” – the main policy document for small business in the EU. The purpose of Small Business Act is to increase the vocation of entrepreneurship in the society. One of the basic principles in the document is the “Think Small First”, given that the policies and strategies of

member states should be aimed at promoting the growth of SMEs and create conditions for solving the obstacles that hinder their development. The document defines the guidelines for action at EU level and in Member - States.

Currently undergoing updating and adapting the “National Strategy for Promotion the SMEs 2007 – 2013” (the basic document in support the entrepreneurship in Bulgaria) to the areas of operation of the Small Business Act. Thus the Bulgarian government aims to align priorities of SMEs and entrepreneurship in the EU.

### EU level:

- Conducting competition „*European awards for promoting the entrepreneurship*”(2). The competition involving national, regional and local public institutions and public-private partnerships and is held in two stages: national and European. Participants go to the European stage, if they are passed the national level. The objectives the competition are: the reveal successful initiatives to support entrepreneurship, to share examples of

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successful entrepreneurial practices and to raise awareness of the role of entrepreneurs in society.

- **European SME Week** – the week's events are held throughout Europe in the form of campaigns. The goal is to give developers information about support for micro, small and medium enterprises, to be provided by national, regional and local authorities, expressing gratitude to entrepreneurs for their contribution to Europe's prosperity, encouraging young people to careers associated with entrepreneurship.

- **„ERASMUS for young entrepreneurs”**(3) program is an exchange of experience and training. Through this program provides the opportunity for inexperienced entrepreneurs to acquire knowledge and management skills of SMEs, staying for some time in the company of the experienced entrepreneur in another country of the EU. Funding is provided by the European Commission and implemented throughout the European Union. Connecting young entrepreneurs with their hosts is performed by intermediary organizations.

**At EU Member State level :**

- Promoting innovation and entrepreneurial mindset among young people by introducing entrepreneurship as a discipline in secondary education;
- Development of curricula on entrepreneurship take place in close cooperation with business;
- Tax relief for transfer of businesses from one generation to another;
- Mentoring and assistance in the transfer of businesses;

In the field of entrepreneurship education in Bulgaria is a network of training companies (currently operate 350 training companies in 40 cities across the country in about 50 schools) which is led by the Centre of Training Firms (TSUTF) of the Ministry of Education, Youth and Science. The centre trains teachers to teach entrepreneurship in schools. For the purpose of training companies, TSUTF stimulate state institutions whose services companies in the real practical use. In this way students are placed in a real environment and acquire entrepreneurial knowledge and skills.

**1.2. Increasing the share of family firms in industry**

A study of the factors and the status of SMEs in Bulgaria indicates that one third of Bulgarian SMEs are family firms(4). The definition of a family firm that has adopted the European Commission states: „A company, whatever its size, can be categorized as a family business if it meets the following requirements:

- Majority of the shares, which entitle the decision are owned by the individual who created the company or its spouse, children, parents or other direct descendants, at least one representative of the family participate officially in the management of the company;
- If the company is listed on the stock exchange - the individual who created the company or his spouse, children, parents or other direct descendants together hold at least 25% of the shares entitling out loud.”(5)

In practice family firms show greater stability in times of crisis. Which is characterized by that primarily invest own funds and rarely resort to bank loans. In such companies relations are closer, but it is not trivial to resolve a problem.

In Bulgaria, family firms do not benefit from tax or social preferences. National Strategy for Development of Small and Medium Enterprises also does not focus on the problems. Often the next generation is unprepared to take over the business. Missing consulting services in the field of management of family businesses. Often the future successor proves that it possesses the necessary qualities. In this context, the Bulgarian Association for Management Development and Entrepreneurship (BAMDE) has developed a program to ensure a successful continuity. It focuses less on training and the personal qualities of the prospective heir. The program includes four phases:

- *Identify* – based on tests to assess the quality of the participants , such as risk taking, communication, teamwork, etc. The following procedure provides an interview with the program manager to assess whether a candidate possesses the skills to be trained to succeed. In the event that a result is positive – passed to the next phase;
- *Orientation* – performed general training associated with the development of the total potential of the participant;

- *Specialized* – this is the most important and longest phase, which aims at developing entrepreneurial skills - business idea, management company, finding strategic partners, training in business English. Training can be accomplished by visiting a successful foreign company to acquire practical experience;

- *Continuing education* – in order to maintain newly acquired knowledge provides several subsequent meetings, depending on the needs of the learner.

The program is designed for the sons and daughters of entrepreneurs. Trainers are well qualified teachers – psychologists, economists, etc. and successful entrepreneurs.

### 1.3. Implementation of the model “one stop shop”

The introduction of “one stop shop” designed to improve administrative services to citizens and business by:

- Harmonization of concepts for improving administrative services;
- Integration of information, processes and services;
- Construction of e-Government;
- Improving the business environment.

In connection with this model is accepted concept of public service as the underlying model of “one stop shop”. So far the concept is the only strategic document in the field of administrative services, but there are still principles embodied in it does not apply to all administrations.

The implementation of the model “one stop shop” is expressed in differentiating the functions of administrative staff and the formation of units “front office” and units “back office”. The officers from “front office” make the contacts with the customers. They accept applications, provide information, provide back finished documents, etc. The officers from “back office” perform technical and other support functions. Lack of direct contact with customers allows them to perform faster and more accurately their tasks without being interrupted. Management model “one stop shop” requires „improving the four organizational elements – processes, human resources, information technology and performance management”(6).

The application of the model “one stop shop” aimed improving the quality of business services and reduce the time for obtaining them and the achievement of anti-corruption effect, since it breaks the direct link between the person requesting the service and executing service.

### 1.4. Promote investment by providing preferential conditions for entrepreneurs

Law on Investment Promotion is the main document that regulates the promotion of investment in Bulgaria. Some changes in this law are being prepared now in order to mobilize entrepreneurs to invest, increasing the competitiveness of Bulgarian enterprises and arrest the decline in investment activity in the country.(7) Priority will encourage investment in high-tech activities, and in the economically underdeveloped regions. To provide financial incentives for investors who reveal no less than 50 jobs – for example , a partial recovery over a period of two years from the developer made mandatory social security contributions for employees in newly created jobs. Another change concerns the decentralization of responsibilities to a lower level – the mayors will be able to apply incentives jurisdiction.

### 1.5. Providing a “second chance” to entrepreneurs failed in an honest way

Entrepreneurship is an activity related to risk taking. In a market economy and global competition is entirely possible for a company to fail and bankruptcy. EU surveys show that about 50% of new businesses fail to survive the initial five years of its establishment (8). Still business failure is not well received by the public and associated with fraud or lack of qualities as a trader. Customers reluctant to place orders for such companies as investors avoid them. Bankruptcy is seriously affecting the life of the entrepreneur and his family – often leads to the sale of the property. For these reasons many developers refuse to make a second attempt.

In practice, however, there are many successful companies whose founders have not given up after the first fail attempt. It turns out that entrepreneurs often failed, in his second attempt create a very successful venture.

In this respect, at European and national level policies and strategies are developed to provide a

“second chance” to entrepreneurs. In this regard people work in two directions:

- Shorten the time to closing a business – this term should not be greater than 1 year;
- Greater public support for bankrupt honest entrepreneurs and giving them a “second chance” – information campaigns, educational programs, etc..

### **1.6. Increasing the role of the media in order to improve the awareness of entrepreneurs**

One of the ways in which you need to work on improving the promotion of entrepreneurship in Bulgaria is to enhance the role of the media. Perhaps there is hardly any Bulgarian home without radio or television. Namely the relationship between media institutions and the population. It is necessary in the media to increase specialized programs in support of business to communicate developments in plain languages.

Radio and television have become a major source of information on European programs and projects. They must “explain in human language different procedures, framework programs, project financing, etc.”(9) Special attention and media time should be given to promote “best practices” in the absorption of EU funds. Institutions could consider for educational programs on writing projects. The launch of an operational program must be accompanied by the media campaign so as to achieve “planned distribution of the right information to the right user”(10).

Expanding the role of the media on the awareness of entrepreneurs must be accompanied by educational programs for journalists participating in campaign. They must be familiar with the contents, objectives and mechanisms of EU programs.

### **1.7. Segmented approach in the conduct of industrial policy of Bulgaria**

Over the past decade Bulgaria has a horizontal policy in favor of SMEs and entrepreneurship in general. None of strategic documents do not apply sector-wide approach in order to more intensive development of an industry or economic sector. Currently in connection with updating the National Strategy for the Promotion of SMEs and to bring in line with the SBA, a

discussion is held on the implementation of sectoral profiling and in particular to rethink the industrial policy of the country. Only 16% of SMEs in Bulgaria working in high-tech industries according to a survey of EC 9 (11). According to this indicator only Cyprus is in a worse position than EU. Competitiveness of a country depends largely on what you produce and what you sold on the international market.

Probably one of the most difficult tasks of the government will be to decide which activities to encourage – for example the recent analysis of the Ministry of Economy, Energy and Tourism show that the sector J – Production and distribution of information and creative products – KID-2008, for example, significantly exceeds labor productivity sector C – Manufacturing. Leading industries are divided in a sector C – such as pharmaceutical industries. In all cases, policy decisions must be taken in close cooperation and consultation with business and non-governmental organizations that support it.

### **1.8. Creation and development of competitive clusters.**

Creation and development of clusters is one of the guidelines for achieving competitiveness, increase innovation and reduce the costs of doing business. A cluster is a form of combining business units from different sectors and research units. Ministry of Economy, Energy and Tourism defines clusters as “a group of interconnected companies and associated institutions in a particular region, including manufacturers, service companies, suppliers, universities and trade associations” (12).

Clusters in Bulgaria are two types: sectoral (horizontal) and corporate (vertical) (13). A typical example of a horizontal cluster is IT cluster – it is not based on geography. Its main objective is to support companies working in the field of industrial technology. The advantages of horizontal clusters related to cooperation in the execution of orders that exceed the capacity of the individual firm. Corporate clusters are built around large enterprise – such as cluster “Energy Heart of Bulgaria” in Radnevo, formed around Maritsa East Mini AD. Construction of corporate clusters aims to achieve long-term relationships delivery and reduce costs.

Establishment of clusters in Bulgaria is funded by the Operational Programme “Development of the Competitiveness of the Bulgarian Economy 2007 - 2013” – Priority Axis 2 „Increasing efficiency of enterprises and promoting supportive business environment”.

### 1.9. Change the policy setting state taxes

Continued growth in state taxes perceived by business as a burden which discourages it to develop and hinder its competitiveness. A study by the State Administration and Administrative Reform, shows that for the period 2005 – 2009 state taxes in Bulgaria have increase about 60% (14).

In relation to the recommendations made by the expert of the World Bank /World Bank has a number of studies and reports on investment and regulatory climate in Bulgaria/ is accepted a Methodology for determination of cost of the taxes(15), which aims to reduce their size. The methodology provides for uniform rules and standards for determining the taxes of the administrative authorities.

### 1.10. Development and improvement of the legislation on public requirements

Legislation on public procurement in 2012 underwent some changes, which are aimed at simplifying some rules for their implementation, achieving greater transparency and accountability, namely:

- Raising of the thresholds of orders – this change is exempt entities from the obligation to apply the procedures under the Act if orders are below the threshold. The increase is about 10% , given the fact that in the EU these thresholds are much higher;

- In the Commission for the examination and evaluation of tenders may participate only persons cleared for access to classified information;

- Refined are the provisions relating to mandatory publication of information on contracts, etc..

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