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# **INNOVATION STRATEGIES IN THE INDUSTRIAL ENTERPRISES OF THE VARNA REGION**

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**Abstract:** Innovations in the modern economy are not less important than all other factors of production such as labour, capital and land. Not only do they help resolve existing business problems, but they also contribute to keeping productions that are dying in certain regions due to lack of staff, increase the competitiveness of businesses and entire economies, and meet new or existing public needs. In order for the different types of innovations to be implemented and realized on the market, the organizations that offer them must have specific strategies how this can happen. An enterprise's innovation strategy refers to specific activities such as development and implementation of innovation.

Ultimately, the innovation strategy is an important factor for the successful realization of both product and technological, organizational and management innovations, and hence the improvement of the market positions of the innovative enterprises. This is true for the industrial enterprises of the Varna region as well.

**Key words:** innovation strategies, innovation.

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**I**n today's world, the competitiveness of a particular country, region, or firm depends to a large extent on the amount of investment in research, know-how, and technologies that allow maximum profit to be derived from them, in the form of marketing new products or services. Innovation can help stop the lagging and decline of traditional industries by increasing productivity and offer new, more efficient methods of work.

Innovations are treated as a synonym for successful production,

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assimilation and exploitation of novelties in the economic and social spheres. They resolve existing problems in a new way, which creates opportunities to efficiently meet the needs of society. In order for the different types of innovations to be implemented and realized on the market, the organizations that offer them must have specific strategies how this can happen. In this sense the **subject of research** in the article are the innovative strategies of the enterprises from the industrial sector in the Varna region. The survey focuses on the companies or their units operating in the region, which is why the industrial enterprises from the Varna region are the **subject** of research.

**The main scientific objective** of the article is, after the theoretical clarification and analysis of the innovation strategies in the enterprises of the Varna region, to draw conclusions and to provide guidelines that are useful for achieving a higher competitiveness of the companies.

The main **tasks** of the study are:

1. Disclosure of the theoretical and methodological aspects of innovation strategies applied by enterprises.
2. Finding the existence or absence of innovation strategies in the industrial enterprises of the Varna region.
3. Summarizing the key findings and giving guidance to improve the innovation in the businesses in the region of Varna.

**The methodological foundations** of the study in the article are based on the system approach. Different research methods and approaches have been used to solve the research tasks, including methods of analysis and synthesis, inductive and deductive methods, methods of comparison and causal relationships, as well as systematic, complex, integrated, interdisciplinary and historical approaches. Polling and interviewing methods (unstructured and non-referenced, personal) are used to collect and register the statistics.

To clarify the theoretical and methodological aspects of the innovation strategies, many scientific publications of Bulgarian and foreign authors in the field of innovation, strategic management, etc. have been researched and systematized.

## **1. Innovation strategies in enterprises - essence and types**

There are many definitions of the term "strategy". It can be defined as a set of rules for making decisions; a systematic approach that provides organizations with a balance and a common direction of growth; a tool to help the company in a situation of instability. In this regard, the strategy is also

considered (Muhammedyarov, 2008) as a "decision-making process, an integrated set of actions, a detailed plan or a way to achieve the objectives."

The innovation strategy of the company refers to specific activities - development and implementation of market innovations. The need for an innovation strategy occurs primarily when there are sudden changes in the enterprise's external environment. These changes may include market saturation and a decline in demand, radical changes in production technology, diversification of production and, as a result, the expansion of the market portfolio of innovation, the emergence of radical innovation on the market, the threat of new competitors, social or political changes that make businesses dramatically change their orientation.

The main tasks of the innovation strategy (Petrov and Slavova, 1996) come down to<sup>2</sup>:

- Defining the role of the innovation processes to achieve the company's goals and the place of the new products or processes in the company's strategic plan;
- Specifying the markets, products and technologies to which innovation processes will be oriented;
- Focusing the efforts of the personnel in the company that is involved in creating new products or processes;
- Establishing organic links between the innovation strategy and the other strategies in the company;
- Identifying the necessary financial resources and the sources for financing the concrete innovation projects;
- Identification of future threats or opportunities and avoidance or minimization of uncertainty and risk.

Businesses can form and use different types of innovation strategies, according to the goals they pursue and the positions they have on the market as well as their financial, technological, information and management capabilities. The choice of a specific innovation strategy depends on the following factors, specific to the various enterprises:

- Company know-how;
- Opportunity to purchase licenses;
- own research capacities (laboratories, research units);
- Qualification and experience of the staff in the units with development and implementation functions;
- Possession of patents and copyrights;
- Opportunity to access external sources of research;

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<sup>2</sup>The first three points are elaborated on Petrov, M., Slavova, M. and the last three are the author's.

- Budget amount for development and implementation activities;
- Innovation traditions;
- Technology level of the industry in which the enterprise operates;
- Skills and capabilities of marketing divisions within the company.

Although companies can apply different innovation strategies, according to Valentin (1996), Georgiev (1985), Georgiev and Tsvetkov (1997) and Nenov (2010) all strategies can be summarized in two large groups:

- A) Strategies based on research and development (R & D);
- B) Strategies based on marketing.

These two groups of strategies have a lot in common and they are often intertwined. For example, R & D strategies are based on market research, and marketing-based innovation strategies cannot be realized without conducting R & D activities.

The main differences between the two groups of strategies stem mainly from their accents. The first group of strategies is based on more robust research and development and is therefore characteristic of electronics, plastics, communications and other high-tech industries.

On the other hand, with marketing-based innovation strategies, the emphasis is on more comprehensive market research and consumer desires, which makes them more convenient for sectors characterized by less technological change, such as manufacturing furniture and household appliances.

The following specific innovation strategies can be referred to the first group:

a) *"Attack" strategy* (leading technological position). Under this strategy, an enterprise uses its capacity or applies new technology to market in principle new or modified products. In the first case - the offer of fundamentally new (radical) products or processes, it is called *"an innovator strategy"*. This *"attack strategy"* is profitable, primarily because the products or processes offered are "pioneering". Companies applying this strategy focus on fundamental research in combination with the latest technology. The attack strategy requires serious skills in developing innovations, an opportunity for their rapid deployment and ability to predict market needs.

The second (and more common) attack strategy is the production of modified (upgraded) products, in which case the goods or processes are new to the specific market only but have already been produced or applied by other companies in other markets. An advantage of this *"imitator strategy"* is that the mistakes of those who have already produced the product are avoided. The most important feature of the attack strategy is that the enterprise

occupies market leadership and consumers are directed by manufacturers rather than vice versa.

b) *"Defence" strategy*. Businesses choosing this strategy monitor whether their product is sold on the market. At the moment when a competitive product appears, they try to respond immediately, i.e., during the rest of the time they occupy a defensive position. With this type of strategy, companies are preparing innovations so as to make it as difficult and costly as possible for competitors to enter the market.

c) *"Counterattack" strategy*. Counterattack strategy is considered to be a variety of defence strategy. It is a hybrid, uniting elements of attack and defence strategies. Counterattack strategy is applied primarily by defence strategists. It is counter-attacking of those who apply attack strategies. This strategy can be successful in financially sound companies, as "attacking" businesses usually have very high innovative and financial potential.

d) *Strategy of "Selling licenses"*. The companies that have chosen this strategy benefit primarily from not producing and selling the newly invented products themselves, but from selling a license for their production by other companies. This strategy is chosen mostly by highly innovative companies with great research and development potential, because here the advantages derive not from quality production but from quality innovation thinking and high level of creativity.

e) *"License acquisition" strategy*. Innovations are so diverse in complexity and novelty that even large companies often cannot carry out all the activities related to their creation and realization. Because of this, many companies pursue an innovation policy based not only on their own developments but also on those developed by other organizations. The "license acquisition" strategy is used both by firms with weaker research units and by companies with well-developed research and development structures. The main advantage of this strategy is that companies avoid risky investments because the funds invested in research activities may not deliver the expected results or a competitor company may succeed with the help of industrial espionage to get the new development without spending money.

f) *"Entrepreneurial strategy"*. It is convenient for smaller companies who are willing to take bigger risks without having studied the market in advance but have good innovative potential and have already achieved certain results.

Typical of companies that implement all of these strategies is that they have highly qualified scientific and engineering staff who give them innovation advantages and provide them with strong positions over competitors.

The second group of innovation strategies based on market may be presented as follows:

a) "*Satisfying discovered market needs*". This innovation strategy can be realized through the creation of new products, technologies, know-how, processes, etc. or by improving existing ones, but in both cases they have to meet the newly emerged needs.

b) "*Market segmentation*" strategy. It consists of innovations only on a specific market, for specific products, technologies, know-how, processes, etc. Its application is related to a very high level of specialization of the companies. It is also suitable for smaller and financially weaker businesses.

c) "*Conglomerate*" Strategy. Unlike the previous strategy, companies here use a multitude of technology packages to deliver market expansion. Companies strive to meet emerging market demands in many industries and the strategy is therefore only applicable to financially strong, large corporations (mostly multinational ones).

Typical of the second group of strategies is that they first identify the needs of the market for something new and then establish and implement the relevant innovation, regardless of whether it is a product, technology, technique, process, organization or management structure, etc.

Beyond these two groups, two other key innovation strategies can be identified, within which to develop and implement each of the strategies analysed so far. These are the so-called "Innovator strategy" and "Imitator strategy". With the "*Innovator strategy*", the company first offers a new product, first satisfies newly emerged needs, first encounters a number of unknown hitherto difficulties, but first "skims the cream" from the innovations made. In fact, such firms are the true carriers of progress and the new in general.

With the "*Imitator strategy*" they produce products or create technologies, processes, and others that are not fundamentally new but are improved or refined, and thus offered in a new market. This strategy is more widespread and requires less financial resources and a lower level of innovation of equipment and workforce.

When doing business, companies often apply a combination of two or more of the above-mentioned strategies to achieve better innovation performance and higher corporate competitiveness.

In the end, choosing an innovation strategy depends on the place the business takes on the market, its innovation potential, its financial capabilities, the company's traditions, the technological level, the environment the state has provided, and above all - the goals that corporate management pursues.

## 2. Applied innovation strategies in the industrial enterprises from the Varna region in the period 2012-2016

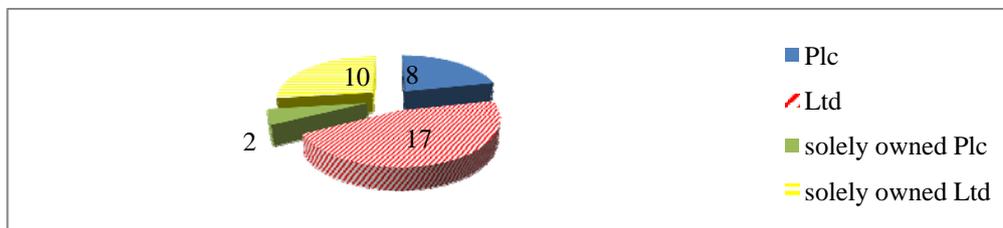
We will examine the availability of innovation strategies in 37 industrial enterprises<sup>3</sup> in the Varna region based on information from a survey where the data is for a period of 5 years - from 2012 to 2016, and on this basis conclusions will be drawn.

The main features of the survey are: the industrial sector in which the enterprise operates; legal form; size of enterprises; presence or absence of a written innovation strategy.

In order to achieve the highest possible degree of credibility, representatives of management teams or business owners are mostly surveyed as they have the largest amount of information concerning the activities of the companies examined. Enterprises from different industrial sectors, with different numbers of staff and different legal forms are covered. In the 37 companies in the Varna region, up to 2016, more than 6000 people were employed, i.e. more than 10% of all employed in the industrial sectors in the Varna region (NSI, 2016) during this period, which is a prerequisite for a serious representativeness of the survey.

The distribution by legal form of ownership is as follows: Plc - 8 (21,62%), Ltd - 17 (45,94%), solely owned Plc - 2 (5,41%), solely owned Ltd - 10 (27,03%) (Fig. 1).

Figure 1. Distribution of enterprises from the sample by legal form



Most are the limited liability companies and solely owned limited liability companies - a total of about 73% of all, which corresponds to the ratio of the distribution of the enterprises under this sign in the entire industry of the Varna region.

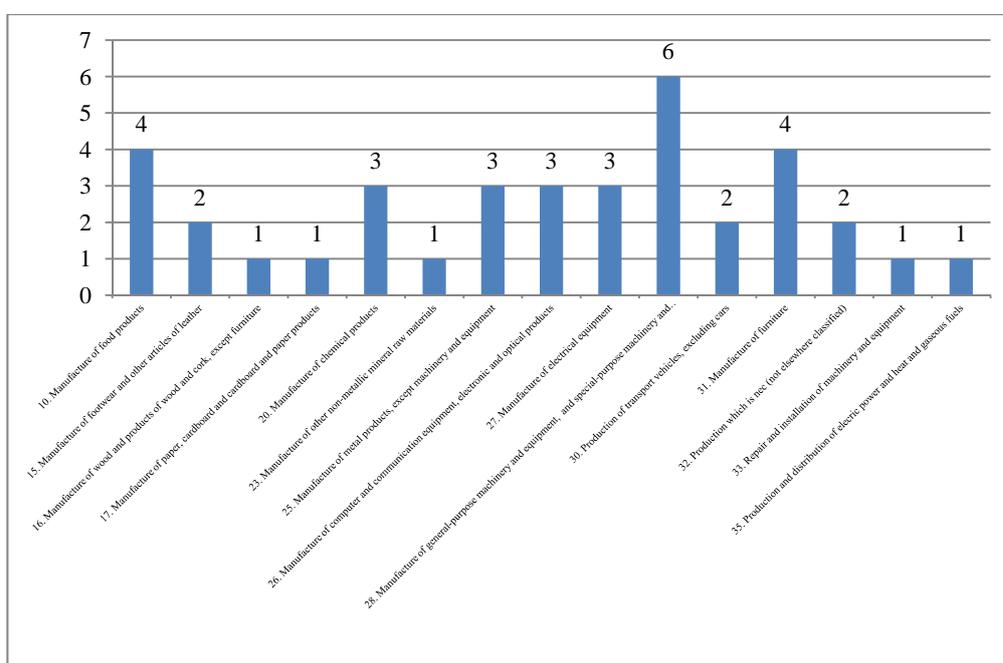
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<sup>3</sup>In the studies are included almost all leading and structure-determining for the industry companies in the Varna region. The enterprises are from the mining and processing industries and the production and distribution of electricity, heat and gaseous fuels. In the same 37 enterprises in 2013, the author explored their innovation activity.

According to the classification of economic activities (NACE.BG, 2008), the enterprises in the sample are divided into 15 different industrial sectors (Figure 2). Most of them are in "Manufacture of general-purpose machinery and equipment and special-purpose machinery and equipment" - 6, "Manufacture of food products" - 4 and "Manufacture of furniture" - 4.

Each of the following sectors are represented by three companies in each: "Manufacture of chemical products", "Manufacture of metal products, except machinery and equipment", "Manufacture of computer and communication equipment, electronic and optical products", "Manufacture of electrical equipment", etc.

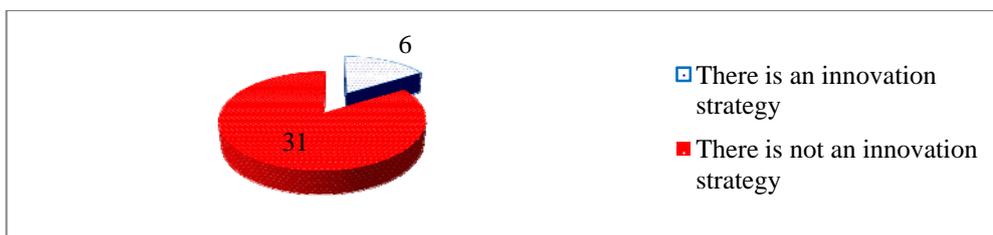
**Figure 2. Distribution of enterprises from the sample by legal form**



The innovation strategy is important both for the successful operation of the enterprise and for its long-term market success. A number of companies have innovation strategies outlined in detail, but the practice shows that in many cases companies use an innovation strategy without even suspecting it exists as a theory.

Of all analysed 37 industrial enterprises of the Varna region for the period 2012-2016, only in 6 of them (or 16%) there are authorized innovative strategies (Figure 3).

**Figure 3. Industrial enterprises with or without an authorised innovation strategy in the Varna region**

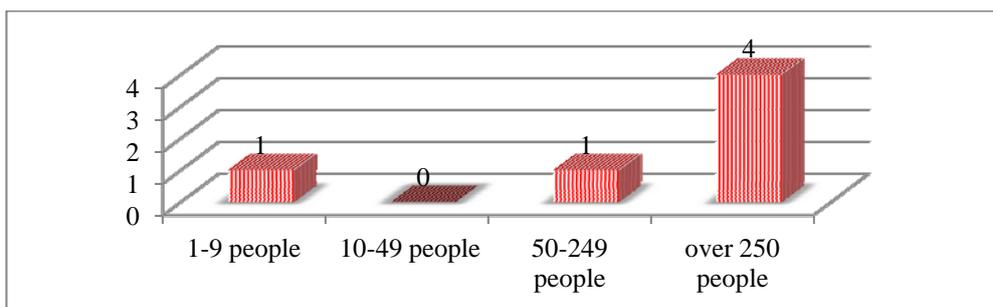


Assessing what proportion of the active businesses in Varna implement real innovation strategies, we have to account for 16% of all. This result should not be underestimated because a number of other companies implement at least in part innovative strategies, but they are either not authorised or are part of any other functional strategy, including marketing, financial, technology or other.

Of all companies that have an authorized innovation strategy, only four have given details of them. Three of these businesses implement an attack strategy, and they all can refer to "innovator strategies," while one company uses a defence strategy. All strategies used belong to the group of R & D based companies. Even if strategies based on marketing are implemented, which is possible, companies rather accept them purely marketing and do not mention them as innovative.

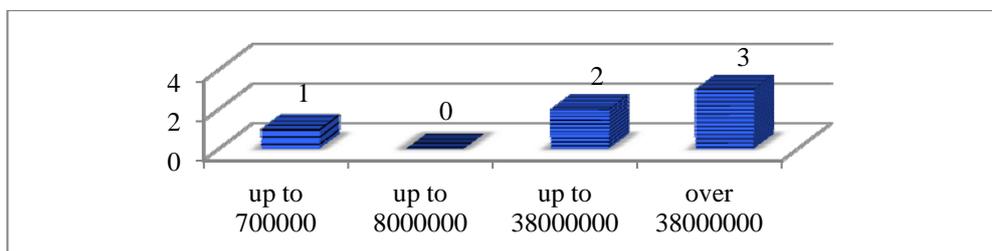
According to the number of staff, enterprises with innovation strategies are divided by size, as follows (Figure 4):

**Figure 4. Distribution of enterprises with innovation strategies by size, according to the number of hired personnel**



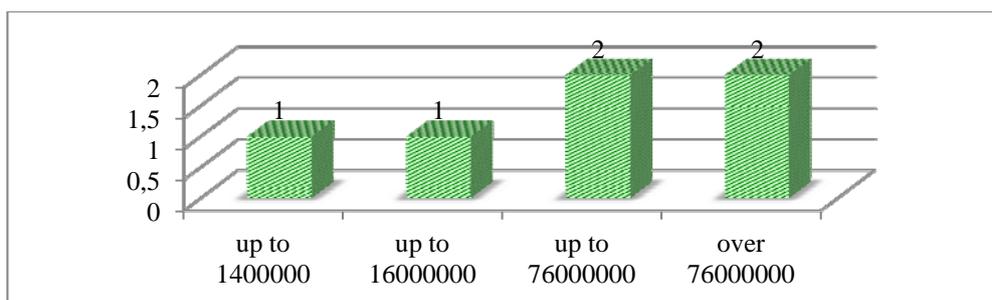
Obviously, the companies with a developed innovation strategy are primarily large (according to the number of hired personnel), which is also due to their greater financial, technological and administrative capabilities.

**Figure 5. Distribution of enterprises with innovation strategies by size, according to the value of the assets**



Close to the distribution according to the number of staff, is also the distribution according to the assets, the large and medium-sized enterprises being prevailing among those with developed innovation strategies. Concerning the size of the enterprises according to the amount of sales revenue, things appear to be similar (Figure 6).

**Figure 6. Distribution of enterprises with innovation strategies by size, according to net sales revenue**



From the last three figures, we can summarize that in Varna the enterprises that have a developed innovation strategy are rather large or medium and, less often, small or micro. As some enterprises have an innovation strategy authorized, it is expected that they will be also, in a large number of cases, more innovative than their competitors.

In the field of innovation in the world, there has long been a dispute over whether small or large enterprises are more innovative, their various advantages being highlighted (Sloane, 2003 and Vossen, 2017). Small companies are said to be significantly more flexible and quicker in their responses to changes in the market situation, and the big ones - with much greater financial, technological and research capabilities, which fosters innovation. The data for the industrial enterprises in the Varna region support

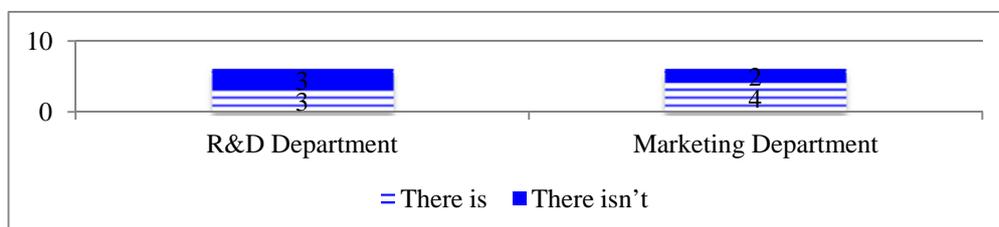
the thesis of the latter claiming that big companies are more innovative. This is supported by a previous research of the author (Pavlov, 2015). Of course, in this case, it must be made clear that there are also some industries where small businesses can be very competitive with the big ones, when not requiring large facilities and strong research units to innovate.

Another interesting fact that can be indicated on the basis of the survey is that four of the companies with an innovation strategy in the Varna region were profitable for all five years, one of them - for three years and one - only for the first year of the five-year study period.

In this context, it can be summarized that there is no single enterprise in the sample with an authorized innovation strategy not reporting profit for at least one year of the period, and most companies (67%) have been profitable throughout the years. In this case, there is a strong link between financial stability and innovation activity, and it is two-way. On the one hand, the developing companies achieve good financial results and, on the other hand, good financial status is a prerequisite for increased innovation activity.

In half of the companies with an authorized innovation strategy there is a unit carrying out specialized research and development activities, and in the other half it is lacking (Figure 7). Similar is the case for marketing units - in 4 companies there is such a unit and in 2 - there is not.

**Figure 7. Existence or absence of R & D Department and Marketing Department and in the enterprises from the survey, with an authorized innovation strategy**



Obviously, the existence of a R & D department or another similar unit, as well as a Marketing Department, are not mandatory conditions for the companies to have innovative strategies developed and be profitable. However, it should be noted that there is a strong link between the R & D department and the innovation of the firms. In all 31 other companies with no innovation strategy developed, there is only one in which there is a R & D Department.

*On the basis of the research and analysis, several main conclusions are outlined, namely:*

- For many businesses in the Varna region, innovation and the strategies applied in their implementation are not yet a key factor for market success.
- Authorized innovation strategies are available in 6 of the surveyed companies or 16% of all those surveyed;
- Some companies implement innovation strategies in their activities but as a part of other functional strategies;
- The companies in the Varna region with innovation strategies are mostly large or medium in terms of both the number of staff employed and the assets and revenues from sales;
- It is rather an exception for small or micro-enterprises to have innovation strategies developed;
- The most commonly applied is the strategy of attack from the group of "innovator" strategies;
- All innovation strategies used belong to the group of R & D based strategies;
- The majority of enterprises with innovation strategies were profitable throughout the period, which indicates a relationship between the existence of an innovation strategy and a successful business.

*Basic guidelines for the development of industrial enterprises in the Varna region as regards innovation.*

From the results obtained in the surveyed companies and from the conclusions that have been made, several guidelines could be drawn for improving the innovation of the enterprises of the Varna region and hence their competitiveness.

There is a considerable number of large enterprises in the region of Varna, more over in good financial condition, which do not pay much attention to innovation. If they claim to have an increased market share, especially internationally, they need to be significantly more innovative. And here we are talking not only about the products they offer but also about the technologies and processes they use.

Since for small and especially for micro-enterprises it is significantly more difficult to separate both human and financial resources in order to develop a specific innovation strategy and to apply it to business, one might consider whether the government, in the person of the Agency for small and medium-sized enterprises, can help them in this area. On the one hand, with the necessary specialist consultants in the field of innovation, and on the other – by differentiation of a special measure to the OP "Innovation and Competitiveness" with a focus on the development of an innovation strategy for small and micro-enterprises.

It is important for industry and employers to play an important role in stimulating innovation activity not only for micro and small but also for large and medium-sized enterprises throughout the country. This can be done both on the basis of informal contacts between business leaders and sharing of professional experience in innovation, as well as through the creation of specialized units of innovation specialists in the employers' or branch organizations themselves to provide the necessary competent assistance to their members.

## Conclusion

At the end of the second decade of the twenty-first century, the importance of innovation for economies, states, and individuals is steadily increasing. Even in traditional sectors such as agriculture, innovative processes and technologies are one of the most important prerequisites for competitiveness and growth. Even more prominent is their role in industry. The world's strongest economies are generally also leading in terms of innovation and inventive activity. Bulgaria, although it is an EU member country and can apply specialized funds such as OP "Innovation and Competitiveness" to stimulate innovation in enterprises, has not yet fully exploited this opportunity. It is obviously not enough to stimulate through the National Innovation Fund either. As a result of that and a number of other reasons, the innovation activity in Bulgarian companies, incl. industrial ones, is one of the lowest across the EU.

Ultimately, in order for the Bulgarian industry and the whole economy to exist and be competitive on world markets, it is necessary to strengthen the focus on innovation by the state, municipalities, industry and employers' organizations, but above all, by the enterprises themselves. More over, this engagement should be not only on the part of the managers in the companies but also on the part of the whole staff to obtain positive results.

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**YEAR LXX, BOOK 4 – 2017**

---

## **CONTENTS**

### **Stoyan Prodanov**

Indemnification of Non-Material Damages Caused by Road  
Traffic Accidents – Ethical and Financial Aspects / 3

### **Lyudmil V. Naydenov**

Inter-Jurisdictional Tax Competition – The Bulgarian Case / 15

### **Valentin Milinov**

#### **Rositsa Radoeva**

Human Resources in Regional Administration - Financial, Management  
and Organizational Aspects / 28

### **Plamen M. Pavlov**

Innovation Strategies in the Industrial Enterprises  
of the Varna Region / 42

### **Plamen Dimitrov**

Modelling Involuntary Part-Time and Fixed-Term Employment  
among Young People and Adults in Bulgaria / 56

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Caused by Road Traffic Accidents – Ethical  
and Financial Aspects**

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**Inter-Jurisdictional Tax  
Competition – the Bulgarian Case**

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---

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Administration - Financial, Management  
and Organizational Aspects**

---

---

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Enterprises of the Varna Region**

---

---

**Modelling Involuntary Part-Time  
and Fixed-Term Employment  
among Young People and Adults in Bulgaria**

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- JEL classification of publications on economic topics (<http://ideas.repec.org/j/index.html>);
- main body (main text);
- tables, graphs and figures are software inserted in the text (they should allow linguistic corrections and translation in English). Numbers and text in them should be written with font Times New Roman 12 pt;
- formulas are inserted with Equation Editor.

**5. Rules for footnote:** When citing sources, authors should observe the requirements of **APA Style** at <http://www.apastyle.org/> or at <http://owl.english.purdue.edu/owl/resource/560/01/> or at <http://www.calstatela.edu/library/guides/3apa.pdf>.

Each author is responsible for promoting ideas, content and technical layout of the text.

**6. Manuscripts of lecturers without an academic rank** should be accompanied by a transcript of the minutes of the Department meeting at which the proposed paper was discussed.

**From 1st of January 2017 the English language title of the journal is changed from “Narodnostopanski archiv” (transliterated from Bulgarian) to “Economic Archive”.**

**Authors of papers published in Narodnostopanski arhiv journal are responsible for the authenticity of the materials.**

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