
ALTERNATIVES FOR SURVIVAL OF SMALL FAMILY BUSINESS IN BULGARIA IN THE CONDITIONS OF GLOBALIZATION AND EUROPEAN INTEGRATION

ALTERNATIVE ZA OPSTANAK MALOG PORODIČNOG BIZNISA U BUGARSKOJ U USLOVIMA GLOBALIZACIJE I EVROPSKIH INTEGRACIJA

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Abstract: *The family business occupies a significant place in the economy of Bulgaria. Globalization and the European integration had a very strong influence of small family firms. The strong competition of European goods and services creates problems in the development and prosperity of the family business. Its competitiveness compared to fast entering foreign companies gets lower and lower due to high prices and low quality of products and services offered. The small family business should look for opportunities to survive in this environment. The purpose of this publication is to investigate some of the chances for survival of SME in Bulgaria in the present stage of its economy development.*

Key words: *small family business, survival, international competitiveness, alternatives*

Sažetak: *Porodični biznis zauzima značajno mesto u privredi Bugarske. Globalizacija i evropske integracije imali su veoma jak uticaj na male porodične firme. Jaka konkurencija evropske robe i usluga stvara probleme u razvoju i prosperitetu porodičnog biznisa. Njena konkurentnost u odnosu na brzo nastajuće strane kompanije postaje sve niža i niža zbog visokih cena i niskog kvaliteta proizvoda i usluga koje se nude. Mali porodični posao treba da traži mogućnosti za preživljavanje u ovom okruženju. Cilj ove publikacije je da ispita neke od šansi za opstanak malih i srednjih preduzeća u Bugarskoj u ovoj fazi razvoja privrede.*

Ključne reči: *mala porodična firma, opstanak, međunarodna konkurentnost, alternative*

Introduction

On the basis of different kinds of research the specialized literature defines the notion “family business” as that whose property is more than 50% of people from one and the same family, people – who have blood relation or marital relation¹⁹². The practice shows that management of family business is in most of the cases realized by the members of the family that is the main owner.

Many publications give special importance to the increase of family firms as a result of micro economical conditions, such as recession and the big unemployment. Other researches by

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¹⁹² Astrachan, J. Strategy in Family business: Toward a multidimensional research agenda // Journal of Family Business Strategy, 2010, N1, pp.6-14

studying the market potentialities in the different stages of business development, are trying to characterize the specific peculiarities of family firms managed by their owners, the motivation of their development and the factors for surviving in the competitive struggle by starting a new business, developing the existing one or stimulation the access to resources.

In historical aspect that company type has more different position towards society – they are more personally engaged with the employees and their families with customers and partners, young people in the process of their education, the region, in which their main office is. Family companies are more flexible and quick in making decisions in conditions of crisis. They do not operate with somebody else's money and they have an extremely steady and thorough attitude towards business in all its aspects. Their social responsibility, the innovation in the product program and the open attitude to the people lead to reputation of success. These companies are also preferred as partners in business and as an employer by the employees because their management possesses transparency and personal responsibility.

Small and medium enterprises (SME) in Bulgaria, which are approximately 95 % of all companies, orientate more and more to the family business. The reasons for this are the financial-economical crisis and globalization including integration in EU as well as the consequences of these. The huge part of them is family companies.

The strong competition of European goods and services rise problems in the development and prosperity of family businesses. The competitiveness in comparison with quickly invading foreign companies decreases more and more as a result of high prices and the low quality of supplied products and services.

The purpose of this publication is to investigate some of the chances for survival of SME in Bulgaria in the present stage of its economy development.

Role of Family Business in Bulgarian Economy

In the USA there exist 24 millions firms which are managed as family business. This comprises 90 % of American economy. The last survey of the Journal of Finance¹⁹³ shows that the family companies are much better run, 6 % more profitable and 10 % more evaluated than non family companies. According to a survey of Raymond Family Business Institute the income of family firms from 1997 up to now has grown with 50 % in spite of recession. For these reasons the Institute makes the conclusion that family firms are not influenced by recession in practice and they are immunized against it.

According to data of EUROSTAT, Small and Medium Enterprises (SME) in the countries of EU are about 23 millions. This is 99 % of European economy. The increasing part of family business in economical infrastructure of EC because of the huge increase of self-employed people and of micro business (business that is of less than 10 people) initiates some interesting problems for its survival in economical crises.

Family company owners all over the world are confident in their future, but many of them do not do enough to prepare for it. In a survey led among more than 1 600 managers of family businesses in 35 countries by PricewaterhouseCoopers (PwC) a surprisingly great number of family firms show development in demand for their products and services in the last year (a small growth of 32 %, considerable growth: 16 %). 34 % mark a decrease in demand. 60 %

¹⁹³ Todorov, O. The successfully is family business// Theme, N 29, 2011

have the intention to extend their business during the following 12 months and 56 % have positive attitude for the way of their market development in the following year. In addition 95 % of the survey participants are to some extent very confident in the effective competition of their firms with the leaders in their market sector segment.

There is not an official statistics of family business in Bulgaria. Very often it is considered as a part of small business. But the practice shows that there are also big family firms. It is a pity that the lack of systematized information is an obstacle for identification of that structure unit in Bulgarian economy. Although it is not paid a proper attention to family business, it takes a considerable share in the economy of the country.

During the crisis 2009 an increase of new company registration is observed mainly family firms. A big part of them are owned by dismissal workers and administrative personnel who seek for a new chance. The capital reduction for registration of limited liability company (according to the new normative legislation) helped general partners to accept such a juridical status. A tendency to mergers and acquisitions is observed. It is because many of the firms can't stand the competition and the economical crisis which leads to strategic choice of enlargement.

Nonetheless, foreign companies in Bulgaria are more competitive than Bulgarian ones. The big hypermarkets of world-famous trademarks offer products at much lower prices at the market. The consumer requirements of goods and service quality grow bigger and it orientate them to foreign imported ones offered at our market. In addition globalization led to the development of electronic trade which made the access to high-quality goods easier. The EC requirements for safety, hygiene and high quality of production and trade made many enterprises increase strongly their costs or stop working. This led to failure of many companies including the SME.

Bulgarian family firms whose owners are members of the Association of family business realized 1 billion levas turnover in 2009. They have given work to 10 thousand people. That gives priority to the problem of their management during crises. The family business had been developing before the appearance of the crisis. It was the time of the dynamic market. But now new strategic managerial decisions have to be found. Firstly they should be connected with the survival of these firms and secondly with their development. At the time of continuous bankruptcy of companies in the various branches of economy, the alternatives for development of Bulgarian family companies are not many.

Alternatives for Survival and Development at times of crises

In the period of economical crisis as is the case in Bulgaria different programs of EU gave possibilities for starting and developing of small family businesses. The European Commission applies a number of measures in the field of policies specially worked out in support of SME in Europe. They are directed to laying conditions for stimulating the creation and prosperity of the small firms, including the family ones.

Financing of family firms in Bulgaria is also improved. The Bulgarian Bank for Development has a credit line for that purpose. The credit could be up to 1 million Euros for up to 10 years. Subject to investment could be: purchase and building of industrial buildings, hotels, offices, healthcare centers, etc.; fitting up hotels, offices, etc.; purchase of machines, equipment,

technological and office equipment, transport means and so on. Purchase of intangible assets such as licenses, patents, turnover capital as a part of investment capital.

European investment programs give possibility to the companies that have a clear vision for their future target position and development conception, to realize the necessary investments for their advancement. The financial support is offered in different forms such as: granting donations, non-interest financing, low interest loans, guarantees, financial instruments, free of charge programs and services for business support, free consultant services for development of innovative ideas and indirect support for internalization of the small business.

In the period 2007-2013 small family firms in Bulgaria could take advantage of the financial resources from the new /the so-called/ operative programs, financed by the structural funds of EU. For SME these are the programs called: "Development of human resources". Especially for the family firms a subprogram is provided "Innovations and entrepreneurship". Naturally, projects for applying for those programs should be worked out. This situation brought about a serious problem for some small family firms.

On the basis of international experience in the field of family business and the specific conditions for its functioning in Bulgaria, we are able to represent the following main possibilities of its development.

Under the conditions of economical crisis agribusiness has its own place because the impoverished population needs food on the first place. Despite the high requirement of EU regarding all food products, integration in EU gives chances for getting into new markets. The traditional Bulgarian dairy products, vegetables, fruits, meat and others are appreciated and demanded on the world market. At the same time there is also a large demand for some foods which are not very popular in Bulgarian cuisine, but they are



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demanded abroad and have a guaranteed market. Bulgarian agribusiness is starting to orientate towards them.

Bulgarian export of medicinal plants puts it on the forth place in the world. The Bulgarian herbs are among the richest in biologically active substances and due to that reason they find a very big application in the production of tea, medicines, cosmetic products, spices, etc. the competition in this field is very strong – Poland, Czech Republic, Romania, Chile, China, Argentina and other countries are our strong competitors. In Bulgaria more than 96 % of the herb productions are in the private sector and these are mainly family businesses.

The production and sales of Bulgarian mushrooms are of interest too. Mushrooms are demanded at the world markets due to their taste qualities. Bulgaria has already had set up traditions in this direction and some family firms have a significant export when having a good marketing policy.

Fish and fish products are a part of those Bulgarian products which are sought out at the foreign markets. There are very small private fishing firms, which can take part in the export. The black caviar is extremely sought out at the European market and its quotas for export continuously go up. For these reasons the Danube is planted with sturgeon fishes. The rapanas export is undoubtedly an effective activity that deserves businessmen's attention.

Milk, meat and their products are also welcomed in the EU countries and can't satisfy the quotas given. At better hygiene and covering the European standards (HACCP, GPP, ISO, etc.) which are higher in this field the sales of that produce will have success not only in EU. There is a considerable interest of the foreign consumers, especially from the EU in the goat milk and cheese. It is known that that milk is the only substitute of mother's milk and the allergic can eat only food produced by it. In addition, these products are recommended and are very healthy for the diet nutrition. It is not accidentally that in France they produce more than 130 kinds of goat cheese. Another peculiarity is that in EU they prefer mainly the soft goat cheese, as contrasted with the Arabic countries where they prefer only the hard cheese. According to information from the Milk Producers' Association there are around 1 million goats in Bulgaria which is a good potential for development of its derivative products, extremely sought out and appreciated at West European markets and other countries. In other words, the production of goat milk and cheese is unoccupied market gap in expectation for farmers of enterprise.

A similar interest is observed in buffalo breeding as well. There is demand for such cheese in West Europe especially in the last years because it is scientifically proved that buffalos do not suffer from "mad cow" disease. Buffalo milk is very healthy too. Its butter content is about 10-11 % but it is more easily assimilated from the organism than the other kinds of milk. Besides that its price is twice as bigger than in West Europe in comparison with Bulgaria. Here there are about 7 000 buffalos in 31 firms. It is prevailingly a family business, which has a great potential for development in case a good marketing is provided.

Lamb and mutton meet and sheep's milk are also welcome abroad, but the conditions in Bulgaria do not stimulate their production. The reasons for that situation are connected with buyers who pay for it as much as for cow's products. It is necessary for the family business in this field to merge and to seek for direct contacts with buyers from other countries in case of good hygiene of production and high quality of the supplied products.

Special interest is shown also in other kinds of meat, sub-products and eggs. The foreign market is open for rabbit meat as an alternative of veal. It is a pity that we don't have a licensed slaughterhouse satisfying EU conditions. For satisfying that demand we started creating rabbit farms in the Pleven, Lovech and Kurdjali region in Bulgaria.

Quail's eggs contain useful substances and vitamins equal to 4 hen's eggs and they are without cholesterol. That priority makes them preferred at West European markets. That is why more and more producers have an interest in that production. At the moment there are 250 farms for quails in Bulgaria which show an interest in that business.

Goose liver as a delicacy product is well-known in the cuisine of many countries. That made the creation of some farms for their breeding, including geese from France.

Other rear animals such as snails, mussels, frogs, are well received at the world markets too. Clams need special farms such as those in the village of Dulboka, the region of Kavarna, Varna, Byala and near the village of Bulgarevo, Dobrich region, in the North Black sea region. Regarding the snails, more and more producers start showing an interest in them and found small farms for their breeding in their yards, for example in Vratsa and Vidin and some other regions in our country. A national snail breeding cluster has been found. The problem with gathering frogs is complex because of the drought which reduced to minimum the water in the rivers.

Bee keeping agriculture is another branch and it can have success with the sales of its products abroad. Honey, pollen and bee milk are on demand due to the fact that they are in most places ecologically pure. Besides that its variety is big – acacia, lime, multi flowers, forest, sunflower, pine. And the price at the world markets satisfies our producers from the family business.

Many of the foreign countries are traditional markets for a number of fresh and preserved Bulgarian fruits and vegetables despite the protection measures. The defined export quotas in this direction are not carried out yearly. Only the quotas for frozen peas, fresh and preserved cherries and walnuts are fulfilled totally. The quotas of apples, pears, quinces, apricots, desert grapes, tomatoes, potatoes, strawberries, peaches and nectars are not used fully. Naturally, the subsidized agricultural production of the other countries has a lower price and it makes it competitive. But our fruits and vegetables and the products of manufacturing industry have better taste qualities and they satisfy the European standards they will be welcome at the West European markets.

Serious possibility for our small farms business is the development of biological agriculture, which is well known in Switzerland, Holland, Germany¹⁹⁴ and other countries and is used for production of biological products. We have already had some similar small farms here and they have a biological production certificate. In this way we can compete successfully the foreign products, because our produce hasn't got an analogue in taste qualities. For that purpose following special requirements is needed. Soils are tested for heavy metals and other harmful admixtures, because it is essential for the Earth to be clean. The usage of pesticides is forbidden. Only the manual cultivation with natural fertilizers is allowed.

¹⁹⁴ Papazov, E., Mihaylova, L. Terms and conditions for innovative management of family farms: the experience of the German state of North Rhine – Westphalia. In: Models of business management in terms of the dynamic environment, "Primax", Rousse, 2009

During the last years fruits and vegetables not typical for the Bulgarian cuisine are grown – asparagus, broccoli, Brussels sprout, kiwi, etc. Asparagus are already planted in the region of Sapareva banya. In this direction the production of other similar fruits and vegetables could develop. Their advantage is that they can more easily find market gaps abroad since their cost value in Bulgaria is lower. There is already an obvious interest from foreign firms in joint venture for example the “Danube farms” Svishtov produces asparagus with materials by the client for an Irish firm in Blagoevgrad region they produce kiwi, in Razgrad region – broccoli and so on.

The Bulgarian wines are popular with their qualities. They were produced only by wine producers not long ago. Boutique wineries have been founded for several years as a result of family traditions and business. Some of them have already won prizes at world wine fairs with new Bulgarian sorts of grapes as “Pinot Noir” and “Syrah” as well as with traditional and unknown for the foreign market as Gumza, Mavrood, Shevka, etc.

A great interest at the World Market during the last years has the production of forage “sorgho”. It is especially effective at drought which is observed recently. Up to that moment it is experimented only in the village of Marikonstantinovo, Turgovishte region, but now many producers are interested in it.

Tourism and the businesses, connected to it strengthen their position in our economy. This is one of most reliable alternatives for the small family business in Bulgaria. Many small firms are founded in that branch on the basis of the family tourism. The local base is filled by personal contact with foreign firms and individuals. But the competition here is big and in spite of the beautiful nature and comparatively reasonable prices, the quality of the offered tourist services makes them insufficiently competitive at the international market. Due to that reason it is necessary to be found other forms in this direction where Bulgarian family firms can find its place. More and more different forms of alternative tourism are drawing attention. There are very kind conditions – rural and agricultural, tourism, recreation, sport-entertaining, fair, congress, hunting and yacht, ethnographic, historical, religious and ecotourism, etc. in this direction there have been created some preconditions and combined with the natural resources they could search coming out at the world’s markets.

Making luxury in village houses in the mountains will lead many tourists into places where there are no activities developed and will provide good income for the local population. Good examples in this respect exist in Momchilovtsi, Shiroka luka, Elena, Zheravna, etc. rural and agritourism have good preconditions for development here, but they require higher investments. They could come from foreign firm which can provide clients.

Good traditions exist in hunting, too. The former hunting farms have a very well formed system and way of organizing the hunting. They possess the hunting specialists wanted. These former forestry boards and other similar structures, most of which are already private family firms, could become centers for hunting tourism and source of very high income if a good marketing is provided.

The good conditions for recreation and sport, offered by some hotels, combined with the sea, mountain, mineral springs and mild climate give chances to more sporting businessmen to develop sport and recreation tourism. More frequent event is the preparation of different national teams and famous sport players in Bulgaria. That kind of business could turn into a very good source for income, if the necessary luxurious conditions are to be created.

The mentioned and other forms of alternative tourism could be developed not only independently but also in combination or as an addition to the sea and mountain tourism. They could become a good basis for profitable business for small family firms. It could develop with higher rates at integration in EU when all limitation in case of travelling will be dropped off. In this case many tour operators' firms come into being and they offer different West European destinations which are more and more preferred by the Bulgarian citizens as a form of tourism.

The small trade family firms suffered greatly in the last years, the reason for this is not the economic crisis, but globalization. Penetration of big hypermarket chain stores as METRO, Kaufland, BILLA, Carrefour and other, as well as the big Malls in the cities with the low prices of their goods made the small family firms uncompetitive at the Bulgarian market. Only some small family firms in the small towns, distant from the big trade centers survived. But they can't stay long on the market because of the low paying capacity of their clients in these regions of the country. Only the small family firms occupied with e-business got some developments. It is as a result of the lower prices of Internet trade.

The economical crisis has had its strongest negative reflection upon the construction and sales of real estates. Many building companies failed and others chose mergers. Considerable part of them is family businesses. The great demand for houses by foreigners as a result of the low percent interest loans from their banks stopped. The World financial-economical crisis made them start selling their properties in Bulgaria. The construction companies which remained on the market, orientated with priority to building of hypermarkets; facility management serving already built buildings, designing and improvement of buildings which are financed to a big extent by EU programs.

The world crisis led to failure many family businesses in Bulgaria that are connected with production. Many enterprises were closed. Some growths of production and sales in that period have only the textile firms. That could be explained with the fact that our sewing industry has traditions in the sales for West Europe, USA, Canada, etc. the production with materials from the buyer guarantees high quality, low cost and provides good markets for it. Many similar centers were founded in the traditional sewing regions – around Ruse, Gabrovo, Haskovo, Varna, Kazanluk and other. A big part of them are small family businesses and they succeed to survive mainly for world trade brands.

New and interesting forms of internationalization of business which has great possibilities and strengthens its positions in our country are the so called "clusters". These are groups of companies working in geographical proximity and in one branch, binding their activities to cooperate and complement one another. The purpose is a bigger effectiveness, an increase of competitiveness and outlets on foreign markets. In this net firms participating in the vertical integration are included – suppliers of raw materials, producers of packages, etc. clusters around the world include also scientific-research activity, business and consulting services. Three big clusters, an object to special investigation are created in Bulgaria¹⁹⁵:

- In the region of Razlog – woodworking and furniture enterprises.
- In Russe - textile and store clothes firms.
- In Plovdiv – canning factories.

¹⁹⁵ Papazov, E., Cluster-based strategies for regional and cross-border economic development. In: Proceedings of International Scientific Conference: Cross Border Cooperation and Entrepreneurship Development in Border Regions - 02-04.07.2008, BAMDE, Varna, 2008

Similar clusters are established in other regions, especially where there is no occupation for the local population. The local traditions of production should be used as a basis for directing towards some business. For example, the region of Peshtera – for shoes production, of Sliven – for carpets, the Elena Balkans mountain - for agriculture, the Haskovo - for sewing services, Troyan – for furniture, Gabrovo – for textile.

In the last years where a big part of business in Bulgaria meets difficulties, some small family firms invested in renewing sources of energy – solar parks and wind generators. Since “the green energy” is the energy of the future, the entrepreneurs decided to take risks in that field. It is stimulated by the EU, too.

In addition to the traditional branches in business which give us some small place on the world markets, some family firms start creating high technologies, including information technologies. Their potential is developing more and more in the last years. Interests in their activities are shown by some foreign companies or their agencies in Bulgaria. The penetration in these businesses could find new chances for a successful future in front of Bulgarian family business.

In the sphere of services the small family firms succeeded to survive in spite the decrease of sales. This is due to the fact that their personnel are small in number and the costs are low. These are shoes, accounting, marketing, advertising and health services, and education, looking after children, etc. many of them are supported by the EU by financing different programs. This gives them the possibility to receive orders which helps them function in the period of crisis and some of them even develop.

Conclusion

As a summary of the investigation it could be mentioned that the Bulgarian small family firms have a lot of possibilities to survive and develop in integration in EU. Their advantages in this direction are connected with comparatively cheap labor, the Bulgarian membership in EU, the strategic geographical position of the country – its nearness to West Europe and its position as an entrance gate to the Balkan countries and the Near East, good quality and traditions in some productions, presence of many raw materials, micro economic stability of the country.

Naturally, it is difficult to describe all the possibilities, which could be used by the small family firms in the period of financial-economical crisis and globalization in order to make their business profitable. The natural conditions, the flora and fauna, the cultural and historic in heritage, the traditions in different activities and so on are a good basis for their future development. Every entrepreneur, according to their situation, knowledge and skills should find the best possibilities for their own business under the strong competition of West European goods and services.