

Analysis and Evaluation of the Economic State of the Family Business in Bulgaria

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Abstract

This research aims to analyze and evaluate the state of the family business in Bulgaria, its problems to be found and solutions in connection with them to be given.

In order the aim of the research to be achieved, an examination of 48 big family companies on the territory of the whole country was made for the period September – December 2015. The methodology of the research includes the using of statistic methods such as: observation, average evaluation, comparison and grouping, analysis and synthesis, as well as methods for the disclosure of the dynamics of the calculated financial economic indicators of the examined family companies. Tabular and graphical methods were used for the visual representation of the research results.

In this piece of work, the efforts made by the authors are oriented towards the generalization and systematization of financial economic information in connection with the examined family business companies, as the following economic indicators are estimated: profit, tangible assets, private capital and incomes from sales. The liquidity is also estimated as an important economic coefficient which concerns the sustainability of the family business. The results of this analysis allow the systematization of some of the family business problems in financial economic aspect.

The practice of the family business and the connected with its functioning problems encourage the need of paying special attention to it. In support of this conclusion come the theoretical and practical formulations in the literary sources and the results of the continuous family business researches, including in Bulgaria. It is ascertained that the sustainability of this business has to focus on some problems in economic aspect.

Keywords: family business, financial economic analysis, sustainable business development, economic indicators.

JEL classification: M19, M21, L26.

1. Introduction

The family business is a specific type business activity which is often limited in its size (Todorov, 2011, p.158). Its role, specific peculiarities and characteristics are of interest to scientific researches and business consultants. Their specific characteristic is the connection between the family and the business which leads to interweaving of the business activity with the family property. According to Todorov (2011, p.158) this concrete specifics of them determines their stability because the owners have higher motivation for keeping the assets and they accordingly manage the business more responsibly in relation to the employees.

In the contemporary conditions of globalization of economy the development of entrepreneurship and enterprise faces a number of current issues and future challenges (Dimitrova, 2014, p. 5). In the conditions of great competition and globalizing market, the economic development of the family business is actually a prerequisite for keeping sustainable market positions. In this context the question which concerns the analysis and the evaluation of the economic state of the family business in Bulgaria and the making of adequate decisions in connection with its sustainable development is very important. According to Kyurova with the help of the means of the economic analysis and the observation of many financial economic indicators, "the reserves for the whole betterment of the business" can be ascertained (Kyurova, 2007, p.41). In this connection Filipova states that it could "help early diagnosis and prevention of crisis situations in business." (Filipova 2013, p. 76) The results of the analysis allow the entrepreneurs to effectively implement the activity planning, to form adequate strategies and tactics and to find reserves for development. The making of economic analysis in connection with the state of the business is also necessary because of the increasing processes of dynamic economic development. In this sense, it is the opinion of

Dimitrova (Dimitrova, 2014, p. 117), according to which the monitoring of the financial situation is imperative to monitor the internal environment of the enterprise and include an analysis of the processes involved in ensuring the efficient use of its financial resources. The author justifies the importance of the analysis of financial and economic performance of the enterprise and provides a specific set of indicators for analysis, and incorporates them into the measuring apparatus for analyzing and assessing the level of competitiveness of the company (Dimitrova, 2014, pp. 162-171).

As we have in mind the importance of the examined in this paper business and its participation in the economics, the purpose of this work is to make an analysis and evaluation of the state of the family business in Bulgaria, its problems to be found and solutions in connection with them to be given.

2. Problem definition

Scientific research observations and evaluations show that nowadays the participation of the family companies is globally dominant. It is practically proved that they have considerable contribution for the development of the economics and the formation of the national wealth.

One view, expressed by Crosby (2004) is that the family companies are at least 70% of all companies on the world. The percentage in the countries of the European Union is also close to this value. The share of this type of business in these countries is equal to 60% of all the companies. According to researches made by the Association for family business in Bulgaria, more than 42% of the companies are family companies, as the number of the companies which operate in the area of trading is dominant – 43%, followed by the companies which deals with services – 37%. It is ascertained that the number of the industrial companies is relatively low – 9%. According to Madgerova and Kyurova (2012, p.22), the Bulgarian family business plays an important role for the securing of the employment. As a part of the Bulgarian economic system, it actively participates in the formation of the gross domestic product (GDP), proposes many job positions and helps for the increase of the employment. At the same time in many of the family companies there are difficulties and limitations connected with the provision of capital, the motivation of the staff that is not part of the family, lack of clearly defined purposes and logical arguments for taking management decisions.

In the contemporary conditions of the growing importance of effective planning, forecasting and decision making in terms of employment, lack of sufficient official statistical information impedes scientific research in this area (Yaneva, 2013, p.82). The problem about the state of the family business is not mentioned enough in the Bulgarian scientific literature. The fact that people have not made thorough enough theoretical and applied researches in matter of this, as well as the fact that an examination of the family business state has not been made, determines the importance for the preparing of analysis and evaluation of its state in Bulgaria. The main challenge for the authors of this article is to give ideas for solving the family business problems, as its state has to be analyzed and evaluated.

3. Methodology

For preparing the analysis, the economic results of 48 big family companies have been examined, where according to the records, the number of the staff is not more than 250 people, as this information is given in their financial reports, published in the Commercial register. The research concerns a period of 7 years – from 2008 to 2014 about which is the last published data.

For determining the state of the examined companies in this article, the following economic indicators are used: profit, tangible assets, private capital and incomes from sales. The liquidity is also estimated as an important economic coefficient which shows the sustainability of the family business.

For the purposes of the analysis, statistic methods are used, methods like: observation, average evaluation, comparison and grouping, analysis and synthesis, as well as methods for the revealing of the dynamics of the calculated financial-economic indicators of the examined family companies. Tabular and graphical methods were used for the visual representation of the research results.

4. Results and Discussion

The used economic indicators for analyzing and evaluating of the economic state of the family business in Bulgaria are part of the complex analysis of the business activity which in this article is set as by the authors a problem. This approach is based on the assertion that if the summary indicators have good values, it is not necessary to be made an additional analysis, except in the cases of searching of reserves and optimization of the activity.

In order the analysis to be more complete, a characteristic of the examined companies has to be made. It has to give information about the year of incorporation of the business, address registration, legal form and economic activity.

The distribution of the examined companies according to the years of their registration is shown on figure 1. The biggest part of them started their activity between the years 2002 - 2008. The percentage of the companies that were registered in 2009 – 2012 is the lowest one. It is interesting to be noted the fact that 29% of the registered family companies started their activity in 1990 – 1995 and as of the moment they continue their sustainable development. The complex relations in the family business depend exclusively on the internal synergy in the company which is actually the reason for these companies to continue increasing their competitive power more than 25 years.

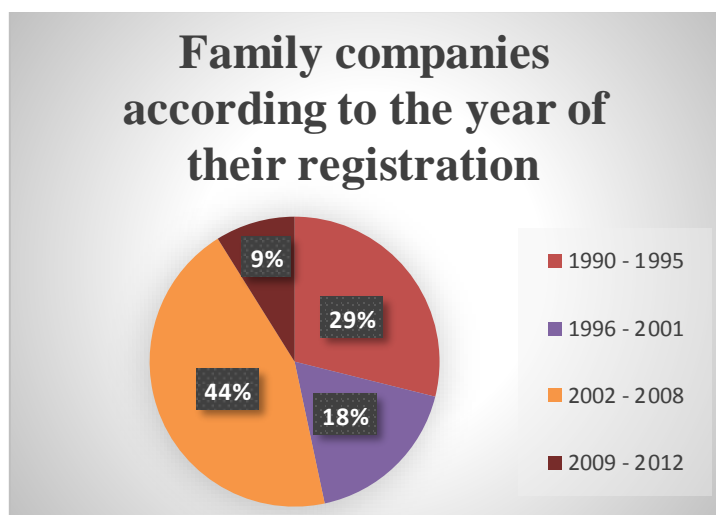


Figure 1. Number of companies of Association of the family business in Bulgaria according to the year of registration

Source: private research

The distribution of the examined companies according to their address registration/ managing address is shown on figure 2. Most of the companies are located in Sofia, the capital city of Bulgaria, whereas in each of the towns of Shumen and Pazardzhik there are only 2% of them. 9% of the companies are located in Plovdiv and 9% in Burgas. The city of Plovdiv has a central geographical location which contributes for the choice of location when it comes to the moment of registration. The location and the area of the towns in Bulgaria is particularly important for doing business activity because of the limited economic conditions and the poor standard of living in the small towns and villages.

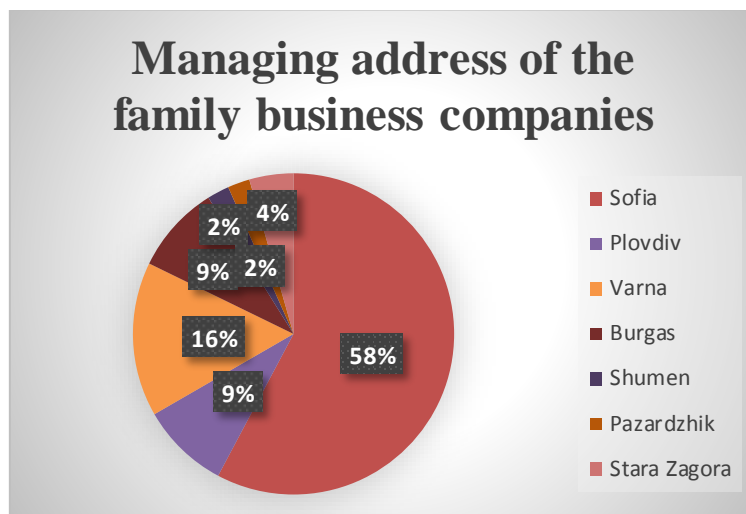


Figure 2. Distribution of the companies according to their location (%)

Source: private research

The distribution of the examined companies according to their legal form (figure 3) shows that the limited liability companies are equal to 40%, followed by the joint-stock companies and the third place is taken by the single member limited liability companies. The lowest percentage goes to the sole traders whose responsibility for repayment of the liabilities is bound to all their properties. In many cases the choice of the legal form depends on the activity of the company.

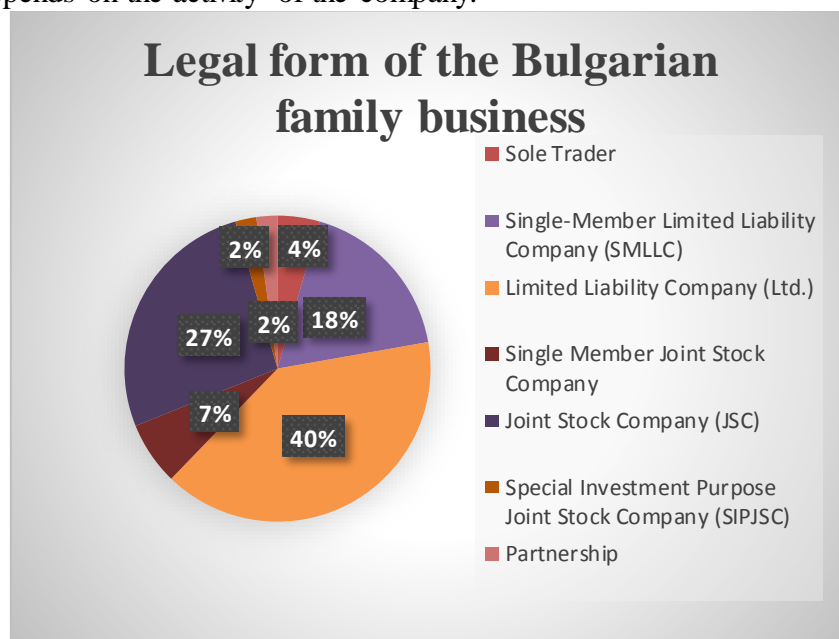


Figure 3. Distribution of the companies from the family business according to their legal form (%)

Source: private research

As it can be seen on figure 4, the biggest part of the examined companies of this type of business in Bulgaria are oriented in the sphere of trade, motor vehicles and motorcycles repair, administrative and supporting activities, as well as in the building sphere. The connected with the processing industry companies and the companies operating in the sphere of culture, sports and entertainment have the least number.

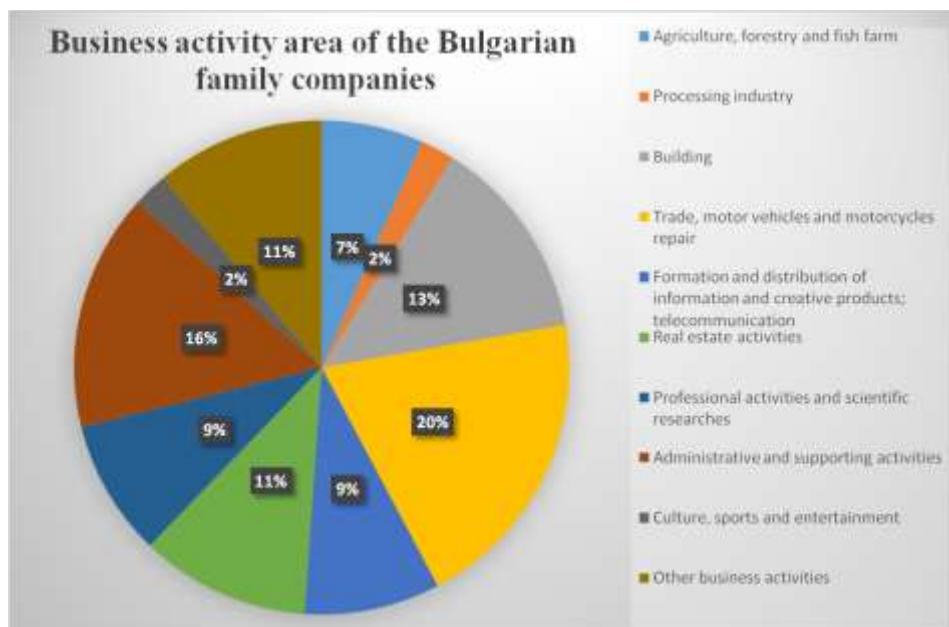


Figure 4. Percentage of the companies of the family business in Bulgaria according to the sphere of their business activity/ branch

Source: private research

The made analyses of the examined companies in Bulgaria lead to some conclusions with regard to their state and namely:

- Because of the better conditions, business and administrative environment, their business mainly develops in the capital city and the big cities;
- The number of the family companies that operates in the sphere of trade and services is predominant, as this corresponds to the structure of the Bulgarian companies in relation to economic activities.
- The legal form of these companies is limited to capital companies which requires limited liability of their owners.

4.1. Financial economic analysis in relation to indicators of the Bulgarian family business

It is important to be noted that a thorough research of the Bulgarian family business has not yet been done. We think that this research will contribute to the receiving of some information and idea about its general and economic state. The importance and actuality of the research is not connected only to the share and place of the family business in the economics but it is also connected with its specifics consisting in the complexity of the connection and the relations between the two systems “with different character, functions, interest and purposes” (Madgerova and Kyurova, 2014) on which it is based – the social (family) and economic (business). According to Madgerova and Kyurova the main purpose of the family business, as any other business, is to achieve economic benefit, where the integration of the family interests with the business interests is an important prerequisite for achieving this. (Madgerova and Kyurova, 2014). From this point of view, the economic state of business which is mainly affected by the interests and decisions of the family is important to be determined. For determining the economic state of the examined family companies, an analysis of the elements of their balance sheets and income and loss statements is made. The “income of sale and profit” indicators are analyzed where the same are interrelated. They are important because their quantity is one of the prerequisites for the functioning and development of the business. It is paid a great attention to the possibilities for increasing the value of the incomes which aims sustainability of the development and the competitiveness of the family business. With the help of statistic methods it is determined the dynamics and it is made an evaluation of the change of the average income and the average profit of the examined companies for the taken period on constant or chain base. The indicators “rate of

growth and rate of increase” are used in order the changes of the incomes for the years of the period to be determined.

The average amount of the incomes for the period 2008 – 2014 is determined on the basis of the information about the incomes from sales of each of the examined companies. (Table 1)

Year	2008	2009	2010	2011	2012	2013	2014
Incomes from sales	19031,79	17044,96	19745,65	15907,97	18559,43	17011,11	16608,53

Table 1. Average amount of the incomes of the examined family companies in Bulgaria for the period 2008 – 2014 (thousand BGN)

Source: private research

The presence of big companies in the family business contributes to the high average rating of the incomes from the sales, as it is shown in Table 1. The highest results are shown in 2010 when the average growth of the absolute incomes values are higher with 1,16 points in comparison with the previous year. In 2011 the incomes of the sales decrease with 1,24 points which is estimated as 80,6% of the incomes value for 2010. The shown in 2012 successful results increase the average incomes of the family business sales with 16,7% in comparison with the previous year.

The difference between the first and the last year of the examined period (respectively 2008 and 2014) represents a decrease of 14,6% of the sales of the incomes which can be somewhat explained with the continuing economic crisis in Bulgaria. The potentialities of the family business can be oriented towards increased popularization of their goods and services or towards preparing of structural and financial analysis with the purpose of optimizing their productivity capacity.

The research of the incomes of the sales is made in connection with the profit obtained by the family companies. The analysis aims to introduce the interrelation between the two indicators in relation to the increase of the competitiveness of the companies.

The average amount of the income for the period 2008 – 2014 is determined on the basis of the information about the income of each of the examined companies. (Table 2)

Year	2008	2009	2010	2011	2012	2013	2014
Profit	2279,29	1360,04	1427,12	1073,85	1331,27	1332,12	1655,22

Table 2. Average amount of the income of the Bulgarian family companies for the period 2008 – 2014 (thousand BGN)

Source: private researches

The profit is one of the most important indicators for analyzing the economic state of the companies. Its obtaining gives a chance for providing the reproducible process above all, for allocating funds necessary for the production expand, for innovations, for buying new machinery and technologies – renovation of the production material and technical base.

The average absolute amount of the profit for the whole period is equal to 1 494 130 BGN. The analysis of the “profit” indicator shows decrease for the whole period. As the difference between the first and the last year of the examined period (2008 and 2014) is equal to 37,7%. There is a tendency that is connected with the decrease of the profit which has lowest values in 2011. During the same year the decrease reaches 112,3% in comparison with 2008. On the other hand if somebody computes the dynamics of the profit development for 2011, compared with the last examined year or 2014, it can be seen that there is a rise of 54,1%. The negative tendencies for this indicator could be changed, as it has to be paid attention to the diversification of the family products of the companies or if people allot higher budget for advertisement.

The financial economic analysis of the family business in Bulgaria for the period 2008 – 2014 includes the important indicators: assets and capital of the companies. They are dependent on the mentioned above financial economic indicators and without them this article would be unfounded and will not contribute to the increase of the opportunities for development of the family business which is actually its

aim. The fact that the fixed assets of the companies are those resources which are repeatedly used in the business activity and bring economic benefit for a longer than one year period, outlines their significant role for the financial state of every business organization. The security, structure, using of assets in the family business in Bulgaria have to be examined and analyzed in time and continuously with a purpose of achieving sustainability of the companies and development of their business activity.

The average values of the assets for the period 2008 – 2014 is determined on the basis of the information about the assets of each of the examined companies. (Table 3)

Year	2008	2009	2010	2011	2012	2013	2014
Assets	28135,77	33363,97	32822,54	31163,71	32335,23	32821,51	32389,35

Table 3. Average values of the assets of the family companies in Bulgaria for the period 2008 – 2014 (in thousand BGN)

Source: private research

In this article the authors have succeeded to include a small part of all family companies in Bulgaria and that is why it is impossible all of the companies that are part of the family business to be characterized on the basis of this information. Despite this, the authors aim to cogently show all ways for development and sustainability of the companies.

The analysis of the average size of the assets outlines a tendency oriented towards their increase. The percentage of the growth for the examined period of 7 years is only 15, 12, but the excessiveness is at least positive. The companies from the family business have highest values of the assets in 2009 when the absolute value increased with 5 228 200 BGN. As a percentage this is equal to 18,6 percentage points for 2009 in comparison with the previous year.

The assets of the companies have their special role for its development and they are interrelated with the liabilities of the capital. In connection with this, the authors also included this indicator to their financial economic analysis of the family business in Bulgaria for the mentioned above period.

Year	2008	2009	2010	2011	2012	2013	2014
Capital	15283,03	17624,00	18622,40	18731,14	19385,17	20105,60	20187,65

Table 4. Average capital amount of the family business in Bulgaria for the period 2008 – 2014 (in thousand BGN)

Source: private research

The average capital amount of the examined companies for the whole period is equal to 18 562 710 BGN. The only indicator of this financial economic analysis which shows the tendency that is oriented towards stable growth. The difference between the first and the last year of the examined period is more than 32%.

Year	2008	2009	2010	2011	2012	2013	2014
Capital (Chain base)	-	15,32	5,67	0,58	3,49	3,72	0,41
Capital (Constant base)	-	15,32	21,85	22,56	26,84	31,56	32,09

Table 5. Growth rate of chain and constant base of the average capital amount of the family business in Bulgaria for the period 2008 – 2014 (%)

Source: private research

With chain base the analysis shows that the capital has highest increase in 2009 when it increases with 15,32 percentage points. During the next years there is growth of the capital with decreased values. The examined period is also shown with constant base, where the absolute values of the average capital in 2008 are taken. The result of the increase here is given in Table 5.

The current indicators have to be added with the liquidity coefficient which means the ability of one business company to transfer its assets into financial funds and with minimum losses. Other definition that explains the liquidity coefficient is “quantitative characteristic of the ability of the company to pay its current liabilities with current assets”. In connection with this the authors estimated the short-term or the

immediate liquidity of the companies of the Bulgarian family business with the purpose of determining their success on the market.

The coefficient of the immediate liquidity is equal to the sum of short-term investments and financial funds both divided by current liabilities.

Year	2008	2009	2010	2011	2012	2013	2014
Liquidity	3,862	13,663	91,220	110,866	104,800	31,660	44,667

Table 6. Average rate of the liquidity coefficient of the Bulgarian family business for the period 2008 – 2014

Source: private research

4.2. Alternatives for development and guidelines to improve the competitiveness of the Family Business

The family business is facing a number of challenges related to increasing production volume, quality and competitiveness. Its functioning in a constantly changing environment requires flexible company policy and quickly adaptation to new conditions. The future perspectives for the development of family businesses are closely linked to the ability of firms to acquire organizational resources, to deploy their potential to occupy the strategic market position and to implement competitive strategies accordingly to a precise situational analysis. (Miller and Friesen, 1986). And this is the place where marketing attends in the building of competitive advantages that give impetus to the sustainable development of family business. The adaptation to the new type of consumer requires urgent measures for restructuring the company strategies, as so to synchronize them with the new consumer habits. Nowadays the consumer is primarily informed through the Internet. Network as an innovative communication channel reveals scope for the expression of creative potential and form to build long creative dialogue with the audience. The specific characteristics of the Internet environment require the construction of a specific marketing model to attract consumers, an influence on their perceptions, strong persuasive arguments and their involvement in action or as Seth Godin interpreted the marketing in the electronic age "Turning strangers into friends and friends into customers". (Zlateva, 2015, p.47) The growing role of social media reflects the transition from the traditional Web 1.0 model to the interactive Web 2.0, where users are active participants that dictate the marketing transformation and recipients become information providers. (Zlateva, 2015, p.3) The power of "social" capital is more important than ever before. The orientation of the family business to individual user requirements is possible through personalization in the relationship between the company and consumers. This is a unique feature that only Internet offers and also it is a serious claim for a successful market positioning, to provide competitive advantage.

According to Madgerova, Kyurova, Atanasova (2015, p. 217-228), business associations are an effective way for the successful positioning of enterprises and products and contribute to the realization of synergies in all business activities. Their statement is that "it is obvious that it is necessary to expand the areas and forms of joint cooperation with foreign partners and use them more effectively as a prerequisite for overcoming the backwardness of the country from other Member States of the European Union in the priority areas Internationalization and Single Market and to increase the share of small businesses in the process of internationalization" (Madgerova, Kyurova, Atanasova, 2015, p. 217-228).

5. Conclusions

There are positive tendencies that have outlined in the course of development of the family business in connection with one of the factors of its appearance and development. This factor is the presence of close relationships in the companies which leads to better understanding in the case of negotiations and making of faster strategic decisions. The process of development of a company is mainly based on the achieved synergy in its core. Despite the made positive conclusions in connection with the progress of the family business, some limitations have to be emphasized. The costs which are connected with the registration and development of Bulgarian family business still limit the possibility for the growth of the craftsmanship and the small family companies.

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