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# Restructuring in SMEs: Bulgaria

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## Current economic and political contexts

Many sectors at the heart of Bulgaria's growth, such as real estate, construction, and financial services, were badly hit by the financial crisis, which began in 2008. As Plamen Dimitrov, President of the Confederation of Independent Trade Unions in Bulgaria pointed out, Bulgaria lost about 10% of employment within two to three years, with almost 350,000 people losing their jobs (Economic Policy Institute and Hanns Seidel Stiftung, 2011).

By the first half of 2009 it was evident that the country was in serious recession. In order to address this, the country reaffirmed its willingness to maintain macroeconomic stability and the Currency Board.

After a decade of relatively fast economic growth Bulgarian enterprises were largely unprepared for a prolonged and deep recession. In terms of competitiveness Bulgaria still ranks amongst the worst performing countries in EU.

It is the first big economic and financial crisis to hit the country since the 1990s, when its entire economy was transferred from the public sector to the private sector in less than ten years, prior to Bulgaria becoming a member of the EU on 1 January 2007.

Between 1996–1997 Bulgaria had experienced a severe economic and financial crisis followed by the introduction of rigorous stabilisation measures.

Since 2008 the financial and economic crisis has had a very negative impact on Bulgaria's economy and employment. There has been a sharp decrease in economic growth, and an increase in unemployment to 11%–12% of the working force. Many sectors have been affected, including construction where employment has been falling since 2007. Data also show that companies tend to keep qualified labour and lay off the less skilled (Bulgarian Industrial Association, 2010a).

However, some businesses consider a recession as an outright opportunity to establish an advantage over weaker competitors or to embark on new entrepreneurial ventures. More generally, the economic crisis may cause a trend break in the minds of people, rendering society more open to change.

During the last 10 to 15 years the labour force has been employed mainly in SMEs in the dominant private sector, and more often in services than in industry.

It should be noted that managers who are 50 and over, are generally very experienced in restructuring, because of the knowledge they gained during the transition from state ownership to a market economy.

In 2011, Bozhidar Danev, Executive Chairman of the Bulgarian Industrial Association said:

*The economic situation in the country is very tense. In the last three years the Bulgarian economy has gone through a very difficult period of restructuring. It is worse that it coincided with the global economic crisis. The only engine that drives our economy forward is exporting. It focuses on the countries of the European Union, but they have their problems and are pressed by the debt crisis. The restructuring of the economy has not yet been completed and, as a result of the restrictive measures, the small and medium-sized businesses were almost wiped out. Very many jobs were lost. The tension between the financial and the business sector is increasing, which creates additional uncertainty and unpredictability in the activity of business and in the conduct of the banking system.*

According to Emil Harsev, a leading Bulgarian economist, ‘The depression will continue for at least two more years’ (Economy Magazine, 2012a). Other Bulgarian economists stress that ‘the new recession in Europe will not bypass Bulgaria’ (Institute for Market Economy, 2012).

Peter Andronov, Executive Director of Cibank thinks that healing the economy requires passing through all the usual phases of business restructuring and reconstruction (*The Economy Magazine*, 2012b).

There are different opinions on how to solve this unstable situation.

- Professor Andras Inotai, a leading Hungarian expert on European economy, says that contradictions in the Bulgarian economy could be solved by ‘courageous economic restructuring’, which will create new job opportunities, but will also destroy traditional jobs (Economic Policy Institute and Hanns Seidel Stiftung, 2010).
- A group of young economic experts insist on shock measures for the labour market, but they also worry that none of Bulgaria’s economic sectors will be an engine of the economic recovery – ‘even export, construction, tourism and trade are showing a decrease during the first months of 2012’ (*DNES*, 2012).
- Evgenuy Stanchev, an economic restructuring consultant, also recommends a shock recovery for enterprises in economic crisis (*Capital Weekly*, 2010).
- Eleonora Negulova, chair of the National Association of Small and Medium-Sized Businesses, is sure that ‘small businesses will remove the country from crisis’. She concludes from her analysis of some industrial sectors that construction companies are the worst hit by the crisis. She adds that entrepreneurs in the services and the clothing industry face big reductions in customers and orders. Bulgarian garment companies are working mainly for the EU and the hope is that recovery there will be transferred here. She says, ‘For small and medium enterprises bankruptcies and the emergence of new firms is a natural and continuous process. It is just that in a time of crisis it is much more intense (Negulova, 2011).’

Unfortunately, the restructuring of SMEs is not a topical issue in public debate or in research in Bulgaria. The studies and discussions of best practices are only about big private and public companies (Kirov, 2010).

## SME situation in Bulgaria

Most of the SME data and comments in this chapter are based on the annual report of the Bulgarian Small and Medium Enterprises Promotion Agency, (2011) as well as the latest research of market research company NOEMA (NOEMA, 2011; NOEMA, 2012) and the 2010/2011 annual report of the EU SMEs (Wymenga et al., 2011). Please see also the tables, graphs and figures in Appendices 1 and 2).

### SMEs Facts

- In 2009, there were 315,850 SMEs, which made up 99.8% of all Bulgarian enterprises (excluding the financial sector).
- After 2007, when Bulgaria joined the EC, the number of SMEs grew annually by 14.5% up to 2009.
- In 2009, 90.3% of all SMEs were micro firms.
- In 2009, in comparison with 2008, the share of micro enterprises increased (by 1.4%) at the expense of small and medium-sized enterprises (whose numbers decreased by 1.3%).

- In 2008, there were 49,287 new enterprises, which represent 18.2% of all active enterprises. In 2009, the indicator was expected to fall to 18%.
- From 2005 to 2009, the number of SMEs increased by 32%, with the number of large enterprises growing by 5%.
- SMEs provide 76% of Bulgarian jobs, with large enterprises accounting for 24%.
- In 2009, SMEs employed 1,553,164 people.
- For 2005–2009, employment in SMEs increased by 18%, with large enterprises experiencing a drop of 2%.
- During the crisis of 2009, only micro enterprises showed an increase in the number of employed people (11%).
- In 2009 each SME employed, on average, five people.
- During 2006–2009, the average number of people employed in new enterprises every year was 123,409.
- In 2009, labour productivity of SMEs decreased by 12%, compared to an increase of 4% in large enterprises.
- In 2009, turnover in the SME sector amounted to €63 billion.

### Development of SMEs

The number of SMEs has tended to increase, while the number of large enterprises has decreased, even at the height of the crisis (2008–2009).

The role of SMEs in relation to employment has increased. Indeed, the number of people employed in the SME sector has increased at a faster rate than the number of those employed in large enterprises, including the crisis period (2008–2009).

The structure of the non-financial enterprise population in Bulgaria closely resembled the structure of these firms in the EU27 in 2009, as well as the average individual size of enterprises by size class.

A typical Bulgarian firm mirrors the typical European firm in that it is a micro enterprise, with an average of two employees.

Micro enterprises dominate in all economic activities. In the wholesale and retail trade, they represent over half of all enterprises. During the crisis of 2009, only micro enterprises increased in number (reaching 90.3%), while the number of small (8.0%) and medium-sized (1.5%) enterprises slightly decreased. The share of the micro firms in employment also increased (up to 29%), while shares of small and medium-sized enterprises slightly decreased (24% and 23% respectively), which breaks the trend of past years.

In terms of competitiveness, SMEs fall behind large enterprises with about half the productivity, lower profit margins and lower wage levels. Micro enterprises have the lowest profit margins and the least amount of productivity. Profitability increases with the size of an enterprise.

Bulgarian SMEs have a two to seven times lower coefficient of labour productivity in comparison to the other new Member States of EU, and 15–30 times lower coefficient in comparison to EU15 countries. This means that people employed in the Bulgarian SMEs create less added value. Bulgarian SMEs are similar, in number and in the amount of people they employ, to those in Denmark and Austria, but the latter create 12–13 times higher value added.

Size and class distributions of firms significantly differ among sectors and change very slowly. A largely uneven territorial distribution of number and activities of SMEs is evident. The SME share of total (non-financial) turnover is increasing, reaching 69% of the total turnover in 2009, which is typical for all economic activities, except mining and quarrying.

SMEs contribute 62% in terms of value added. Most significant is the share of large enterprises (38%), followed by the medium-sized (24%), small (21%) and micro firms (17%).

### Current state of selected key factors

#### *Institutional environment*

In 2010, there was an improvement in state bureaucracy to help SMEs, especially in relation to the services and procedures of the Commercial Register and on the issues of licences and registration. Most problems are encountered with customs and the judicial system.

#### *Access to finance*

At the beginning of 2011, over 90% of all SMEs had difficulty accessing finance. The worst affected are the micro enterprises, as well as service firms. Finance generally seems to be provided by company owners themselves. Only 10% of all enterprises say they have up-to-date information about funds available to SMEs.

#### *Innovations*

In 80% of SMEs, innovation activity is weak. Manufacturing firms are the most innovative. Only 10% of all SMEs have enough resources to finance innovation. Innovation activity is higher among bigger firms, especially among SMEs with:

- newer equipment;
- better educated owners;
- better access to finance.

#### *Internationalisation*

In 2010, 95% of the enterprises had a low level of internationalisation, although this tends to increase in line with the increase in SMEs' innovation activities. In 2010, 12% of all SMEs imported goods and services, while 5% exported them. Those who do international business are mostly medium-sized enterprises, as well as manufacturing firms.

#### *Intellectual property*

Hardly any Bulgarian SMEs apply for patents, as this is generally a direct consequence of innovation, along with the application of best practices. Some 10% of enterprises have a domestically registered trade mark, and 6% abroad. Few SMEs have enough resources to register intellectual property, and few managers are aware of the opportunities to register a trade mark in the EU.

#### *Best practices concerning SME development*

Even in conditions of economic crisis, only 16% of SMEs make plans for the medium term and only 3% make long-term plans. Some 10% of firms apply a best practice approach, although with the increase of innovation activity, this is increasing. Best practices are mostly popular in the production area.

In summary, there are no separate discussions on SME restructuring, although the problems are elaborated during discussions on the competitiveness of the Bulgarian economy. The plight of Bulgaria and the problems faced by its SMEs provides the background for considering the need, reasons and development of SME restructuring.

# Relevance of different types of restructuring for SMEs

## Overview

In general, there is no data available about the number of SMEs involved in the different types of restructuring.

Public discussions on restructuring lead to the conclusion that relocation, outsourcing, offshoring/delocalisation and mergers/acquisitions are not, or rarely, used by Bulgarian SMEs, particularly by micro firms which, as we have seen, dominate the SME sector. Consequently, there is a lack of data and discussions in the literature of these types of restructuring.

Internal restructuring is one of the most commonly used categories for SME restructuring in Bulgaria, and bankruptcy (following the formal procedure) is of increasing importance, even if still rare.

## Bankruptcy / closure

Bankruptcy, as a type of restructuring, is rarely used by Bulgarian SMEs. In Bulgarian business culture bankruptcy is still not considered as a normal way to exit one business with the intention of beginning another. Bankruptcy (as regulated by commercial law) is still a complicated and prolonged process. According to Bulgarian legislation the rehabilitation of enterprises which are insolvent or experiencing over indebtedness is included in the bankruptcy procedure. Therefore the steps towards rehabilitation are subject to an open bankruptcy procedure, which is not suitable to firms which suffer temporary difficulties. Moreover, entering into bankruptcy considerably reduces the opportunities for the debtor to continue his or her business activity, because it negatively and irrevocably affects the trust in him.

Data collected by the World Bank shows that resolving insolvency in Bulgaria takes 3.3 years on average and costs 9% of the debtor's estate. The average recovery rate is 31.4 %. Globally, Bulgaria stands at 90 in the ranking of 183 economies on the ease of resolving insolvency (World Bank, 2012).

Between 2009–2011 the number of SMEs entering bankruptcy proceedings doubled (Klassa Daily, 2011). Other ways of closing a business – where there is insolvency and the closure is voluntary – is liquidation. This is a relatively expensive procedure in comparison with the opening of a business, insofar as it requires professional legal support (with the exception of sole traders, who have fewer formalities to complete).

## Internal restructuring

Internal restructuring is the main type of economic restructuring used by Bulgarian SMEs. In the last few years most have also been using internal restructuring as a way of overcoming the crisis. This observation is based on information received from meetings with business leaders, governmental officials, research organisations and SME employers (held for the purposes of getting data for this report) as well as literature on SME development.

It has to be noted that most of the Bulgarian SME sector was created in the early 1990s. At this time tremendous changes occurred in the economy with the transfer from a situation where enterprises were wholly owned by the state to one where most became privately owned. The authors of this report, in talking to the entrepreneurs, found that their prevailing feeling was that they had already experienced 20 years of crisis. Of course, this is a different crisis, but the experience of the 90s has influenced the behaviour and working practices of new entrepreneurs.

Based on empirical data, as well as on the literature reviewed, the forms of internal restructuring preferred by Bulgarian SMEs are summarised below:

### **Economic restructuring**

These include:

- increasing productivity and efficiency (introduction of new machines and retraining of employees);
- improving the quality of production;
- developing cooperation with research and development institutions as a precondition for restructuring.

### **Financial restructuring / reengineering**

These include:

- increasing the profit;
- reducing costs;
- delaying payments;
- decrease of internal investments;
- negotiating with creditors the restructuring of the financial obligations of the company which will give the company breathing space (even switching to another bank);
- finding new alternative sources of financing by financial institutions in the country or through EU funds;
- establishing of a mechanism for quick access to national and EU funds;
- calculating the real cost of products by including all necessary expenses.

During the last few years, in the severe economic conditions caused by the financial crisis, Bulgarian SMEs increased their understanding of the vital role of financial restructuring in survival and development.

### **Organisational and managerial restructuring**

These include:

- changing the company development strategy;
- looking for new opportunities that occur because of the changed economic environment;
- creating a rigorous and transparent governance structure that separates the operational management from business ownership;
- innovations in all areas, such as new products, ways of management, structure of the company; and organising exports.



## Employment restructuring

This section is based on information from the Economic Policy Institute and Hanns Seidel Stiftung, 2011b; Vladimorova, 2007)

Employment restructuring is one of the most efficient ways for improving the SMEs' work as well as a common response of Bulgarian companies to crisis.

In 2011, Bulgarian labour legislation was amended to try to achieve better flexibility in response to the economic crisis. Work from home was regulated, especially from the point of view of the employer's and employee's obligations. Another important amendment was the enabling of temporary employment agencies, which provided more opportunities to employers in terms of introducing different forms of flexible work.

However, national labour law still does not adequately deal with the changing economic reality and the needs of entrepreneurs. For example, introduction of part time work is rather restricted, while employment under fixed term contracts is an exception, rather than an option<sup>1</sup>.

More specifically, SMEs use the following forms of employment restructuring:

- redeployment and reclassification of the staff;
- reorganisation of the working time;
- training;
- transfers;
- renegotiation on wages and benefits.

Restructuring of human resources is one of the most important responses to crisis from Bulgarian companies. The economic crisis is also a chance for a lot of companies to optimise their work efficiency.

## Business expansion

This is the next type of restructuring preferred by Bulgarian SMEs after internal restructuring. The business expansion type of restructuring in Bulgaria develops mainly in two directions. One is the development and introduction of new products and the other is increasing exports. For example, 13% of all SMEs claim to have developed and launched a new product on the market in 2010. One out of ten micro enterprises managed to expand its market in the country during 2010 (Bulgarian Small and Medium Enterprises Promotion Agency, 2011).

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<sup>1</sup> In practice, an employer is not entitled to conclude a fixed-term employment contract more than twice with the same person.

# Drivers of restructuring

There are several factors driving restructuring, including changes in technology, globalisation, demographic change and new regulations (Kirov, 2010).

The main driver in restructuring SMEs has been the economic and financial crisis since 2008. Other causes are the need to increase competitiveness of Bulgarian firms, especially after entering the EU in 2007, and the desire to improve SMEs' business performance.

Some 56% of all SMEs deal proactively with the crisis, while 44% do not take any action, adopting a rather passive, waiting attitude. Three quarters of the active firms have undertaken a strategy for cutting costs (Bulgarian Small and Medium Enterprises Promotion Agency, 2011).

Three strategies prevail among SME managers.

- Around 44% of SME managers say that they do not intend to make any serious changes, despite feeling affected by the crisis, because they feel the crisis will quickly pass.
- Others focus on cutting costs, generally by reducing employees' bonuses, social benefits and social security contributions.
- Some, perceiving the crisis as an opportunity, launch new products and services, lower their prices and increase staff numbers to try to increase market share.

A study by the Bulgarian Industrial Association study stated:

*In a crisis serious business directs its attention to creating new products and services (35%) and searching for new markets (34%). Relatively fewer are the managers who rely on investments and efforts to increase the volume of production (25%), on the introduction of new production facilities (20%), the protection of trademarks and patents (20%) and staff training (18%).*

(Bulgarian Industrial Association, 2011)

The delay in payments for executed works puts construction firms in the position of coinvestors which requires a new type of behaviour and attitude. The only solution for local companies is to participate in the procurement procedures in the framework of the Operational Programmes, as EU funds are an important source of financing. Public authorities, who are beneficiaries under the operational programmes, are obliged to obey the rules of public procurement law when assigning public contracts, financed by EU funds. The Bulgarian Chamber of Builders has delivered proposals to the government for amendments to the public procurement law (Bulgarian Industrial Association, 2010a).

The Economy Magazine expressed an opinion in April 2012 that it was not the crisis worrying firms, so much as Bulgaria's grey economy which many SMEs said was causing unfair competition and cutting their profits (Economy Magazine, 2012b). This situation pushes SMEs to cut prices or search for strategic partners.

# Distinctive characteristics of restructuring in SMEs

In general, Bulgarian firms have clear ideas and plans on how to restructure. Most of them are very flexible when implementing these plans, and as a rule, the decision to restructure is taken by the owners and/or managers and/or managing boards of SMEs.

On the whole, owners, management, employees are all actors involved in the restructuring. Typically the employees are involved individually or as a group of workers from different departments, because in most Bulgarian SMEs there are no works councils or trade union branches. Both employers and employees very well understand the need for involvement of all actors as a prerequisite for efficient restructuring.

Below is a summary of specific features of the restructuring in Bulgarian SMEs.

- The crisis allows not only an increase of employee performance, but promotes an overall improvement of company activities by optimisation of internal business procedures.
- In 2009, only 8% of Bulgarian SMEs said they were not affected by the crisis. In 2010, this has increased to 17%. Various studies, conducted in 2009 and 2010, show that between 3% and 5% of all SMEs claim to have been positively affected by the crisis (Bulgarian Industrial Association, 2010b).
- Bulgarians are unenthusiastic about moving home because of work, which creates obstacles for the process of restructuring of the firms.
- Innovation is hampered by many things in Bulgaria including a lack of appropriate funding sources, the high share of population with low incomes and modest demand, and the lack of a national innovation system, which would enable at least some firms to transfer and apply innovations.
- 95% of SMEs have a low degree of internationalisation of their business (Bulgarian Small and Medium Enterprises Promotion Agency, 2011).

# Main challenges and constraints facing SMEs in restructuring

The main challenges and constraints in restructuring of Bulgarian SMEs today are:

- access to finance;
- the worsening of economic performance of both companies and the country;
- increasing unemployment, which has led to a decrease in household income (Bulgarian Industrial Association, 2011; Profit.bg, 2011);
- attracting customers (due to decreased purchasing power);
- suppliers (delayed payments, inter-companies indebtedness).

Discussing SME restructuring during the economic crisis does not differ from the same discussion during the normal period of economic development in Bulgaria because, as mentioned above, the Bulgarian economy has been continually in crisis during the last 22 years.

In its 2011 report, the Bulgarian Small and Medium Enterprises Promotion Agency said the main problems faced by SMEs in restructuring, were:

- inability to reduce costs;
- lack of markets for selling products and services;
- inter-company indebtedness (which has a negative effect on suppliers relations);
- the informal economy;
- freezing of the investment plans of the company.

All of these prevent SMEs from developing normal activities and have led to a tremendous decrease in investments.

Cooperation with scientific institutes, universities and academia is also limited – only 4% of SMEs have used scientific research in their activities, and approximately 10% have collaborated with universities. This prevents SMEs from restructuring to take advantage of the latest technologies.

According to a survey conducted by Bulgarian Chamber of Commerce and Industry, (Bulgarian Chamber of Commerce and Industry, 2011) at the end of 2011 more than 3,500 of its members and 104 branch organisations felt the three problems with the strongest negative effect on their activity were:

- corruption (71% of businesses said this);
- difficulties in accessing funds (65% of businesses);
- delay in payments for state contracts (61%).

To a great extent these three problems also negatively influence SME restructuring.

According to interviews with 20 SME managers, employers, public servants and experts for this report and the three case studies, the main difficulties and problems experienced during planning and implementation of restructuring included lack of fresh money; delays of payments from customers; and lack of support from private and public bodies. Unfortunately, there is no intensive public discussion on these important issues.

For example, forecasts for restructuring of the construction sector are negative in view of insufficient finances, indebtedness between companies and unsettled public procurement liabilities of the state –amounting to around € 450 million according to the National Chamber of Builders (Bulgarian Industrial Association, 2010a).

# Business support from public and private sources

In general, most Bulgarian business people complain about the lack of support from state and local authorities, from business chambers, branch organisations, business support centres and from banks for their efforts to restructure their companies. SMEs also usually need some form of financial support in order to implement their restructuring plans, but there are not enough active measures in all these different areas.

In response to the latest crisis in Bulgaria, the Parliament and the Government adapted and implemented a number of different policies, programmes and mechanisms at national level. Unfortunately they have not solved the problems faced by entrepreneurs in recent years.

Bulgarian SMEs showed interest in participating in the Human Resources Development Operational Programme 2007–2013 (Ministry of Labour and Social Policy, 2007) co-funded by the European Social Fund. The aim of this is to:

*improve the quality of life of people in Bulgaria through enhancement of the human capital, achievement of high employment levels, improvement of the productivity, access to high-quality education and lifelong learning and strengthening the social inclusion.*

They were particularly interested getting those grants which were not tied to preserving employment for a certain period after the utilisation of the grants. Through this programme firms succeeded in getting support for activities targeted to increasing the adaptability and qualification of their work force.

However, one can best understand the problems facing businesses by listening to the words of economic experts and business leaders:

*Unfortunately the political elite does not take the necessary measures to improve the business environment in our country in these difficult economic times. It increasingly entrusts the business with additional regulatory regimes and regulatory requirements. This ultimately leads to a sharp reduction in investment and job losses. We expect 2012 to be quite tense.*

Bozhidar Danev, interviewed in *Klassa.bg*, July, 2012).

*Another problem about innovations in our country is the constant change of regulations. A major barrier for the company is to adapt to constant changes in the legislative framework and the very short or almost lacking adjustment period. It takes a great resource, both financial and human.*

(Nadezhda Pancheva, Manager of Primavet – Sofia, Ltd. interviewed in *Capital Daily*, 2011)

*The government efforts have to be targeted to more flexibility and less administrative barriers in front of the new entrepreneurs. Instead of trying only to preserve the existing jobs, the administration should support the creation of new jobs.*

(Petar Ganev, Institute for Market Economy, 2012).

The government proposed changes in the SME law aimed at providing a ‘second chance’ to SMEs and at overcoming the heavy bankruptcy procedures when concluding a contract with their creditors. The spirit of the bill is influenced by the EU Small Business Act. The amendments aim to strengthen small businesses through their acquisition or merger. Although the public debate on the bill was closed in the summer of 2011, the government has not submitted the bill to the parliament yet (Ministry of Economy, Energy and Tourism, 2011).

In general the legal framework for the management of restructuring is very unstable with a number of changes every year, which entrepreneurs consider a major problem.

Currently large public enterprises, as well as the state administration and public institutions are also facing restructuring, which could influence the restructuring of SMEs in either a positive (introduction of an e-government) or negative direction (worsening of the quality of the public administration, education, health services).

# Outcomes of restructuring

Those Bulgarian SMEs which have successfully restructured have experienced results in several areas:

- Business – an increase in profits turnover, new clients, increasing exports (for exporting firms), plus better quality products and services, and better business performance;
- Organisational – better management structure, working conditions, and quality of production and services;
- Employment – keeping the qualified working force, lower labour turnover, preserving (and in some case increasing) pay and benefits of employees, mobilising employees to participate in restructuring plans.

Mariana Velkova, Executive Director of Bulgarian Small and Medium Enterprises Promotion Agency, (2011) stressed:

*Companies that have implemented best practices and have taken action to improve the efficiency of their staff are more flexible in a crisis and manage to achieve a smaller percentage of reduction in profits.*

(Capital Daily, 2011).



# Conclusions and policy issues

Bulgarian SMEs have contributed to an increase in employment, even during the economic crisis. This has underlined once again the necessity for policies stimulating SMEs' development as they alone in the period of crisis preserve, and even increase employment.

Conclusions and practical recommendations by experts and entrepreneurs:

*Crisis in Bulgaria is time for investments for both the Government and the private business.*

(Velchev, Milen, 2012).

*Investments will be directed to those sectors, which will recover from depression most quickly and will have an upward trend of development.*

*It is very important to invest timely in new products.*

(Danev Bozhidar, 2011).

*The banks have to increase access to credits for firms during crisis.*

(Petya Stoyanova, Economy Magazine 2012d; Mihailova, Gergana, 2009; Mediapool.bg, 2012).

*Restructuring of the financial funds has to be constantly under consideration during the restructuring process.*

*All players – owners, management, employees, have to recognise that all of them have to bear the negative consequences of the crisis and its influence on the company.*

(Economic and Social Council, 2009)

*New products and services are launched mainly by start-ups.*

(Capital Daily, 2011)

*A relatively small share of Bulgarian SMEs is involved in innovation. The share of the latter is less than half of the EU average (17% vs. EU average 39%).*

(Bulgarian Small and Medium Enterprises Promotion Agency, 2011).

*If the business is well planned, the crisis is not a problem.*

(Capital Daily, 2011).

*A pro-active and strategic approach increases the probability for business success.*

*Good businessmen can always find opportunities even in the darkest times – they have creative approaches and innovative thinking.*

(Stoyanova, Petya, 2012).

*The crisis situation has to be seen as a chance to improve all aspects of business performance of the company.*

(ZaPernik.com, 2012)

### Policy issues

The conclusions and recommendations of this study show that in order to improve the business environment and performance and to encourage investment activities aimed at restructuring of the SMEs in Bulgaria the following measures are necessary:

#### General measures

- Creation of new incentives (such as better access to financing, improved efficiency of public administration, increased flexibility of employment regulations) for business restructuring;
- Improving the efficiency of administration in support of the firms;
- Strengthening the control of inspection institutions and fight corruption and 'grey' economy; (Council of Ministers, 2009-2013)
- Better access to EU projects and increasing the use of different funds and credit lines (Economic Policy Institute and Hanns Seidel Stiftung, 2011c).

#### Targeted policy measures for better business restructuring for SMEs

- Suggestions have been made by various actors on how to improve policies targeted at SMEs. Support to creative approaches and innovative thinking of entrepreneurs (Kroumov, Kalin, 2011)
- Design of new instruments for support of: domestic and foreign investors, innovators, finders of new business niches, start-ups, best practices (Capital Daily, 2011);
- Promotion and support of the development of the social partnership at national, regional, local, branch and company level (Kirov, 2010);
- Organisation of training of all stakeholders to improve their capacity for restructuring (Economic and Social Council, 2009);
- Improving the measures for training of employed (for staying competitive) and unemployed - for enhancing their skills (Economic and Social Council, 2009);
- Drafting of new measures of research, including forecasting and management of business restructuring (Kirov, 2010);
- Developing programmes for training and study of quality business plans skills and practice;
- Introduction of a proactive approach in training, consultancy and management, connected with the business performance and restructuring;
- Development of new financial instruments for support of the business restructuring;
- Expansion to new markets abroad – mainly Russia, non-EU members in the Balkans, middle eastern countries;
- Increasing the capacity of public administration at national, regional and local level to support and help Bulgarian business, especially during a crisis (Institute for Market Economy, 2011).

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**Elena Krastanova** and **Vladimir Pavlov**, Foundation for Entrepreneurship Development

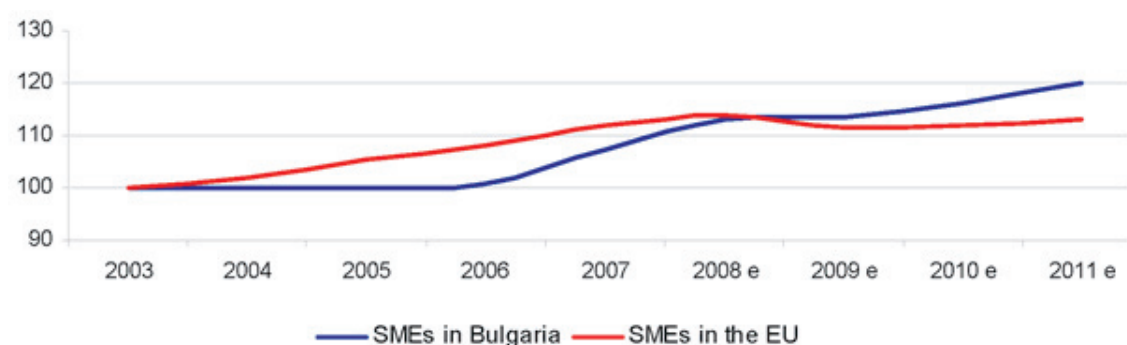
## Appendix 1- Bulgaria (European Commission, 2010-2011)

Table 1: *SMEs in Bulgaria*

	Number of enterprises			Employment			Value added		
	Bulgaria		EU27	Bulgaria		EU27	Bulgaria		EU27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
<b>Micro</b>	250,818	89.9%	92.1%	536,863	27.5%	29.8%	4	16.4%	21.6%
<b>Small</b>	22,960	8.2%	6.6%	459,983	23.5%	20.4%	5	21.1%	18.9%
<b>Medium</b>	4,491	1.6%	1.1%	438,412	22.4%	16.8%	5	21.7%	17.9%
<b>SMEs</b>	278,269	99.7%	99.8%	1,435,259	73.5%	66.9%	14	59.2%	58.4%
<b>Large</b>	715	0.3%	0.2%	518,421	26.5%	33.1%	9	40.8%	41.6%
<b>Total</b>	<b>278,984</b>	<b>100%</b>	<b>100%</b>	<b>1,953,679</b>	<b>100%</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>100%</b>

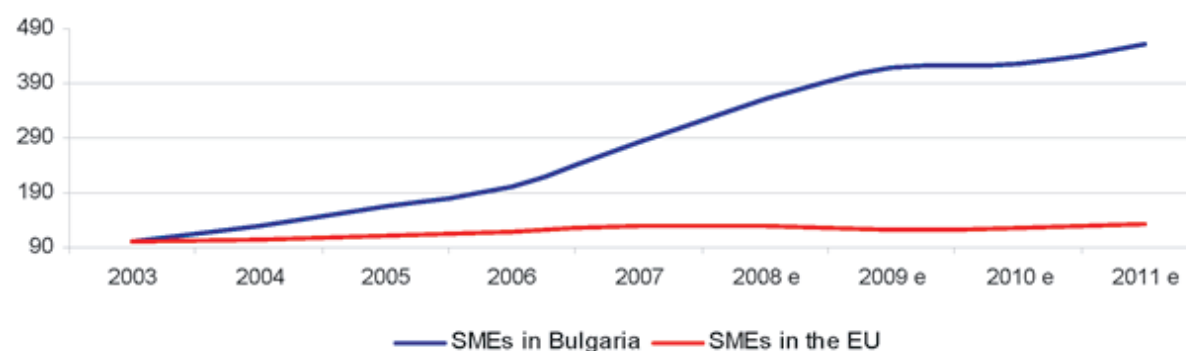
Estimates for 2010, based on 2002-2007 figures from the Structural Business Statistics Database revised (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonised and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.

Figure 1: *Number of enterprises*



Note: Index: 2003=100, estimations as from 2008 onwards.

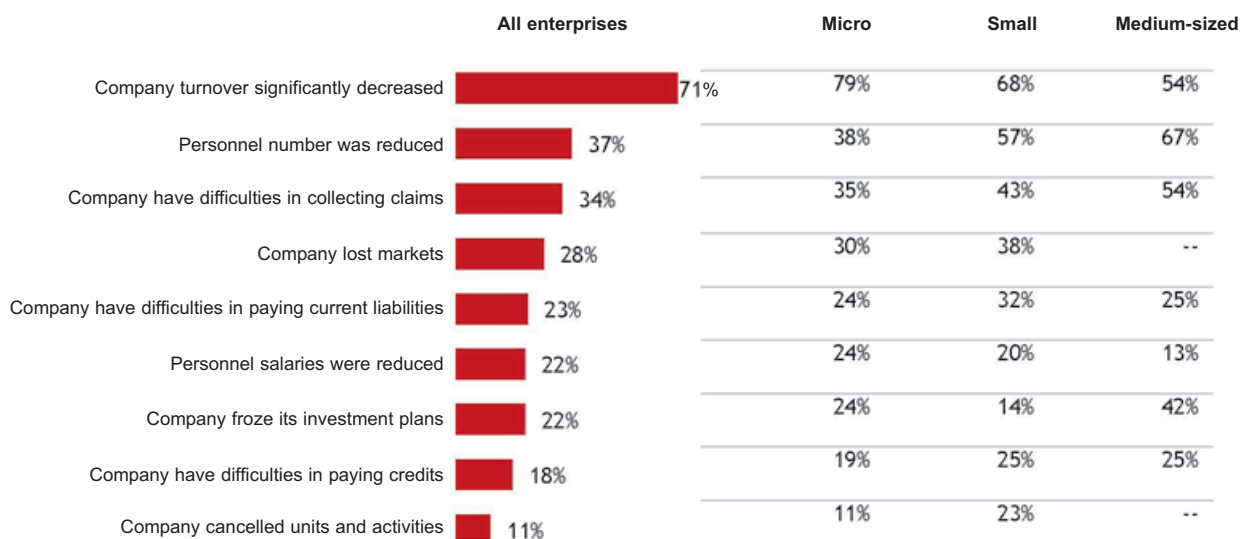
Figure 2: *Value added of enterprises*



Note: Index: 2003=100, estimations as from 2008 onwards.

## Appendix 2 - Bulgaria (Bulgarian Small and Medium Enterprises Promotion Agency)

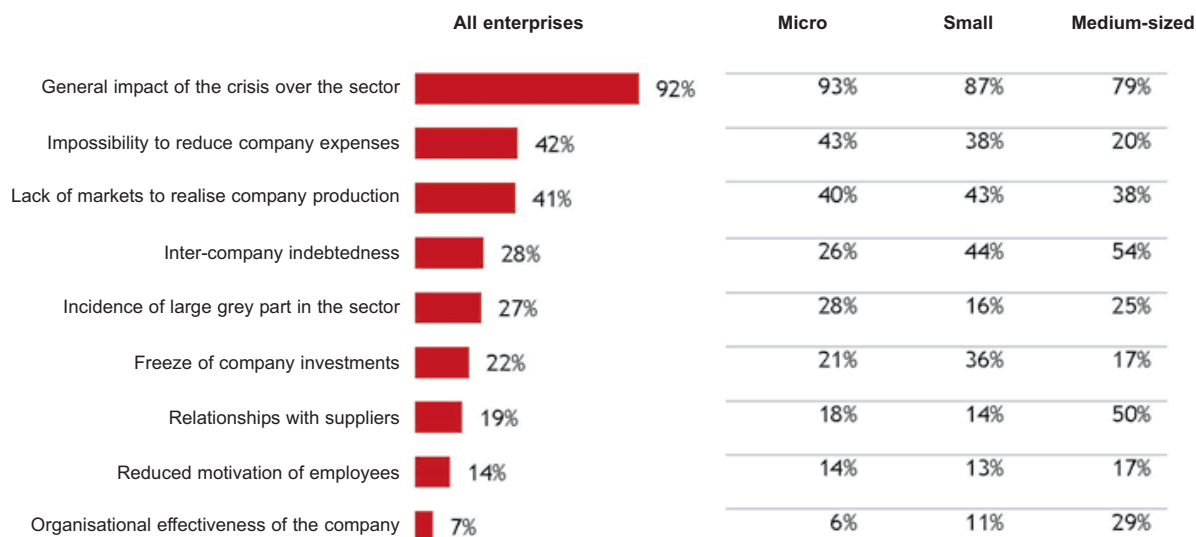
Figure 3: *Effects of the crisis*



**In which of the following spheres did the economic crisis mostly affect the company?**

Base: All respondents. 'Yes' answers. (Survey among SMEs, 2011)

Figure 4: *Problems arising from the economic crisis*



**In the context of general market situation and economic crisis, which are the most serious problems facing your company?**

Base: All respondents. 'Yes' answers. (Survey among SMEs, 2011)



Table 2: *Effects of the crisis by spheres of activity*

	Production	Trade	Services	Construction
Personnel number was reduced	46%	34%	30%	96%
Personnel salaries were reduced	21%	22%	22%	28%
Company has difficulties in paying debts	22%	22%	13%	23%
Company has difficulties in collecting claims	44%	34%	29%	53%
Company has difficulties in paying current liabilities	21%	20%	23%	58%
Company froze its investment plans	26%	25%	18%	28%
Company lost markets	32%	24%	28%	60%
Company cancelled units and activities	8%	16%	6%	20%
Company turnover significantly decreased	78%	75%	69%	88%

Note: In which of the following spheres did the economic crisis mostly affect the company?  
 BASE: All respondents. 'Yes' answers. (Survey among SMEs, 2011)

Table 3: *Problems arising from the general market situation and economic crisis – by sphere of activity*

	Production	Trade	Services	Construction
General impact of the crisis over the sector	95%	89%	94%	96%
Impossibility to reduce company expenses	44%	39%	41%	55%
Lack of markets to realise company production	38%	39%	36%	77%
Inter-company indebtedness	41%	26%	22%	42%
Incidence of large grey part in the sector	49%	20%	23%	52%
Company investments frozen	24%	24%	17%	44%
Worsening relationship with suppliers	24%	21%	13%	27%
Reduced motivation of employees	21%	11%	11%	30%
Organisational effectiveness of the company	5%	10%	3%	15%