



Sveriges lantbruksuniversitet  
Swedish University of Agricultural Sciences

Department of Economics

# **Growth Challenges of Food Processing Small-Sized Enterprises – Two Cases from Bulgaria**

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– Two Cases from Bulgaria**

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# Abstract

Small-sized food processing enterprises are a vital part of the manufacturing sector of Bulgaria. From their startup, all through the transition period and financial crises, until today, these enterprises have originated, grown, and struggled through many challenges.

The purpose of the study is to identify, describe, and analyze the growth challenges and their impact on small-sized enterprises in food processing that have opened and are operating in Bulgaria. Two cases of small, family-run, microenterprises, from the food processing subsector enterprises, located in the Severoiztochen (North-Eastern) region of Bulgaria were selected for a comparative case study.

The biggest challenge for the growth of a small enterprise is the integration of many responsibilities. In small food processing companies, they do not have a different workforce for marketing, operations management, human resources, financial management, and networking. It is done by the same people who started it. The need for finding a proper balance and playing many roles at once makes it very difficult. This requires constant learning, insight, and flexibility. The difficulties cannot be categorized as ‘more or less critical’. Rather they can be grouped into two subcategories: ‘potentially manageable’ and ‘potentially unmanageable’. Growth challenges are correlated and will be considered in their complexities. Case companies are impacted by challenges, both positive and negative. The positive takeaway is that they have been valuable vehicles of managerial learning along the pathway to growth; and the negative is that they have contributed seriously to stalling the rate of growth. Small-sized food processing enterprises, to a large extent, replicate the patterns in other sectors. However, some growth challenges they face are unique; such as those related to food safety. Failure to provide safe food products could translate into discontinuation of the business.

# Abbreviations

BGN	Bulgarian lev
CEE	Central and Eastern Europe
CMEA	Council for Mutual Economic Assistance
EBRD	European Bank for Reconstruction and Development
EU	European Union
IMF	International Monetary Fund
ISO	International Organization for Standardization
GVA	Gross value added
GDP	Gross domestic product
HACCP	Hazard Analysis Critical Control Points
SME	Small- and medium-sized enterprises

# Table of Contents

<b>LIST OF FIGURES .....</b>	<b>IX</b>
<b>LIST OF TABLES .....</b>	<b>IX</b>
<b>1 INTRODUCTION.....</b>	<b>1</b>
1.1 PROBLEM BACKGROUND .....	1
1.2 PROBLEM .....	2
1.3 AIM AND DELIMITATIONS .....	3
1.4 OUTLINE .....	3
<b>2 THEORETICAL PERSPECTIVES AND LITERATURE REVIEW.....</b>	<b>5</b>
2.1 OVERVIEW OF THE FACTORS PROMOTING OR INHIBITING THE GROWTH OF SMALL ENTERPRISES.....	5
2.2 GROWTH CHALLENGES IN MARKETING FOR SMALL-SIZED FOOD PROCESSING ENTERPRISES .....	7
2.3 GROWTH CHALLENGES IN OPERATIONS MANAGEMENT OF SMALL FOOD PROCESSING ENTERPRISES.....	8
2.4 GROWTH CHALLENGES IN HUMAN RESOURCES FOR SMALL FOOD PROCESSING ENTERPRISES .....	10
2.5 GROWTH CHALLENGES IN FINANCES FOR SMALL FOOD PROCESSING ENTERPRISES.....	12
2.6. GROWTH CHALLENGES IN NETWORKING FOR SMALL-SIZED FOOD ENTERPRISES .....	13
2.7. SUMMARY OF THE THEORETICAL FRAMEWORK .....	13
<b>3 METHOD .....</b>	<b>17</b>
3.1. THE CHOICE OF THE CASE STUDY AS A RESEARCH METHOD.....	17
3.1.1 <i>Purpose of the study</i> .....	17
3.1.2 <i>The issues in methods used in previous research</i> .....	17
3.1.2 <i>The advantages of the case study as a method for current thesis</i> .....	17
3.1.3. <i>Selection of the method for the thesis</i> .....	18
3.2. ORGANIZATION OF THE STUDY .....	18
3.2.1 <i>Principles</i> .....	18
3.2.2 <i>Selection of the units of analysis</i> .....	19
3.2.3 <i>Literature review</i> .....	19
3.2.4 <i>Data collection</i> .....	19
3.2.5 <i>Data analysis</i> .....	20
3.3 TRUSTWORTHINESS, RELIABILITY, VALIDITY .....	20
<b>4 BACKGROUND FOR THE EMPIRICAL STUDY .....</b>	<b>22</b>
4.1 THE SOCIOECONOMIC ENVIRONMENT — AN OVERVIEW .....	22
4.1.1. <i>Short notes on the transition</i> .....	22
4.1.2 <i>Period of European Union accession</i> .....	22
4.2. BULGARIAN FOOD INDUSTRY OVERVIEW .....	23
<b>5. EMPIRICAL DATA.....</b>	<b>24</b>
5.1. SHORT INTRODUCTION OF THE ENTERPRISES .....	24
5.1.1 <i>Buldex Ltd.</i> .....	24
5.1.2 <i>MeatME* Ltd</i> .....	25
5.2 GROWTH CHALLENGES IN MARKETING OF CASE COMPANIES.....	25
5.2.1 <i>Lack of business experience</i> .....	25
5.2.2 <i>Changing market conditions</i> .....	26
5.2.3 <i>Challenges in market research</i> .....	26
5.2.4 <i>Entering new market niches</i> .....	26
5.2.5 <i>Establishing companies' position in the market</i> .....	26
5.2.6 <i>Increase of market share</i> .....	27
5.2.7 <i>Cheaper products challenge</i> .....	28
5.2.8 <i>Fluctuations of the market demand</i> .....	28
5.2.9 <i>Fraudulent business practices</i> .....	29
5.2.10 <i>Challenges of market pressure</i> .....	29
5.3 GROWTH CHALLENGES IN OPERATIONS MANAGEMENT OF CASE COMPANIES .....	29
5.3.1 <i>Setting the proper goals and priorities</i> .....	29

5.3.2 Technology management.....	30
5.3.3 Quality management .....	30
5.3.4 Product development challenges.....	31
5.3.5 Challenges of overall process organization.....	31
5.3.6 Food safety requirements as a challenge.....	32
5.3.7 Challenges of the business and political environment .....	32
5.3.8 Challenges of the regulatory framework.....	33
5.4 GROWTH CHALLENGES IN HUMAN RESOURCES MANAGEMENT OF CASE COMPANIES.....	33
5.4.1 Challenges to attract and keep personnel .....	33
5.4.2 Challenges for workforce development.....	34
5.5 GROWTH CHALLENGES IN FINANCES OF CASE COMPANIES .....	35
5.5.1 Challenges of insufficient finances.....	35
5.5.2 Challenges of unfair banking practices.....	36
5.6 GROWTH CHALLENGES IN NETWORKING OF CASE COMPANIES .....	36
5.7 SUMMARY OF THE EMPIRICAL DATA. ....	37
6.1 ANALYSIS OF GROWTH CHALLENGES IN MARKETING OF CASE COMPANIES .....	40
6.1.1 Lack of business experience .....	40
6.1.2. Changing market conditions .....	41
6.1.3 Challenges of market research.....	41
6.1.4 Entering New Market Niches .....	42
6.1.5 Position of establishing companies in the market .....	42
6.1.6 Increase of market share.....	42
6.1.7 Cheaper Product Challenge.....	43
6.1.8 Fluctuations of the market demand.....	43
6.1.9 Fraudulent Business Practices.....	43
6.1.10 Challenges of market pressure.....	44
6.2 ANALYSIS OF GROWTH CHALLENGES IN OPERATIONS MANAGEMENT IN CASE COMPANIES.....	44
6.2.1 Setting the proper goals and priorities.....	44
6.2.2 Technology management.....	45
6.2.3 Quality management .....	45
6.2.4 Product development.....	45
6.2.5 Overall process organization .....	45
6.2.6 The food safety requirements .....	46
6.2.7 The business and political environment .....	46
6.2.8 The regulatory framework.....	46
6.3 ANALYSIS OF GROWTH CHALLENGES IN HUMAN RESOURCES IN CASE COMPANIES .....	47
6.3.1 Attracting and keeping personnel .....	47
6.3.2 Workforce development.....	47
6.4 ANALYSIS OF GROWTH CHALLENGES IN FINANCES IN CASE COMPANIES.....	48
6.4.1 Financial deficiencies .....	48
6.4.2 Unfair banking practices.....	48
6.5 GROWTH CHALLENGES IN NETWORKING .....	49
<b>7 CONCLUSIONS .....</b>	<b>50</b>
<b>BIBLIOGRAPHY .....</b>	<b>51</b>
<i>Literature and publications.....</i>	<i>51</i>
<i>Internet.....</i>	<i>58</i>
<i>Personal messages.....</i>	<i>59</i>
<b>APPENDIX 1: QUESTIONS FROM THE INTERVIEWS.....</b>	<b>60</b>
<i>1.1. Questions asked on 04.4.2014 during the interview with Dimo Denchev, the manager and owner of Buldex Ltd, village Belitsa, Region Silistra, Bulgaria .....</i>	<i>60</i>
<i>1.2. Questions asked on 23.4.2014 during the interview with Dimo Denchev, owner and manager of Buldex Ltd., Region Silistra, Bulgaria .....</i>	<i>60</i>
<i>1.2.1 Questions related to the marketing (referred as MQ) .....</i>	<i>60</i>
<i>1.2.2 Questions related to the operations management (marked with OQ) .....</i>	<i>61</i>
<i>1.2.3 Questions regarding the human resources (marked with HRQ) .....</i>	<i>61</i>
<i>1.2.4 Questions regarding the finances (marked with FQ) .....</i>	<i>61</i>
<i>1.2.5 Questions regarding the networking with other companies and/or institutions (marked with NQ).....</i>	<i>61</i>

<b>1.3. Questions asked on 04.4.2014 during the interview with Maria Milkova, a technology manager at MeatME Ltd, Region Silistra, Bulgaria .....</b>	<b>62</b>
<b>1.4. Questions asked on 18.4.2014 during the interview with Maria Milkova, a technology manager at MeatME Ltd, Region Silistra .....</b>	<b>62</b>
1.4.1 Questions related to the marketing (referred as MQ) .....	62
1.4.2 Questions related to the operations management (marked with OQ) .....	63
1.4.3 Questions regarding the human resources (marked with HRQ) .....	63
1.4.4 Questions regarding the finances (marked with FQ) .....	63
1.4.5 Questions regarding the networking with other companies and/or institutions (marked with NQ) .....	63
<b>1. 5. Questions used for the third series of interviews with the managers of the both companies on 21.5.2014 and 22.5.2014.....</b>	<b>63</b>



## **List of figures**

<i>Figure 1. Outline of the thesis</i> .....	4
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## **List of tables**

<i>Table 1. Summary of the main identified growth challenges in the theoretical framework</i> .....	14
<i>Table 2. Summary of the main identified growth challenges, responses and consequences for the studied firms</i> .....	37



# 1 Introduction

*This chapter introduces the reader to the background problem and problem of the thesis. It continues with the aim and delimitations and finally gives an outline of the whole study.*

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## 1.1 Problem background

Bulgaria has undergone a tough transition period, which has enabled the development of entrepreneurship on an individual level (Smallbone and Welter, 2009). The growth of private firms was necessary for reshaping the economic environment. Supported by market liberalization, the private firms filled the imbalances of market demand and supply, and increased the variety of products by overcoming the limitations of the scope of market production and trade, in planned economies. The private ventures were also absorbing the workforce from previously state-owned enterprises. The vigorous expansion of the new private sector was one of the key drivers of the economic transition in Bulgaria (International Monetary Fund, 2012).

The rise and growth of the individual small- and medium-sized enterprises (SME) is of extraordinary significance for the overall economic development. The startup and expansion of new enterprises are faced with many challenges, which hinder their growth. To expand, the company should first survive, which is a challenge in itself (Lyles *et al.*, 2004). The main problems that the SMEs will encounter are: Difficulties in acquiring consumers, financing troubles, legal requirements, availability of appropriate human resources, competition, and high expenses for production and workforce. Every second business in the European Union (EU) is unable to reach beyond its fifth year of operation (European Commission, 2013).

On their journey toward achieving sustainable growth, Bulgarian micro and small enterprises have faced many challenges, which have given them the status they enjoy today and are enabling them to operate within the framework of the European Union's single market. Bulgarian SMEs exhibit most of the usual EU features. SMEs comprise of 76% of the employed and 61% of the value added to the Bulgarian economy. The economic crisis has put pressure on the SMEs and from 2008 to 2013, employment in the SMEs fell by 8%, while the value added sank by 4%. Micro- and small-sized enterprises share the account for 91.1% and 7.3%, respectively, of the total number of enterprises in Bulgaria. The contribution of the food sector to the country's external trade is quite significant, 8.5% of the total exports and 9.1% of the total imports of the national economy (European Commission 2014a, Invest Bulgaria Agency 2013; European Commission 2013d). The main growth challenges for the Bulgarian SMEs are: 'General economic outlook,' 'Limited demand in the local/domestic markets,' 'New entrants in the market,' 'Price competition,' 'Regulatory framework,' and 'Not enough financing' (NSI, 2011).

The food and drink industry is the largest in terms of value added, turnover, and employed people in the EU. The Food and Beverage sector of the EU is dominated by SMEs, with a share of 99% of the total number of companies (FoodDrinkEurope, 2012, 2013). Food production does affect the overall economy and society.

The food processing sector has been long established in the Bulgarian economy. The food and drink subsector is the largest and most dynamic in the Bulgarian manufacturing sector and it is fundamental to the economy. A notable amount of export, on account of numerous products in a tough external and internal market competition is typical of the food and drink industry.

Its share of the gross value added is consistent in recent years to an amount of over 20% of the total industrial output. The gross value added (GVA) from the food and drink subsector has been constantly increasing annually by 40%, since 2005. The food and drink subsector includes over 5300 companies, and is comprised of various types of firms from SMEs to large companies (Blagoev *et al.*, 2011; The Trade Council, 2014; Kopeva *et al.*, 2015).

## 1.2 Problem

Hindrances to growth have been utilized as attributes of growing enterprises. Many analysts, of small firms particularly, have explained the research on challenges. It is applied for additional understanding and subsequent forecasting of the growth. Limiting factors of growth are also used for evaluation of the environment (Doern, 2009). It is noteworthy to find that unfavorable conditions are not axiomatically hindering the firm growth. Even the micro enterprises are able to spot routes to lessen the negative impacts related to a shrinking economy, in spite of them growing. This cannot be done by a single approach alone, but rather by an amalgamation of different approaches that allow the best use of the companies' competitive advantages, which might contribute to growth in turbulent times (Bamiatzi and Kirchmaier, 2014).

The small and micro enterprises in Bulgaria have seen many changes in the economic environment. Gradually in the beginning of the twenty-first century, food and drink enterprises have developed into modern enterprises, initiating a market modus operandi that works toward growing return on investment, challenged by market competition among companies, consistent and responsible commercial tie-ups, and re-discovering earlier markets (Blagoev *et al.*, 2011). Although it has still not completed its transition process from a planned to a market economy, Bulgaria has initiated amendments in the framework that allow the current integration of the Bulgarian economy into the Single European Market. This has increased pressure on smaller companies to align with the EU requirements (Smallbone and Rogut, 2005). Therefore, the challenges that the food manufacturing small firms face are to sustain their growth and bolster their market share, steered by their ambitious strategies that need to be executed. Joining the EU has opened new possibilities and new demands for food enterprises. Changes in the economic environment brought many threats along with new opportunities (Smallbone and Rogut, 2005, Blagoev *et al.*, 2011).

The most desired purpose of entrepreneurs, particularly in Bulgaria, is to achieve profit and production growth (Pissarides *et al.*, 2003). The goal for many entrepreneurs is related to the growth of their company (Brush *et al.*, 2009; Wright and Stigliani, 2013). Growth orientation is an important element of strategy building for sustained company development and positioning in the market and it is also important to use the maximum available opportunities (Nicholls-Nixon, 2005).

Researching the food sector, Fuglie *et al.*, (2011) articulated that productivity growth is positively influenced by industry concentration, which hints at a supposition that the growth of SMEs is very important. There is considerable entrepreneurial growth for the SMEs whether they are operating in transitional, emerging, or developed economies. Using a relational view, Giordano (2010) concludes that in Eastern Europe socioeconomic and political changes are more complicated and controversial and will be seen beyond the concept of transition.

Despite the fact that SMEs dominate, the number of entities in the food sector, growth challenges, and their impact at a micro level are less studied. This makes the underlying study unique in itself.

### 1.3 Aim and delimitations

The purpose of the study is to identify, describe, and analyze the growth challenges and their impact on small-sized food processing enterprises that have started and are operating in Bulgaria.

The study focuses on two cases of family-run small- and micro enterprises from the food processing subsector. Classification according to size is made in agreement with the criteria in Article 3 of the Law for Small- and Medium-sized Enterprises of Bulgaria (State Gazette, 1999/2006; European Commission 2003). Specifically, this thesis takes into account the annual turnover and balance sheet as classifying the firms' size. The number of employees is not ignored, but has less weight on account of the existing findings that an increase in the number of the workforce has a minor influence on the growth in assets (Mateev and Anastasov, 2010).

The case companies have experienced high growth within an unstable and challenging environment. Currently, both enterprises survive and try to keep their businesses from failure. Challenges are described as having arisen internally and externally, ‘*difficult tasks or problems*’ suppressing the growth of the enterprise (Storey, 1994, Merriam-Webster, 2015). The challenges, responses, and impacts on the growth of the enterprise are identified, described, and analyzed. This is performed within the context of the theoretical framework built on the existing research of the obstacles for growth of small enterprises.

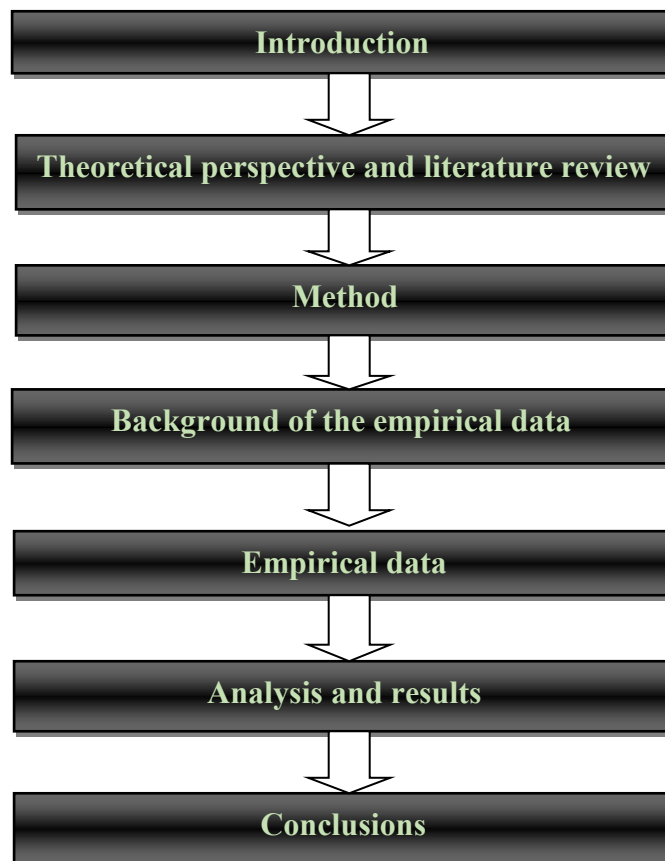
Davidsson *et al.*, (2006) point out that with its growth the firm changes and is not the same as it was at its start. In the current thesis, the firms have not changed their legal form or owners. However, they have changed some of their activities, as a response to the changing conditions. This also correlates with what Penrose (2009) has stated — that the growth of the firm is related to the individuals' characteristics. The managerial responsibilities in the cases include organization of sales, production, people engaged in the processes, finances required, and the connections that are important for the company to grow.

In the former research, an argument in the context of individual experience or business chronology is limited. The qualitative character of this thesis is regarded as advantageous in providing additional insight into the challenges of the food SME at the micro level (Doern, 2009). Certain limitations arise on account of the specifics of the case companies. Additionally, the arguments of Farouk and Saleh (2001) that the growth route is exclusive for each enterprise points to the fact that generalization has to be excluded. However, the current study attempts to bring in as much detail as possible, but the broader interpretations from this thesis can be difficult and will require additional research (Davidsson *et al.*, 2006, 40).

### 1.4 Outline

- Chapter 1 introduces the reader to the problem and gives some hints regarding sections 2, 3, and 4.
- Chapter 2 presents the theoretical knowledge for the growth and its challenges in the context in which it operates, and it summarizes the literature relevant to the study field.

- Chapter 3 gives information on the method and vindicates the selections made to fulfill the purpose of the study.
- Chapter 4 gives an overview of the empirical context.
- Chapter 5 summarizes the results in specific managerial areas of the case companies and their current business practices. The section is connected with the context given in Chapter 4 and is related to sections 2 and 3.
- Chapter 6 analyzes and discusses the results in the specific managerial areas in the companies, in light of the theoretical framework.
- Chapter 7 is the finale containing the inferences and suggestions for future research.



*Figure 1. Outline of the thesis*

## 2 Theoretical perspectives and literature review

*The purpose of this chapter is to summarize the main concepts contained in the current understanding about the drivers of the growth of the firm in general and subsequently the factors for growth inside the small- and medium-sized food companies.*

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### 2.1 Overview of the factors promoting or inhibiting the growth of small enterprises

*This subsection is an overview of the research findings on the main elements influencing the growth of the small businesses*

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The growth path of a firm can be its expansion to additional markets, increase in the companies' assets or intensifying of technology implementation and enhancements (Carneiro, 2007). As a formal economic study, studying the growth of a firm is difficult, because it is related to the individual's characteristics (Penrose, 2009). This aspect has been a hindrance to the development of a general knowledge in that field. Growth of the firm has been defined and measured using various methods (Barringer *et al.*, 2005; Delmar *et al.*, 2003; Delmar and Wiklund, 2008). It can be described in a methodical manner by the use of specific, observable, and measurable set of values. Business growth is usually explained and estimated by taking into account the variations in marketing, assets, number of job positions, output, earnings, and profit margins (Del Monte and Papagni, 2003, Delmar 1997; Davidsson *et al.*, 2005; Allinson *et al.*, 2006). All criteria possess particular benefits and drawbacks when comprehending the growth of a firm, but generally these differences make the methodical understanding, build-up, and comparability (Delmar, 1997) complicated. Even when comparing, the different growth criteria are not necessarily linked together. Moreover, the profile of the growing firm is dependent on the growth indicators, whose selection could be subjective (Delmar *et al.*, 2003).

A number of different factors have been suggested as being the facilitators of small firm growth and technological advancement, which are related to methods of manufacturing, increase of assets, and development of human resources (Carneiro, 2007). Small firms encounter various limitations in the availability of finance, time, personnel, and an overall insufficiency of schooling and expertise linked to current up-to-date enhancement techniques and frameworks (Khan *et al.*, 2007). Many studies have been conducted to determine the facilitators of the firm's growth, as arguably, past growth is self-reinforcing, and hence, creates future growth (Delmar and Wiklund, 2008).

With regard to small firms, many of the models are researching the interaction of various unrelated determinants to affect their progressive growth (Perren L., 1999). Factors of growth are often grouped miscellaneously, related to: The entrepreneur, the enterprise, and the strategy, each of which contains specific components (Blundel and Hingley, 2001). Growth of the firm can be realized only if its determinants interact in an appropriate manner throughout a certain timespan (Perren, 2000). To understand the growth challenges and the combination of factors that are distinctive to each company, Penrose (2009) has argued that for development of an effective theory of the growth of firms, it is fundamental to have a dynamic model.

Perren (1999) has developed a framework to analyze the growth of micro enterprises, in which he outlines four main factors: Owner's growth orientation, expertise to manage growth, resource access, and demand. Growth cannot be viewed as a condition for survival of smaller companies, as they may stay at the same size during their existence (Davidsson *et al.*, 2007; Penrose, 2009). Without doubt, a number of growth obstacles have been verified in the previous studies that have the potential to hinder the growth potential of small firms (Doern, 2009), with the owner's lack of willingness to grow being among the most cited reasons (Gundry and Welsch, 2001; Storey, 2011).

The characteristics of the entrepreneur, human capital, and social capital competences, size, age, location, and the strategies employed are the factors that have received the most attention in the relevant body of literature. Yet, irrespective of the substantial literature on the subject, there is no clear picture of what makes firms grow (Davidsson *et al.*, 2010). The multiple models of the firm's growth available in the literature impede generalization (Wiklund *et al.*, 2009). Few studies have considered both the impact of the environment and business size (Covin and Slevin, 1989; Covin *et al.*, 1990; Delmar *et al.*, 2003). Nonetheless, there is proof that indicates the influence of external factors on firm growth, and thus, growth cannot be viewed as self-sufficient (Davidsson *et al.*, 2007).

Business growth fluctuates widely based on age, size, and industry (Penrose, 2009). The growth of companies tends to show patterns that are recognizable and reproduced to a certain extent over time. The patterns of growth are dependent on the internal specifics of the companies, such as, strategies, entrepreneurial base, managerial structure, organizational form, financial structure, and various features of relative environmental munificence (Delmar *et al.*, 2003). The companies' resources have an indirect effect on growth. Deficiencies in human and financial resources hold back small firms from implementing newer technologies and novel business practices, which hinders them from achieving greater competitiveness (Grando and Belvedere, 2006). Moreover, the available assets influence the strategies of new business startups. The most relevant resources in new venture growth are technological capacity, networking ability, and finances. The individual, the company, and the environment are closely interconnected. The most significant factors for the growth of small businesses are the managerial attitude toward growth, entrepreneurial orientation, and the dynamism of the operating environment of the enterprise (Chen *et al.*, 2009; Wiklund *et al.*, 2009; Barbero *et al.*, 2011). Factors on the individual, organizational, and environmental level affect the growth of the firm. The owners' expertise, managerial resources, and opportunities within the environment are crucial for the growing of the firm or for overcoming the challenges of development of the business. The most important characteristics on an individual level are growth motivation, distinctive skills, and the need for accomplishment. From the features on an organizational level, the strongest influence has company age, financial performance, additional financing, and preparedness to grow. Organizational factors are the most significant for the firm's growth. Next are the individual's strengths, while the factors outside the firm have an insignificant role for growth determination. Undoubtedly, there is a contrast between a firm owner and an entrepreneur, the latter being specifically dedicated to the growth of her/his venture (Carland *et al.*, 1984; Sexton and Smilor, 1997; Zhou and Wit, 2009).

Farouk and Saleh (2011) have pointed out that no solitary model is able to describe the acceptable reasons behind the 'growth' or 'absence of growth' of SMEs. Growth is individual for every small firm. Furthermore, growth must be regarded as being reliant on the journey toward it. Therefore, the growth route is exclusive for each enterprise and generalization is pointless. The enterprises' development cannot be comprehended as being comprised of



perpetual turns or as separate stages. Instead, growth is realized during the turning points, split up by phases of even development (Farouk and Saleh, 2011).

## 2.2 Growth challenges in Marketing for Small-sized Food Processing Enterprises

*This subsection is an overview of the literature from the perspective of the main marketing challenges faced by the small-sized food processing enterprises*

---

Growth challenges in marketing of small-sized food firms begin with their identity in the market (Forsman, 2003). Increased number of markets for the products of an enterprise is an indication of growth (Carneiro, 2007). The marketing success of small-sized food manufacturers is dependent on the distinctiveness of their products. The choice of the category of competitive differentiation and range of market is foundational in the strategy of small firms. The latter will be capable of meeting the market demands regardless of the market niche. The critical capabilities of small-sized food companies will determine the favorable outcome of the marketing efforts. Increasing the market share and achieving deliveries to retail chains requires robust business and marketing expertise. The latter will contribute toward the development of new channels for distribution of products. Understanding the consumers' appreciation of the products and the consequences of buyer 'behavior is critical for success in the market. The latter is used for development of consumer-based strategies for marketing. However, it is not clear why one local food is preferred over another (Forsman, 2003).

An important aspect in the consumer acceptance of food products is the consumers' understanding of the food safety procedures of producers. Food producers, particularly meat processors, have been eager in their endeavors to strengthen food safety; they struggle to make this known to customers (Röhr *et al.*, 2005). Additionally, the proper and timely handling of the consumers' complaints plays a significant role in marketing. Companies need to make known the value of their products and acknowledge the changes in customer choices (Pelham, 2000). Some aspects of the consumers' confidence are related to expertise, integrity, and care about public interest. Food producers are perceived by customers as struggling with contrasting interests. As part of their marketing strategies, the food producer must be committed to making their food safety and food quality advantages known to the consumers (Röhr *et al.*, 2005).

Dora *et al.* (2013b) point out that quality is the most important factor for maintaining the loyalty of the customers. Quality assurance is crucial for successful marketing. Small-sized enterprises are deficient in the diverse range of resources (Karipidis 2009). Higher quality prevents customer complaints and supports consistency in the marketing efforts for increasing the sales. This is a serious challenge for the micro- and small food enterprises. The hurdles are caused by insufficient finances, small number of personnel, shortage of skills or qualifications, time limitations because of the short operating horizon of the business, and the resistance of managers and employees to change (Aggelogiannopoulos 2007, Dora *et al.*, 2013, Karipidis 2009, Mather 2005). Acknowledging customer expectations is the motivation factor for the choice of Hazard Analysis Critical Control Points (HACCP) certification (Violaris, Bridges, and Bridges, 2007). Diverse obstacles or the high costs involved adversely impact the decisions to improve the quality. To overcome the challenges for better quality, managers take account of how they compare with the competitors in the market, the

consequence of substandard quality, the quality culture, and the effectiveness of quality pursuits (Aggelogiannopoulos, 2007, Dora *et al.*, 2013, Karipidis 2009, Mather 2005).

Marketing of foods is bound by compliance to many established quality and safety standards required by the retailers. Many companies are fulfilling the requirements without seeking improvements over the standards (Escanciano and Santos-Vijande, 2014). Food safety certification ensures that the food processor will be preferred and remain in relationship with the retailers. Ensuring adequate and regular supply to retailers is another marketing challenge for the small food-processing enterprises (Mather, 2005). Small enterprises that are managing the marketing challenges favorably develop their resources and interact in unique ways that are appreciated by their retailer clients. Simultaneously, they transform themselves, which changes their 'provider' rank to the rank of 'preferred providers' (Blundel and Hingley, 2001). Disruptions have severe negative impacts on the food companies. The imbalance between demand and supply and requirements for lower profit margins put serious pressure on the food processing businesses. Growth in sales requires changes in buying routines, which means waiting longer for payments by merchants and longer storage of unprocessed foods. The organization of retailing to a large extent is the growth factor for the small food-processing enterprises (Mather, 2005)

Marketing knowledge is related to promoting understanding, which is largely related to consumers and market tendencies. Marketing decisions will be derived from dependable knowledge based on methodical research on the information regarding customer choices, buying behaviors, reviews, and the like. Therefore, the possession of certain knowledge, stemming from observation, of meeting the expectations of the consumers or failure to do so by the offered products, is crucial. Larger enterprises devote substantial time and finances into efforts to ensure the safety of food obtained from suppliers. This usually requires comprehensive conditions, certificates for compliance with the regulations, and onsite assessments – any of which would cause management and specialist challenges for the majority of owner-managers. The smaller the size of the firm the greater are the difficulties, with numerous micro enterprises relying on communication and purchases through intermediaries, who are themselves small firms with insignificant influence over food safety. Even those businesses trying to comply with the standard reviewing process may stumble upon the obstacles if their relevant expertise is insufficient (Taylor 2001).

## 2.3 Growth challenges in Operations Management of Small Food Processing Enterprises

*This subsection is a review of the literature findings about the difficulties in the management of operations faced by small-sized food enterprises aspiring for growth.*

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The success of the ambitions of a majority of enterprises is associated with the management decisions related to forecasting and acknowledging the consumer demands. This will lead to operations management that ensures a high quality and an appropriate quantity of the products. At the same time, the organization of the operations has to provide a proper balance between the costs and benefits. Inseparable parts of growth attempts are modernizing the existing machinery, which can be challenging, but at the same time can strengthen food processing firms. The equipment has to be tailored to ensure food safety and implementation of practices to avoid wastage. Setting proper goals and priorities is essential for better usage of assets with reduction of waste at all stages of manufacturing. The latter has to be

ecologically safe and lessen the resource consumption. In order to grow, small firms need to implement new organization and methodologies. However, many SMEs are not able to envisage growth as a competitive need and this difficult attitude or reluctance must be considered and understood (Carneiro, 2007).

Growth may be required for survival of every small enterprise. Growth requires adequate operations related to management routines, rare in small companies. To achieve competitiveness and benefit the companies, the resources need to be balanced with management routines. Successful management of a small, growing enterprise demands a comprehensible determination and assignment of control and liability, enhanced accountability, and organization (Kotey, 2005).

Furthermore, growth puts forth requirements for changes in the operation and business model to the small food-processing companies, which match those of larger companies. Along with that, it also requires adjustment to new business practices (Mather, 2005). This poses serious challenges to stay flexible and to change their scheme of operations. Management practices in smaller enterprises are probably informal, without possibilities for analysis of the management procedures in most of the small enterprises is rather difficult (Kotey, 2005).

The small food companies are normally limited in their capacity for quality management accomplishment. The HACCP system is compulsory for the food enterprises in the EU since 1998. This has relatively unified the standards for safety and quality. Insufficient process-control approaches, lack of schooling, and deficiency of resources are the main challenges faced by small food enterprises. Moreover, this is related to the specifics of the products they produce. This makes it difficult for implementation of a quality management system if the technology used in companies is not understood. The smaller the size of the business the less favorable is the condition for a quality management system. Introduction and use of an additional quality management system such as the International Organization for Standardization (ISO) is often associated with the demand for documenting, understanding, practice, and shortage of resources. These hurdles are more apparent in the micro and small enterprises, which result directly in their inability to apply the ISO system (Dora *et al.*, 2013a, Aggelogiannopoulos, 2007)

Karipidis *et al.*, (2009) state that small enterprises often lack a qualified quality executive. This is a reason to indenture external experts, even when the company does not possess the knowledge to discern and select these experts. Furthermore, small firms struggle with shortage of skilled staff for deployment of quality systems. Another hurdle is that the managers of small companies do not comprehend the requirements of documentation. Additional challenges can be financial insufficiency, human resource shortcomings, limitations related to the short time in business, and refusal to adapt (Karipidis *et al.*, 2009).

For most small companies the adoption of HACCP requires that the owner–managers embark on a completely new system of managing food safety. They have little motivation for such a change, largely because they believe that they produce safe food already (Taylor, 2001). Small-sized firms view HACCP as a demanding, complicated scheme, necessitating time and effort without providing justified advantages. HACCP is rather less understood by the small food producers on account of the additional technical competencies required (Taylor and Kane, 2005).

Owner–managers of small enterprises very often have an inclination to confine the growth of their companies in order to keep possession and control for a longer time. This attitude is

more observable in smaller family-run enterprises, despite the persuasion to grow their businesses after passing through the early growth period. Confined growth and prevalent ownership and supervision by owner-managers facilitate small companies to keep up the informal and essential management practices. With increasing the size and including additional owners, the conditions change. Growth has the potential to draw people outside the currently involved in the management. Successful growth operations require established management practices, and where appropriate, the division of ownership from management imposes tough internal supervision and reporting schemes. Contrast in profitability among small enterprises deteriorates with growth, induced probably by the unique inefficiencies associated with their ownership structures. Thus, the specifics of the ownership influence growth. Even when the ownership of small companies has an impact, it has many common features, but they can also differ in their beginnings. Differences deepen in growth, as the ownership configurations change and each company follows a distinctive strategy to reach its goals (Kotey, 2005).

## 2.4 Growth challenges in human resources for small food processing enterprises

*This subsection is a review of the literature findings about the hurdles in human resources management faced by small-sized food enterprises aspiring for growth.*

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Human resources are vital for every enterprise. However, small enterprises face many difficulties with organizational learning. Development of the human resources is inseparable from enterprise growth. Overcoming challenges of human resource management is a key to the survival and growth of small companies. Acquiring skills and knowledge in the organizations is one of the possible ways to conquer a majority of the problems (Saru, 2007)

The small firms facing difficulties in human resource development are mainly because of the financial limitations they have. Overcoming these challenges would result in better performance of the SMEs. Development of the personnel has been usually resource consuming and it has confirmed its relationship to the enterprise performance (Harrison, 1997).

The rate of growth of the small enterprises is positively correlated with the challenges they are facing. This is based on the increased need for training the employees. This requires a tough switch to formal development of the personnel (Rutherford *et al.*, 2003). Human resource development routines are often misunderstood in SMEs. Skill development does not concern only a schooled person, but also how to overcome the possible obstacles for learning within the company, compromising the investment in people. Therefore, taken separately the formal pursuit of human resource development can result in misrepresenting the context of a small firm. Furthermore, within small companies there is a necessity to identify how personnel development contributes to small firm growth (Rigg and Trehan, 2002).

Companies' initiators and managers are in the center of development and fulfillment of the business plans that enable their firms to take advantage of new opportunities. Thus, the founders are major components of human resources, determining the growth of the firm. They are the people that bring into play the internal resources of the firm (Ng *et al.*, 2014) — particularly the planning and execution of strategic growth projects, which allow the managers to develop themselves through learning, even as they manage the organization itself

(Penrose 2009). The orientation toward long-term returns prompts a search for various ways of using resources more profitably (Penrose 2009).

In the current research, different patterns of human resource development can be found, established in small enterprises. The ways of handling 'human resource' needs are distinctive in individual firms. Internal demands and to a certain extent the external framework, guide the management decisions, to ensure finding the optimum for operational and marketing necessities (Hill R. & Stewart J. 1999).

Small companies face individual challenges in designing suitable capabilities for their strategies. Achieving compatibility of the capacity with the strategy is important for every business, but in the food sector where products can be easily imitated, it has more importance for smaller firms. Along with the shortage of capabilities, limitations for the small companies arise from difficulties to obtain the needed capabilities from those available outside them. Therefore, the small enterprises must recognize the strong points of their capabilities and make them suitable to the growth strategy. With the growth of the small companies their capabilities change and this further impacts their strategies. Small businesses need to organize the strong sides of their owner–manager and of their company, while keeping an eye on the buyers of their products, as this contains the true edge over the competitors. (Edelman *et al.*, 2002)

The successful startup and development of the firm depends to a great extent on the competencies of the establishers and managers, and their ability to utilize the internal resources to all intents and purposes. A vital part of these resources are entrepreneurs with high experience (Ng *et al.*, 2014). Limitations for growth within one company depend on the capabilities and willingness of its manager. Experience and knowledge accumulation play an important role in proper decision making processes. Furthermore, knowledge supports business planning and its execution, making it a foundational element of growth within the context of the organization, as an administrative unit (Penrose, 2009; Dew *et al.*, 2009).

The industrial experience of the founders and the established relationships determine the capability to attract resources from the environment outside of the firms, which is the key characteristic of the growing firms. In all these processes and interrelationships can be seen the crucial growth of the firm and the role of the intellectual capital and its management. The vital asset for the growth of the company is human capital. The commitment to systematic investment, enhanced with supplemental ways of resource distribution is seen as the keys to growth (Ng *et al.*, 2014).

Modification of the business praxis in food processing firms is challenging. Executives would benefit from recognizing the practicability of encouraging motivation of the workforce without negative effect on the costs. Employees decide about employment positions mostly based on their situation. It is believed that various industrial sectors hire workers whose main motivation to look for recruitment is bound to the notion that the employment matches their way of life. Small enterprises seldom have assigned persons responsible for human resource, as the owner–manager is in charge of these tasks (Bent *et al.*, 1999).

The focus of the food SMEs is on food safety and food quality management methods and less on the process of improvement methods. The implementation of process betterment increases the operational performance, particularly efficiency and quality. Competence of the personnel, in-house know-how, and organizational culture are critical for increased productivity (Dora *et al.*, 2013b). HACCP cannot be implemented without specific training. This is especially valid

for small companies that have little information and also lack the time or skills to adapt the knowledge from manuals to the needs of their firm. Small enterprises are striving to cope with daily routines without specified persons to be engaged in tasks that are not directly connected with manufacturing, but rather to the future. The vast majority of small companies do not have assigned persons to head HACCP implementation. One of the criticisms made by small businesses trying to operate the HACCP system is its requirement for documentation. For many, especially micro-businesses, paperwork of any kind is a burden, with verbal communication playing a major role in the successful management of their businesses (Taylor, 2001).

In order to intensify the qualifications, the companies need competent schooling of the personnel. This has the potential to strengthen the productivity and increase the profit. If a firm draws a strategy, which includes the workers as an element of the growth of the company, it needs workers who are driven, inventive, and efficient, to accomplish the goals. . This result in a responsibility to empower the human resources via training (Tüzün, 2005).

## 2.5 Growth challenges in finances for small food processing enterprises

*This subsection is a review of the literature about the difficulties in finances faced by growing small-sized food enterprises and the ones aspiring for growth.*

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Literature agrees that financial challenges are the main barriers in the growth of SMEs. Financial hindrances have the most substantial influence over the growth of the food processing enterprises. Tougher financial hurdles result in a lower growth rate of the small food processing companies (Alam, 2011, Zhou and Wit, 2009; Becchetti & Trovato, 2002; Pissarides, 1998; Riding & Haines, 1998). Compared to their larger counterparts small businesses encounter more excessive growth challenges, and the most significant is attaining finances (Beck and Demirci-Kunt, 2006).

A noteworthy factor for the growth of SMEs is the availability of internal finance. Most of the SMEs rely exclusively on the resources they possess, without using the options of external financing. However, the importance of own financing on the growth of the company diminishes with the availability of external financing. The softening of external financing limitations diminishes the dependence on the internal funds and changes to external sources as its main type of financing for growth. The change between internal and external funding is particularly notable in smaller companies. Despite that, the small enterprises are prone to financial limitations; they survive them by the accrual of internal financing to empower their growth. The result of different types of financing is related to the expenses of financing. Moreover, there is interdependence between sources of funding, particularly for SMEs. For companies having financial restraints, the rates of growth do not depend on the size because of the independence of cash flow from the size (Carpenter and Petersen, 2002; Rahaman 2011).

A significant investment in processing facilities required for small food-processing companies to fulfill quality and quantity, demand access to large retail chains. (Mather, 2005) Finances enable development of new company products and increase of market share. Thus, it encourages growth through acquisitions for a speedy setup in new territories, to acquire the latest technology from existing players or to provide fast investment returns (Chen *et al.*

2009). Managers of the small-sized food firms face tough banking terms, conditions, and practices that rather hinder the growth instead of promoting it (Alam, 2011) This also is a reason that most of the small companies provide standard financial reporting and rarely make budget forecasting (Kotey, 2005).

## 2.6. Growth challenges in networking for small-sized food enterprises

*This subsection is a review of the literature about the difficulties in networking faced by the growing small-sized food enterprises and the ones aspiring to grow.*

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Challenges for the networking of the small-sized food processing enterprises have not been explored much in the existing literature. Networking has been regarded as a vehicle for minimizing the drawbacks inherent for small enterprises with constrained resources, insufficiencies in comprehensive knowledge and know-how, and little influence in the markets. It helps by presenting a vehicle for advancement of the firm (Chaston and Mangles, 2000). Ahlstrom-Soderling (2003) propose that the unofficial route of building a network is the appropriate one for the SMEs. Small firms use networks to obtain understanding and resources that will support the effective exploitation of the opportunities of their management. However, small enterprises have a shortage of competence needed to form and deploy strategic networks (Jämsä *et al.* 2011). The greatest importance of building a network is featured as trust, influence, reliance, and mutuality in relationships (Matopoulos *et al.* 2007).

Gilmore *et al.* (2006) point out that growth of the marketing network has to be integrated into the business strategies, taking into account their particular characteristics. Furthermore, the authors reveal five main challenges in networking as follows:

- ‘the changing role (over time) of the owner–manager’s role to a less hands-on approach
- the reluctance of network players to deal with anyone other than the owner–manager
- lack of trust and confidence in the abilities of employees or next generation
- deciding and identifying suitable people to handle networking responsibilities
- lack of networking competence (that is, good managers are not necessarily good at networking)’

To a large extent building networks is related to innovation at food enterprises. Thus, it will enable information transfer to and from companies to enable their growth and development (Deiters *et al.*, 2014, Colurcio & Russo-Spena, 2013). Networks in the food sector are typically formed between a small number of partners that know and trust each other. Usually companies restrict themselves to collaborating with similar-sized partners. Small food processing companies’ experience difficulties to procure some types of partnerships that are not limited to a particular project, but contribute to broader and long-term growth. Resolving mutual problems is a factor for improved interaction between the partners in a network (Colurcio & Russo-Spena, 2013)

## 2.7. Summary of the theoretical framework

*This subchapter is an outline of the main growth facilitators as general and specific growth challenges for the small-sized food process in enterprises.*

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The table presents the main points in the studied literature. Not every finding is explicitly stated as a ‘challenge’, ‘difficulty’, ‘obstacle’, ‘barrier’ or similar. It may be described as necessity, key element or need of the small enterprises, particularly from the food processing subsector. Lack of important factors for growth is accepted as a challenge for growth

*Table 1. Summary of the main identified growth challenges in the theoretical framework*

<b>Factors for growth of the firm</b>	<b>Summarized from the following authors</b>
Technological advancement	Carneiro 2007; Chen <i>et al.</i> 2009; Wiklund <i>et al.</i> 2009; Barbero <i>et al.</i> 2011
Growth and entrepreneurial orientation of the owner	Perren 1999; Chen <i>et al.</i> 2009; Wiklund <i>et al.</i> 2009; Barbero <i>et al.</i> 2011
Expertise to manage growth	Perren 1999;
Access to resources	
Demand for the products/services	
Managerial resources	Carland <i>et al.</i> 1984; Sexton and Smilor 1997; Zhou and Wit 2009, Penrose 1959/2009
Growth motivation	
Distinctive skills	
Individual’s strengths	
Opportunities	
Company age	
Organizational features	
Financial characteristics (performance, supply)	Chen <i>et al.</i> 2009; Wiklund <i>et al.</i> 2009; Barbero <i>et al.</i> 2011
Preparedness to grow	
Networking abilities	
Technological capacity	
Managerial attitude toward growth	
<b>Summary of growth challenges of small-sized food enterprises</b>	
<b>Challenges in marketing</b>	
To possess critical capabilities	Forsman 2003,
Understanding the customers	
To communicate the advantages of products to the customers	
Consumer perception about the food producer	Röhr <i>et al.</i> 2005, Violaris & Bridges, 2007
To maintain loyalty of the consumers	Dora <i>et al.</i> , 2013



Quality assurance	Dora <i>et al.</i> 2013
Deficiency of resources (finances, personnel, skills, time)	Karipidis 2009 Aggelogiannopoulos, 2007, Dora <i>et al.</i> 2013, Karipidis 2009, Mather 2005
Achieving and maintaining high quality	
Resistance to change	
Food safety certifications (HACCP, ISO 22000)	Violaris & Bridges, 2007
Developing relationships with retailers	Mather 2005
Disruptions of supply	
Imbalances of supply/demand ratio	
Requirements for changes	Blundel and Hingley, 2001
Acquiring proper market knowledge	Taylor 2001
Insufficient expertise	
Foreseeing consumer demand	

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### **Operations Management**

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To ensure high quality at the operational level	Carneiro, 2007
To ensure adequate quantity	
Modernization of equipment	
Need for new organization and methodologies	
Requirements for changes of operations and business model	Mather, 2005
Adjustment to new business practices	Kotey, 2005
Small size	Dora <i>et al.</i> 2013a, Aggelogiannopoulos, 2007
Lack of knowledge about quality management	Taylor and Kane, 2005
Desire of the owner to maintain exclusive operation control	Kotey, 2005

### **Human Resources**

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Organizational learning	Saru, 2007
Requirements for changes of the form of training	Rutherford, 2003
Human resource development	Harrison, 1997
Misunderstanding of human resource development	Rigg and Trehan, 2002
Achieving compatibility of the capacity with the strategy	Edelman <i>et al.</i> 2002
Shortage of capabilities	
Difficulties to acquire capabilities outside small firms	
The need for specific training	Taylor, 2001, Tüzün, 2005

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**Finances**

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Financial obstacles	Alam, 2011, Zhou and Wit, 2009; Becchetti & Trovato, 2002; Pissarides, 1998; Riding & Haines, 1998, Beck and Demirguc-Kunt, 2006
Availability of internal finance	Carpenter and Petersen, 2002; Rahaman 2011
Access to external finance	Carpenter and Petersen, 2002; Rahaman 2011
Need for significant investment to be compliant with the standards	Mather, 2005
Tough banking terms, conditions, and practices	Alam, 2011

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**Networking**

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Shortage of competence to form and deploy strategic networks	Jämsä <i>et al.</i> 2011
Changing responsibilities of the owner–manager	Gilmore <i>et al.</i> (2006)
Psychological issues related to trust and confidence	
Difficulties to procure long-term partnerships contributing to the growth	

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## 3 Method

*This chapter will motivate the choice of the method. It shall give a detailed description of the research method used and present a justification of the selection of the companies for the study.*

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### 3.1. The choice of the case study as a research method

#### 3.1.1 Purpose of the study

The aim of the thesis is to *identify, describe, and analyze* the growth challenges and their impact on small-sized food processing enterprises that have opened and started operating in Bulgaria. Thus, the study encompasses multiple goals. During the transition from a planned to a market economy, the whole food processing sector has been transferred into private hands. Studies on the difficulties of the growing small firms during their development, throughout the processes of transition and subsequent accession to EU, give scarce information regarding the mechanics of impact of these challenges (Doern, 2009). Moreover, growth challenges in particular, and the consequences of small food-processing enterprises in Bulgaria are not studied.

#### 3.1.2 The issues in methods used in previous research

Doern (2009) points out that time-worn terms such as, ‘challenge’, ‘barrier’, ‘obstacles,’ and similar ones are broadly found in research works. Such words usually point to adverse effects on growth. Withdrawal from controversies on their interpretations starts with Penrose (1959/2009). In order to avoid misinterpretations, study partakers and researchers have to formulate their own meanings. To all these can be added the problem of matching their definitions and what assurance the analysts can give on the idea of ‘challenge,’ as it is perceived in their own language. However, it is likely that no similar views can be common. Rendering the concepts without misunderstandings requires using an approach incorporating in-depth answers from the parties; which can be implemented by in-depth interviews to structured questionnaires — a rule in present literature. The scholars do not clarify what are the hindrances and how they affect the growth of the small enterprises. The discrepancy of formulation makes it problematic to analyze results from various researches (Doern, 2009).

#### 3.1.2 The advantages of the case study as a method for current thesis

A case study is defined as an elaboration of thorough, intensive knowledge about an individual ‘case’ (single case study), or of a small number of similar ‘cases’ (comparative case study) (Dul and Hak, 2008, Robson 2011, 79). A case study has flexible organization and construction and usually develops itself when gathering and analyzing the data. The main points for conducting of a case study, according to the author are:

- Choice of a single or small number of cases like a position, entity or group of significance
- Study of the case in its context

Collection of information via a range of data collection techniques including observation, interview, and documentary analysis (typically, though not necessarily exclusively, providing qualitative data). Thus, a case study, grounded on previous theory developments will cope

with the characteristic circumstances in which are available many variables and data sources that result in reliability of the conclusions, which can be used further (Yin, 2003).

Case study as a qualitative method is typically ‘descriptive and inferential’ in character. It takes the facts and focuses mainly on the type of proof (the words, the actions of people) that will allow grasping of the ‘message’ of the events. Its great advantage is the ability to explain issues and show up likely answers: Fundamentally a pursuit of implications (Gillham, 2000).

### 3.1.3. Selection of the method for the thesis

The research related to the growth challenges the food processing SMEs are experiencing in the given context, point to the choice of the case study as a method.

Based on the previously stated methodological issues, and taking into account the stated advantages of the case study, it was regarded as appropriate to make an attempt to seek a method, which was appropriate for fulfilling the purpose. Thus, a comparative case study was chosen as the basis for building this thesis. A case study of two companies was chosen within the real life framework, the results of which are qualitatively analyzed. It was based on the previous theory developed about the growth challenges of small firms and specifically the food processing industry, taking into account the qualitative variables, to result in reliability of conclusions, which could be used further.

## 3.2. Organization of the study

The organization and construction of the current case study was flexible and developed itself when gathering and analyzing the data (Robson 2011). It was important for the underlying research to achieve transferability and applicability into further research and business practice (Ghauri and Grønhaug 2010). The research design of the current case study had to comply with the characteristics of the research outlined by Yin (2003): Construct validity, internal validity, external validity, and reliability.

### 3.2.1 Principles

The current research was developed around the principles of ‘practice-orientation’ and ‘theory-orientation’. This correlates with the aim of the study and the balance between both orientation approaches. Thus, the choice of the case study as a method is justified, as the aim is to *identify*, *describe*, and *analyze* the growth challenges and their impact on food processing small-sized enterprises, started and operating in Bulgaria (Yin, 2003; Dul and Hak, 2008).

At the same time, this thesis attempts to follow the methodological guidelines by Doern (2009) as follows:

- It ensures that the interviewees have growth ambitions
- All challenges described are by experience of the respondents and thus cannot be regarded as perceived only, but actually experienced
- Challenges experienced and perceived to suppress growth are taken in relationship with other elements and business practices
- Longitudinal, from the start until the time of interviews, instead of being cross-sectional in character

- Correlational character of the study in order to achieve the cause–effect linkages

### 3.2.2 Selection of the units of analysis

Grünbaum (2007) recommends that the unit of analysis be defined by the purpose of the study. The selection of the firms was made according to the aim of the study. The requirements for inclusion of companies in the research were set in order to match the goals of the research. The growth rate of both case companies was very high in the beginning and slowed down with time. Commercial register of the Registry Agency of the Bulgarian Ministry of Justice was also used for data comparison of the publicly available reports. This step was needed to confirm that the selected companies complied with the requirements for trading volume, to be considered as micro and small enterprises.

Few additional criteria were taken into consideration for inclusion in the study. First, the enterprises had to be located in the same region of Bulgaria. Second, they had to be started at approximately same period of time. Third, the companies had to be from the food processing subsector.

### 3.2.3 Literature review

The purpose of the literature review in the current study was to provide in an organized manner, the analysis of the research available until today. It was intended as an overview of the knowledge about the challenges of entrepreneurial growth and understanding of the features of the economic context (Robson, 2011). The search for theoretical resources was made according to the principle for universality (Dul and Hak, 2008).

The main questions guiding the theoretical review were: Is it related to the challenges, obstacles, hindrances, and barriers for growth? Is it related to small firms? Are the small firms from the food processing subsector? If not, are they at least from the food industry? If not available, then are there other transferable results relevant to this study. The economic and political context has been taken into consideration.

### 3.2.4 Data collection

Data collection is performed by face-to-face, in-depth interviews with owner/manager and used to provide qualitative data. Privacy preferences were observed by fulfilling the wish of one of the respondents to stay anonymous. All of the interviews were made by verbal consent and answering of all questions was not obligatory. The interviews have had an open discussion-like format. Depending on the answers of some questions, the next questions were changed to keep the flexibility of the study design. For the purpose of the interviews, no confidential or classified information was transmitted. There was no financial or any other type of benefit obtained by including the companies in the research. Therefore, there was no conflict of any interests (Robson 2011, Box 17.8, p. 486-8).

The initial interview had to provide general information about the development of the firm. The next series of interviews had to reflect the specifics of both companies and this was adjusted appropriately. Questions and discussions during the interviews covered the period from the beginning of the companies. The retrospective approach used, was very important to track the progression of the companies over time. This was followed by linking them to the current state of the businesses. In order to avoid memory lapses (Robson, 2011, 280) and provide better accuracy during the meetings, the list of questions had been sent by email for

preview to the interviewed persons at least a day before the actual interview. Thus, the interviews were based on semi-structured designs (Robson, 2011).

The interviews have been conducted in Bulgarian and digitally recorded. Recordings were translated and transcribed into English.

### 3.2.5 Data analysis

From those transcripts were derived the following results. The approach applied was thematic coding presented by Robson (2011, box 17.1, p. 467) and the steps were described by Dul and Hak (2008, p.255-263). The transcripts were read thoroughly to get a perception of the specifics of the businesses. Answers were thematically organized, and the chronological sequence of the companies' developments was maintained. The results were summarized and this had to be seen as similar to the thematic 'map' of the analysis, which was written later (Robson 2011, box 17.4, p.476).

The results were analyzed within the context of the theoretical framework. The responses had to be compared with the available theory, and it was to be seen if anything new could be learned. The analysis had been carried out according to that described by the Robson (2011, box 17.4, p.476, Box 17.6, p. 479-480) thematic coding analysis.

### 3.3 Trustworthiness, Reliability, Validity

Robson (2011, Box 17.8, p. 486-8) summarized the main points to be checked out in order to qualify a study as being trustworthy. By conducting the thesis these criteria were applied as much as possible.

*Reliability* is the degree to which a research project will generate identical consequences if applied at various points to an identical object in the study. *Validity* is the amount to which what is witnessed or evaluated is the equivalent of what was claimed to be witnessed or evaluated. It represents the degree of reality of the research information. *Generalizability* is an attribute of the study results that permit them to be used in further circumstances and alternative populations, (Robson, 2011:526,532,534).

There is a supposed absence of '*generalizability*' of the case study, which can be regarded as a misconception. Before all else, generalizability is not a feature of a study, but an assumption. On account of the absence of a population (apart from survey-based studies) to which the conclusions are 'generalized', the external validity is not a problem for the model of the case study applied in this thesis. Additionally, the cases of Buldex Ltd and MeatME Ltd are likewise not indicative of a theoretical realm as populations (in survey study). There is, however, an overall '*lack of generalizability of propositions*,' meaning that most assumptions are assessed exclusively on one occasion in single studies. This complication, in whatever way, applies in general to all kinds of assumptions, regardless of the implemented assessing-research approach. Therefore, the generalization of the suppositions of this thesis can be improved by conducting additional replication studies. Generalization, in this manner, is an aspiration rather than a pretension (Dul & Hak, 2008).

Validation of studies involving people is very difficult (Robson, 2011). The validity of this study will be regarded as accomplished if the results are a relevant encapsulation of the views incorporated in the matching concept. The extent of accomplishment of this cannot be evaluated 'objectively,' but is a result of reasoning and discussion (Dul and Hak 2008). To

avoid questioning the study and to consider the conclusions as not trustworthy, the quality of the data has been assessed by application of the established practice.

*Data triangulation* (Robson, 2011:158) was applied as the answers of the interviewees were confirmed by the publicly available reports via the Registry Agency of the Bulgarian Ministry of Justice. Certificate for ISO 22000:2005 compliance of Buldex Ltd. is publicly available via their website (Certification International, 2012). Verification of the claims of the other interviewee has been made publicly available via information on the website of the Association of the Meat Processors in Bulgaria. However, historical information dated more than required by the law could not be verified by triangulation of the data. *Observer triangulation* (Robson, 2011:158) was not applied, as it was not easy to find additional witnesses to be interviewed.

Representativeness of the obtained data was ensured as the interviewed persons were directly involved in the management processes of the companies studied. Every interview has been conducted at the office of the respective firm. Both the companies have started their operation in the similar timespan. Both of the cases are ‘food processing’ firms, moreover, they are located in the same region of Bulgaria — Severoiztochen (North-East). No bias was made and elimination of biases was not needed. The effect of the researcher has been avoided, as the studied companies were not impacted by their participation in the study (Robson 2011, Box 17.8, p. 486-8).

## 4 Background for the empirical study

*This section is intended to provide an overview of the context in which case companies are started, develop, and operate. This shall give a better understanding of the challenges for the growth in the changing economic context.*

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### 4.1 The socioeconomic environment — an overview

*To understand the context in which the case companies have developed and grown, a short overview of the environment shall be given here. There will be several aspects that will be considered.*

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#### 4.1.1. Short notes on the transition

The period of planned economy lasted from 1944 to 1989. Several generations were raised in a culture that rejected the culture of ownership. Hence, entrepreneurship was virtually non-existent. Since 1989, the country started institutional and economic reforms toward transition to the market economy. The following years were filled with opportunities and many traps for inexperienced, but aspiring, entrepreneurs. Transition in the economy was associated with more unpredictability for the business. The lack of competencies and experience (Estrin *et al.* 2006) impossibility for delineating consistent strategy (Danis *et al.* 2010), and financial hurdles (Pissarides, 1999; Pissarides *et al.* 2003) made entrepreneurial activities a challenging endeavor. The business environment was an insignificant factor for growth (Pissarides *et al.*, 2003; Brown *et al.*, 2005). The processes relating to the future, joining the EU, had directed the developments during the period after 2000. Thus, three main periods can be separated conditionally. The most turbulent one was until the year 2000. The preparatory period between 2000 and 2007 had clearer direction and predictability of the changes. The growth challenges, in the environment of an emerging economy of the former socialist country of Bulgaria, were in dependency of the development of a regulatory framework (Aidis, 2005).

Pissarides *et al.* (2003) find that new and small companies in Bulgaria are targeting growth of profits and output. According to the authors, the important challenges for the growth of SMEs in transition economies are: Problems within the supply chain, financial troubles that impede growth, high interest rates of financing, limitations for acquiring a property, and other manufacturing hindrances. Their results confirm the criticality of challenges associated with the financial procurement and its high price. Brown *et al.* (2005) base their research on the empirical data from Romania and claim that accessibility to credit is critical for the growth of SMEs, while the companies' own finances and commercial loans have a minor impact. Both articles are in agreement that the business environment impact has inferior weight as a growth determinant (Pissarides *et al.*, 2003; Brown *et al.*, 2005)

#### 4.1.2 Period of European Union accession

On 1 January, 2007 the country joined the EU (European Commission 2007). The reforms have continued even after 2007, although they are of a different character. In 2008, Bulgaria had been listed among the *Doing Business*, Top 10 reformers in the world. The main changes were in the areas of tax payments, contract enforcement, and easing of the tax levy.

The World Bank report (2010a) classifies the control of the business in Bulgaria as not being very troublesome, but also not very business friendly. Comparison with the other European



countries reveals that there is still a need for advancement. Many bureaucratic practices add to the costs of the business. Local fees for the companies are high. An absence of public registries and underdeveloped electronic means are the additional problems companies are facing.

The World Bank analyzes that the development of the Bulgarian economy will highlight the main obstacles for the enterprises in a context of market formation. Bulgaria has improved its environment for growth, but it is the one that is least developed among the EU member states. The developments during the years have led the country to be placed in different rankings as follows: Seventy-fourth (out of 142) place in the Global competitiveness report 2011–2012, fifty-ninth (out of 183) in the Doing Business 2012, thirty-second (out of 34) of the Innovation Union Scoreboard; and twenty-seventh (out of 27) of the World Economic Forum — Lisbon review 2010. (IBRD/WB, 2012)

As a whole, changes and improvements in Bulgaria provide an environment in which successful entrepreneurs are admired and accorded high social status, and a majority of Bulgarians believe that schools are successful in developing a sense of initiative and action and a desire for independence — qualities typical of entrepreneurs.

#### 4.2. Bulgarian food industry overview

Companies are located in one of the North-East (Severoiztochen) regions of Bulgaria. It is ranked among the lowest developed regions in the EU with GDP per capita of 4500 EUR (Eurostat, 2015).

The report for the European Commission, Directorate-General (DG) for Agriculture (2003) highlights the main changes in the food industry. The food sector in the centrally planned economy was organized to process surplus agricultural products with a focus on export to the CMEA area. In the transition times, there was a contraction of the local demand and loss of market share in the foreign markets. In 1997, the capacity utilization in the canning subsector was 15% and in the meat subsector 15–20%. There was a privatization of the state-owned firms that were ineffective in the new market conditions. This brought structural changes and by the year 2002, 84% of the food sector consisted of private enterprises.

Larsson and Sarris (2007) outline the highlights of the food market reforms. As of 2001, little was done in the country to create institutions and business practices. Notwithstanding, in the period from 1997 to 2001 the food market performance was better than in 1995.

The implementation of a liberal policy toward acquisitions from foreign investors, although they had been reserved to participate. This resulted in around 5% Foreign Direct Investments in the food industry. Significant operational obstacles had challenged most of the privatized enterprises as the new owners faced shortages of financial resources for investment product development. Further challenges for the entrepreneurs in the food industry were coming from the ownership structures and administrative burdens. As of 2002 there was a need for vast optimization, to enable a competitive food industry.

The food-processing sector in Bulgaria is committed to growth and export of products. The legislation was harmonized with the regulation of the EU. There is a good consistency of the requirements of food products (TWB/MEEB, 2007).

## 5. Empirical data

*This section gives a little information about the case companies. The results are conditionally divided into sections of research. However, the areas have connections between them and cannot be regarded as isolated*

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### 5.1. Short introduction of the enterprises

*This subchapter is short description of the studied enterprises. It highlights the main moments from the growth to the current state*

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#### 5.1.1 Buldex Ltd.

Buldex Ltd. is located in the village Belitsa, in the region of Silistra, Bulgaria. It is a family-run business. The main business activity of the company is production of milk products. The dairy farm is situated in an area of 4500 sq. m. It has the capacity of processing 60 tons of milk per day. Cow, goat, and sheep milk is supplied for processing from the approved farms that complies with the European regulations. The facilities are certified according to the Food Safety Management System, ISO 22000:2005. The company employs qualified technologists and masters. The quality is constantly controlled in the internal laboratory. The products are delivered throughout Bulgaria and some countries in the EU in compliance with permit No. BG 191 2014 (www, Buldex 2014).

The Buldex Company was started by people who did not possess any specialized education or experience. The initial goal for starting their own business was to provide a workplace for their families. However, it was a very difficult decision, because of the persisting uncertainties of the environment. Their venture started in 1994, when the owners had purchased the current production base in an auction from the state-owned enterprise 'Agricultural Construction,' which does not exist anymore. The company did not begin operation immediately after the purchase. The property had been just an investment with the option for its future use. This step allowed them to develop knowledge about the rising free market. The owners identified opportunities in the field of production and trade. This was the start of the Buldex business, with three to four people, in the year 1996 (pers. com., Denchev, 2014).

Their initial production was tinned vegetable, food, and pasta. All of this was made in their own production units in the Belitsa village, which was bought in 1994. In the year 1998, the company rented a small dairy farm in the Zafirovo village, Silistra region. The processing capacity in the beginning was 500 liters of milk per day. In the second year of dairy farm operation, Buldex, the quantity of processed milk increased to seven tons per day. This caused discontinuation of their operations in the market of pasta and tinned vegetables and they focused on milk products. Another step followed this, and that was to develop their own dairy farm instead of the existing units for pasta and tinned vegetables. On the 1 August, 2000, their operations had been moved to Belitsa. After the start of the new farm base, the company is processing 10 tons of milk per day (pers. com., Denchev, 2014).

During the period 1998–1999, negotiations had been initiated between the European Union and Bulgaria regarding the future accession (European Commission, 2007). The information

was regarding alterations in requirements of dairy farms, related to the future of joining the European Union. Considering those changes and responding appropriately, the Buldex management went ahead with the decision to make a dairy farm in Belitsa. It was a leap of faith they took in preparing for future change. Another aspect of that move was better response to the possibilities that could become available to the company in the EU market (pers. com., Denchev, 2014).

#### 5.1.2 MeatME\* Ltd

*\*MeatME stands for Meat Micro Enterprise – a fictitious name used to keep the privacy of the interviewee.*

MeatME Ltd is located in a town with approximately 10 000 people, in the region of Silistra, Bulgaria. It is a food micro enterprise, employing 15 people, and has an annual turnover of roughly two million BGN. There are two lines of operations: A slaughterhouse, which is a business-to-business type and sausage production, which is targeted at retail market. The company is HACCP-compliant.

The family-run business started with the slaughterhouse in 1995. At that time, there was a possibility to rent properties and to begin using one as a sausage making unit and the other one as a slaughterhouse. The company owned a local store and also made business-to-business sales to the partners. The largest part of the turnover is determined by the business-to-business sales.

## 5.2 Growth challenges in marketing of case companies

*This subchapter outlines the main challenges in the marketing of operations faced by the companies managed by the interviewees.*

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### 5.2.1 Lack of business experience

The first hurdle reported by the interviewees was lack of business experience for the startup and growth of their enterprises. However, motivation to start their own business was crucial for such a decision. Acquiring experience was the initial stage of the respondents' businesses. In the first few years after startup, it was important to establish and maintain a high quality of products. The latter is viewed as a key to marketability of the products and services. The managers have pointed out that high quality and loyalty to the business and retail clients are the main pillars of their market success. These aspects have turned into a hidden marketing strategy, and have built the image, which works for the success of their business. The initial business of Buldex was in the area of other food products like pasta and tinned vegetables. This had brought valuable export markets, with experience in Romania and Russia. A growing demand and increased sales had been regarded as proof for profitability and stability in the business. It had allowed the businesses to accumulate resources. At the same time MeatME did not change the product and services, but continuously expanded them (pers. com., Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.1, 1.3)

## 5.2.2 Changing market conditions

In the early stage of the companies' development, the restructuring of export had caused contraction of sales to Russia. The little trading experience had helped to spot new opportunities in a segment of the market, and hence, the companies are present until today. The decision turned to be crucial for future development. At that time, the equipment for the pasta and canned vegetables filled up the capacity of production base and additional installations were not possible. Further changes in the economic environment and imposing requirements for EU regulatory compliance had been the reason behind many changes within companies, in order to survive and grow (pers. com., Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.1, 1.3).

## 5.2.3 Challenges in market research

MeatME does not survey its business and retail clients for their satisfaction. The company uses the simplified form of consumer research. First-time business consumers are asked if they like the product. The company keeps close contact with every new business client. It helps to identify potential issues with the supplied product that could result in the lack of satisfaction. Inquiries are made about the expectations of the customers, so that interests of both parts in the deals can be met. On the retail side, in their own shop, a notebook is available for complaints and praise from clients. The consumers decide for themselves, without being asked, if they will write or not in the notebook (Pers. com. Milkova, 2014, Appendix 1: 1.3).

## 5.2.4 Entering new market niches

The traditional milk or meat products are well-established in the market. For a small business it would be very difficult to enter a new market, as little is known about an unknown product for it to achieve sales levels above the break-even rate. For managers of Buldex it was a great challenge to become a new market entrant, and to utilize the opportunities. Thus, Buldex started with products, which were not new to the market, but new to the company itself. This was also related to good product knowledge and capability, which the management specifically had for the traditional products. There was no capacity for new product development. Thus, despite the little expertise they tried to minimize potential losses by selecting products that were well accepted in the market (pers. com., Denchev, 2014 Appendix 1: 1.1).

## 5.2.5 Establishing companies' position in the market

The respondents reported that establishing a business in the market was related to consistency of quality. It was clear that compromising on the quality was a sure pathway to failure. Consumer satisfaction by high quality was a central pillar of the company policy. Such an orientation of the company had been built-in in every further decision and remained the most important factor for the successful establishment of the company's market position. Products of Buldex had faced an increasing demand in the first years. The highest quality and its ample dimensions, as well as sensory characteristics, was the basis of every management decision (pers. com., Denchev, 2014). Company managers were constantly observing factors that influenced the fluctuations in sales. Usually, cheaper products were preferred, and products of both companies were sought-after. This often posed challenges for the price optimization. However, the representative of MeatME stated that the pricing was not determining in regard of carcass meat, but in respect to the produced sausages, frankfurters, and so on, MeatME did

not use packaging to influence consumers' demand. The management did not have any idea on how changes in packaging could affect sales growth. A stronger influence on the consumer preference has the confidence in the freshness of the products. The freshness of MeatME products is a strong factor determining the consumer preference, which often makes the price irrelevant (Pers. com. Milkova, 2014 Appendix 1: 1.3, 1.4.1).

In the year 2000, Buldex has started to sell its products under the brand 'Ralitsa'. The brand has developed because of the high quality it has maintained – the company has had no particular brand strategy. There is steady demand for good quality products and it is reiterated that 'quality' is both the goal and result for the company and the reason why the customer returns to buy. Their own brand 'Ralitsa' has been well-established. The development of the brand has been in the following product lines: Kashkaval (yellow cheese), white brine cheese, white fresh cheese (curd product), kiselo mlyako (yogurt) with 2 and 3.6% fat content, cream, and vacuum-packed products. In the initial years, the brand 'Ralitsa' had been in steady demand (pers. com., Denchev, 2014, Appendix 1: 1.1, 1.2.1).

### 5.2.6 Increase of market share

The interviewees have shared the struggles they have had to increase and maintain the market share of their companies. The main strategy implemented is the proactive search for new business clients within a particular market niche. The size of the companies determines their reach of the market. For MeatME, the key role has the selection of the business customers. One aspect of this is avoiding orders, which may not be contributing enough to the profitability of the company and can only increase the costs for the MeatME. Therefore, orders of carcass meat are preferred. This is related to the fact that most of the local retail shops require that the unsold remains of meat be returned back to the producer. This could pose a serious risk of accumulation of unsold leftovers, with no guaranteed quality. Besides that, there are transportation costs for the delivery of such products to every retailer. The overall delivery work to the retailers is very time consuming, and the company requires serious resources to manage all the administrative work involved. This has created the prevalent business-to-business market orientation of MeatME. Sometimes small problems like the forgotten part of an order that is not delivered, can cause immediate response. The client is called immediately and the rest of the order is shipped immediately (Pers. com. Milkova, 2014). For Buldex it was important to build their own warehouses network. A part of the products was delivered directly from the production department to the closer cities. From the other side, the company had established relationships with warehouses owned by other companies, which organized the logistics by themselves. The company survived, thanks to the stance taken and the trading policy through own trading warehouses. Maintaining high quality has proven itself as a key not only for success, but also for the survival of Buldex. In this manner, the company could afford to maintain the market position built for years (pers. com., Denchev, 2014, Appendix 1: 1.2.1).

The respondent of MeatME has shared her concern that in times of low market demand, every opportunity that looks 'too good to be true' could turn into a trap for the company. Company managers had to learn by experience and in many situations just rely on their own sense to make a distinction between opportunities. There are moments when the company leaders have decided to work with what they have. In such times, 'wait for the storm to pass away' has proven to be a good strategy, to preserve the business. In such periods, MeatME had to avoid finding new business customers, because of the danger of being entrapped by clients who were engaged in fraudulent business practices. Every opportunity is thoroughly reviewed and assessed before negotiating a deal with a client. Assessment of the partners is done mainly by

understanding the vision about the business of the partners. This is important because it gives information about them. Destructive business practices endanger micro enterprises such as MeatME Ltd. all the time (Pers. com. Milkova, 2014, Appendix 1: 1.4.1).

### 5.2.7 Cheaper products challenge

Representatives of both the companies report that their companies were under pressure because of the cheaper products available in the market. The manager of Buldex has mentioned, as an example, the introduction of cheaper class cheeses with vegetable oil content. People demand cheaper products. The presence of imitation cheeses has actually caused a drop of sales in genuine milk products. They are preferred even when they are of a lesser quality than those offered by Buldex Ltd. The changes in the business environment have challenged the position of the brand. However, the company has kept its adherence to the high quality of the output, which has been a determining factor in the Buldex market area. This is coupled with a change in the trading policy of the company (pers. com., Denchev, 2014 Appendix 1: 1.2.1). The interviewee from MeatME also reported that the cheaper products have better market acceptance; however, every product of the company is rather well bought (Pers. com. Milkova, 2014, Appendix 1: 1.4.1). Highest quality ingredients and a good taste do not determine the success of the new products; if they were highly priced they were unsuccessful. The reason was that in the town people look mostly for the cheaper products. However, the company did not run trials to sell the products in other cities and towns. The internal developed products would comply with company policy. It did not accept adding many additives into the sausages and everything was meat-based. Therefore, MeatME cannot offer lower pricing.

### 5.2.8 Fluctuations of the market demand

The interviewees have reported the cyclical character of sales. In different months of the year production and demand are different. Buldex specifically does not attempt to search for new markets or to introduce new products suitable for periods of increased production. The strategy maintained is to change the balance between the products offered during such periods. The processing of the milk is directed toward cheaper products like kiselo mlyako and less to cheese and kashkaval. This maintains the level of workload and ensures sustained operation (pers. com., Denchev, 2014, Appendix 1: 1.2.1).

The sales of MeatME products and services have a particular cyclical character. They rise from the middle of November until the year-end and drop in February and March. During the period of increase, the company can barely manage to meet the demand. The company responds with an extension of working hours of the personnel and includes work-one-weekend too. However, switch to the shift mode is not necessary. Around the holidays even the opening hours of the shop, which are normal until 20:00 are extended to 23:00. The company does not advertise its products. This was recognized as a weakness, but it was caused by the need for additional financial resources (pers. com. Milkova, 2014, Appendix 1: 1.2.1).

At the time of a sales drop, it is important to keep the intensity of orders low, so that all meat is processed before its expiration date. Failing to balance between production and demand could result in great amounts of meat remaining unprocessed and unsold. The need for further refrigeration increases the expenses for the company (pers. com. Milkova, 2014).

### 5.2.9 Fraudulent business practices

To fuel growth, the management strives to find new business customers. This has exposed companies to the danger of unethical business practices. Despite efforts to make a distinction between sales opportunities, the company has had a case of being cheated by business customers, who were highly indebted and hardly repayed the borrowed money. It was a great risk to start working with a deceiving partner, who would leave in the hands of MeatME amassed account receivables. Such cases often include highly indebted clients requesting vast orders, while unable to pay the order back, which result in large account receivables that are never received. Being misled by a fraudulent business partner is worse than not dealing at all. Such orders are associated with a high risk of company failure if it does take such kind of orders (pers. com., Denchev 2014, pers. com., Milkova 2014, Appendix 1: 1.1, 1.2.1, 1.3, 1.4.1).

### 5.2.10 Challenges of market pressure

The interviewees agree that the economic situation in the country requires that owners balance between risk aptitude and real possibilities. The impact factors are many. State protection of the local meat producers and processors is seriously limited. An example of this is the import of the lambs from New Zealand, which has led to a standstill in the sales of the Bulgarian lambs, owing to their higher price. Another example is the supply of raw meat from Romania just before Easter at the price around EUR 0.90, which cause a slump in MeatME prices. Company managers perceive minimizing the risk by the state government for the local producers as significant. Challenges, persist when setting goals for the future (pers. com. Milkova, 2014, Appendix 1: 1.4.1).

The company is facing limitations for expansion into international markets, even in small quantities. The reason is, they cannot give something very attractive to foreign customers. Subsidies of prices in other countries make the price of the widely bred thoroughbred pigs lower. The quality is relatively the same. This poses a serious hindrance for growth. Furthermore, another obstacle noted is that many other European countries are having a higher output of beef than Bulgaria. Most of them are growing and support distinct breeds. Most of them are meat-giving breeds, while in Bulgaria most of the breeds are milk-producing breeds, because here only milk is subsidized. There is a talk about subsidies on the head of cattle, but it is still unclear how that will be carried out. Therefore, in Bulgaria cows for milk are preferred instead of calves for meat (pers. com. Milkova, 2014, Appendix 1: 1.4.1).

## 5.3 Growth challenges in operations management of case companies

*This subchapter outlines the main challenges in the management of operations faced by the companies managed by interviewees.*

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### 5.3.1 Setting the proper goals and priorities

This section is very closely related to the previous because the overall management is subject to the goal that, ‘growth of consumer satisfaction will turn into growth of the business.’ Thus, the decisions for operations management are built around the priority of high quality

performance. Buldex is managed without the implementation of any particular management technique that is intended to improve operational efficiency or productivity. However, to respond to the imbalance between insufficient capacity and the gradually increasing demand, to keep current with the technologies, there are three main pillars for reaching the company's goals (pers. com., Denchev, 2014, pers. com., Milkova, 2014, Appendix 1: 1.2.2, 1.4.2).

### 5.3.2 Technology management

For competitive production, the choice of machinery and technology comes first. Machinery has to be selected to fit the technological processes and the goals of the company. For Buldex it was paramount that they stay current with the food production technologies. The management's view is that they will go with the current technology, to increase the productivity, without compromising on the quality (pers. com., Denchev, 2014, Appendix 1: 1.2.2). Production depends heavily not only on the technology used, but also on the selection of the milk input. A check of the milk is an important step in achieving the quality. This is a practical implementation of the quality as a goal and result within the production processes at Buldex Ltd. Only qualified milk is used for processing. The milk that does not comply with the standard requirements is returned to the farms. This is also crucial for avoiding farms that are offering raw milk that is not compliant with the standard requirements. Thus, Buldex is working exclusively with tested farms, who offer a perfect quality. Owing to the sharp increase of the demand in the beginning, it was challenging to find constant quality. Fraud is destructive for all of the participants in the supply chain (pers. com., Denchev, 2014, Appendix 1: 1.2.2, 1.4.2).

### 5.3.3 Quality management

The managers have discussed that maintaining the quality is a big challenge. The higher the quality of the raw product from the supplier, the higher is the quality of the end product. A high quality of raw milk or meat is essential for increased efficiency and profitability. There were attempts from some farmers to deliver to Buldex watered down milk, but with added fats, in order to increase the quantity of the tested ingredients and to mask the real contents. Having one's own laboratory has been reported as the most important factor a milk processing plant has to have. Initially, the company had contracted out its analysis to a professional laboratory and paid for its service. The quality control at the acceptance of milk has restricted the choice to suppliers with good quality. The internal laboratory allowed achieving more flexibility. It enabled the company to respond faster to changes in the processing technology, because the properties of the milk differed from farm to farm, and in an individual situation, they required different processing, so that it satisfied the Buldex goals. The own laboratory is part of the system of maximum quality improvement. The quality of the products has made them preferred by the consumers (pers. com., Denchev, 2014, Appendix 1: 1.2.2).

Achieving a high quality of the output is the main principle of the process organization. Cost reduction is not possible owing to the necessary processing cycles. The workload of refrigerators and freezers depend on the external temperature and not on the quantity stored. There is a similar situation with the water consumption, whether it has slaughtered one or more animals. The management constantly searches for means to improve the efficiency. However MeatME does not implement any particular management technique for process efficiency and effectiveness. The main factor that could contribute to the overall business



effectiveness is seen to be an increase in the sales (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.2, 1.4.2).

### 5.3.4 Product development challenges

Both of the interviewees have stated that their companies put emphasis on new products of the traditional type. However, there is no particular plan or goal every year to introduce any new product. The decisions for new products are made with thorough consideration given to the resources of the firm. The respondent from MeatME has reported failed products despite the efforts to make them well-accepted, while Buldex has had no failure of products. Traditional products are reported as a stable niche (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.2, 1.4.2).

The limitations for the development of new products are set by the available technology, which make the possibilities feasible. Another challenge is to attract and employ masters, who do not only know the recipes, but are experienced in the specifics of the new products. In order to introduce a new product, first the company should test it thoroughly and produce it in small quantities for trial sales. As managers, they prefer to be assured in the company's ability to make a new product. First, the managers learn the technology and then they have to be sure that they produce a good quality. The company has tried various cheese products, but those are partial attempts and the firm has not entered the market with such products yet (pers. com., Denchev, 2014, Appendix 1: 1.2.2).

### 5.3.5 Challenges of overall process organization

The interviewees differed in their views about the difficulties their companies face. The guiding principle for the managers is that everything has to be organized in an interior style, without the need for the use of external services. Internally available are maintenance services, such as, machinery and lorry repair, and almost everything is made internally (pers. com., Denchev, 2014). The company is a family-run business and has two managers. The first of them is handling the input and output relationships with the suppliers and the customers, and the processes inside are supervised and controlled by the other manager, who is also a technologist. The manager takes the orders from clients and contacts the suppliers about the meat, delivery time, and quantities. In times of crises, when the workload is too low, the company management has to be proactive in attracting new business clients. The principles of effectiveness and efficiency are reported to be the basis for finding new ways of organizing the production. Organizational changes are consistent with company growth (pers. com., Denchev, 2014 Appendix 1: 1.2.2). The company places weight on natural products (Pers. com. Milkova, 2014, Appendix 1: 1.4.2). The complex balance of the elements of this modus operandi results in no failed products so far.

If the processes are ranked, the priority for Buldex is monitoring the quality of the milk. Second is constantly checking the process of the work. Third, the quality of output is strictly overseen. These are the simple rules followed by Buldex. For the best results in production, all the input milk must meet the quality standards. The high quality requirements for the output products are determining the demand to the quality of the raw milk. Additionally, the implementation of ISO 22000:2005 has helped to increase the safety level (pers. com., Denchev, 2014, Appendix 1: 1.4.2).

The three main factors for strengthening the profitability, according to the owner-managers of MeatME are:

- Larger turnover
- Increased efficiency of the work
- Reduction of the costs whenever possible

One of the improvements made is the installation of a solar heating system for water heating. However, from the perspective of production efficiency, the effect is negligible (Pers. com. Milkova, 2014, Appendix 1: 1.4.2).

### 5.3.6 Food safety requirements as a challenge

Both interviewees were concerned about food safety. Buldex is ISO 22000 certified. on the other side the high level food safety is kept high by implementation of the HACCP approach in MeatME. The company is not certified according to ISO 22 000, and views it as very good, but hard to endorse in a business with such a scale. It is very difficult for a micro enterprise like MeatME to implement ISO 22000 as a food safety system. In order to survive and sustain the business, the owner–managers decided that they not employ someone additionally to be especially responsible for standard compliance. The technology manager and her two colleagues do this, but everyone at the company takes other functions too. The great amount of paperwork associated with the implementation of HACCP makes it a serious challenge. There is a joke that has risen from that: ‘Production of the raw sausages is faster than all of the paperwork.’ For such a small business this requires at least one of the persons to be continuously responsible for the HACCP (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.2, 1.4.2).

### 5.3.7 Challenges of the business and political environment

Both owner–managers of the case companies are growth oriented, but in order to expand, they have to weigh many factors, including the political and economic environment in Bulgaria. Management has to be flexible. The companies consistently struggle to adjust their activities, which depend to a large extent on state policies and the overall business environment. The main problem within such circumstances is that once investment is made, it is not certain if there will be a return. No resistance to change is observed from within the companies, as they are family owned and run. Specifically, the MeatME owner–managers restrain themselves from creating a vision for many years ahead. On the other hand, Buldex is facing a serious obstacle in the form of big retail chains that the ‘twist firm’s hands.’ Payment delays, which often mean waiting for more than three months for the payment, hamper Buldex business. The interviewees have reported that the other serious problem that the businesses have to deal with is lack of loyalty from the side of the retailers. In such cases, managers try to adapt and search for new partners. The selection of partners is made with a high degree of prudence (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.1, 1.2.2, 1.3, 1.4.2).

The planning is done with caution, which makes it difficult for the managers to set exact dates and terms. The circumstances often challenge the desired changes for a renewal of equipment. During the summer of 2013, in Bulgaria there were political changes and many strikes. This uncertainty caused the owner–managers of MeatME to make a decision to hold the renewal back for a certain period. The need for renewal is recognized, therefore in 2014, they started the execution of plans. The uncertain economic environment restricts the development of long-term strategies. However, there is constant comparison between the planned and achieved; the overall business performance is assessed at least once a year (Pers. com. Milkova, 2014, Appendix 1: 1.3, 1.4.2).

### 5.3.8 Challenges of the regulatory framework

Until 2010, companies like MeatME had the right to buy pigs grown by private producers. Later the company did not have this right. Meat processors are obligated to buy only from farms. This has contributed to the higher prices of pigs. In the farms specific breeds are grown, with bigger legs, shoulders, and neck. The pigs grown from the private producers are richer in bacon, and this is a factor for the lower price

In 2014, there were talks among the lawmakers about the proposed changes that smaller farms shall be permitted to have little slaughterhouses without the prerequisite to meet the higher requirements, valid for companies like MeatME. Simplifying the requirements and the imposed limit on the number of animals being slaughtered makes the smaller farms more competitive. In such a way, they do not need large capital investment and can sell at a lower price. MeatME's success can be endangered by inappropriate regulatory changes (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.1, 1.2.2, 1.3, 1.4.2)

Another example of the challenges imposed by the regulatory environment is the planned enforcement of the regulation concerning labeling from December 2014, which, in fact, will impose a requirement for new scales with the labeling function. This will add to the costs of the running the business. Subsequently, these costs shall be recovered by including them in the price for the customers. (pers. com., Denchev 2014, Milkova 2014).

## 5.4 Growth challenges in human resources management of case companies

*This subchapter outlines the main challenges in human resource management of operations faced by the companies managed by interviewees.*

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Currently, Buldex employs one hundred people, compared to four people in the beginning. MeatME employees' number has grown from five to fifteen. The extensions of the business created the need for constant new hiring, while keeping the existing personnel. It was a big challenge to develop a strategy for human resources. The corporate strategies for human resources comprise of several important points.

### 5.4.1 Challenges to attract and keep personnel

The interviewees underlined the importance of the personnel. From the early stage of development it was crucial to identify what would attract people to the companies. For keeping the personnel, timely payment of salaries was recognized as the key factor. The firms had to ensure that employees got their salaries on time, despite the delays of payments from business clients. Striving for excellence, the owners-managers took care of even the everyday necessities. Both companies have implemented human resource strategies that eliminated absenteeism (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.3, 1.4.3).

Leaving of an experienced worker actually creates immediate difficulty for MeatME. Owing to the very short notification period, the position has to be filled promptly with people from inside the firm. Sometimes the selection of the wrong person for the position poses risks for the entire production. There is a multifunctional type of position organization, but despite that there is a different rate of suitability of the people for the position. In addition, when a hired

person does not fit the position, it results in a loss of time until the re-organization of the position within the firm takes place (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.3, 1.4.3).

Both representatives agree that working conditions were another requirement for human resource retention. It is notable that from the start until the time of the interviews for this thesis, there is no turnover of the personnel. Nevertheless, the lack of personnel turnover shows the employees' attitude. Despite their small size, the companies maintain proactive personnel policy. Another aspect the managers mentioned is that 'teamwork' is the power that keeps the people together and sustains the business. Team building activities are performed several times per year. In summary, the work conditions and the pay are the key components for the human resource management (pers. com., Denchev, 2014, Appendix 1: 1.2.3).

Executives of MeatME do not possess the knowledge to measure employee satisfaction. The company is run as a family, and the firm's goals are made of the employees' goals. When the enterprise gets in trouble with some credit or loss of client, all of the staff members gather with the managers to discuss and clarify the situation. Therefore, the employees are asked to understand, to work more effectively, and they show understanding. In addition, when some of the clients are unsatisfied all the employees gather and discuss the client claims. In case the client's demand is well founded, the discussion would be on how to avoid this problem in the future. Many similar management issues are discussed with them. In such a manner, workers participate in the management of the company (pers. com. Milkova, 2014, Appendix 1: 1.4.3).

The managers actively support healthier living and have made consistent efforts in the direction of changing smoking habits. One of the biggest challenges for the management is the loss of the time for the smoking pause. Even by applying economic stimulus to the workers, this problem has not been solved (pers. com. Milkova, 2014, Appendix 1: 1.4.3).

The high importance of human resources is underlined by the example that at MeatME there is a veterinarian working, who is present at every slaughter and is current with the latest requirements. He prepares the needed paperwork and if needed makes inspections. In such a manner, the company reduces the risk of allowing the meat from the sick animal to be carried further in the supply chain. When the veterinarian is present at the slaughter, the health safety concerns are minimized and the managers have peace of mind (pers. com. Milkova, 2014, Appendix 1: 1.4.3).

#### 5.4.2 Challenges for workforce development

The interviewees have emphasized their efforts to maintain and develop the human resources. The companies grasped the crucial role of the investment in the workforce development. The managers have to ensure that there are enough skilled men, who are interchangeable. By having one master at a certain product line the manager sets his task to search for another one immediately and if needed he is taught. The goal is to have at least two persons with the same skills available, from the key personnel, to ensure continuity of the business. The companies maintain a high degree of openness toward new employees. Sometimes even people without the necessary qualifications are hired. Such persons are internally qualified and if they have good attitude potential for further development they are appointed for a longer period (pers. com., Denchev, 2014, Appendix 1: 1.2.3).

Human resource development is very challenging. In the region and the whole of Bulgaria there are no professional courses or schools where the people can study what is required for work at a company such as MeatME Ltd. The crises imposed that one employee should be able to take many positions. The company workforce receives internal training. The small size of the team allows everyone to learn from the others. When someone is hired, the company focus on skill development. The labor market has its shortcomings, and the company has to adapt to that. The managers have to increase the productivity. This is also reflected in the organization type that does not ensure a fixed position to the employees, but being multifunctional they fill the raised gaps. The human resources are organized around the principle of multi-functionality. Such a type of organization preserves the personnel from leaving during periods of low load. This has become the core of the whole company organization. The result is that most of the people are working at the company since its startup in the old slaughterhouse. The personnel turnover is almost non-existent. Generally, MeatME works with the same employees. So far, the company restrains from the purchase of the new equipment, and also keeps the same structure of work (pers. com. Milkova, 2014, (pers. com. Milkova, 2014, Appendix 1: 1.4.3).

Buldex and MeatME managers understand that only internal training is not sufficient for company growth. Staff members are continuously sent out for specialized training organized by their respective business associations, Food Research and Development Institute — Plovdiv and other high-grade organizations. These actions result in sustained accumulation of expertise, which is seen as a high-value asset to the company. Several years ago Buldex had been licensed according to ISO 22 000, which set additional obligation to train and develop the workforce (pers. com., Denchev, 2014, Certification International, 2012).

This element of the strategy reduces risks associated with human resources to virtually non-existent (pers. com., Denchev, 2014). The employee satisfaction at Buldex is measured by their attitude to the work at the firm. The companies' management recognizes that the motivation of the workers is mainly based on the salary. In such an impoverished region, the work pay plays a crucial role (pers. com. Milkova, 2014, Appendix 1: 1.4.3).

## 5.5 Growth challenges in finances of case companies.

*This subchapter outlines the main challenges in the finances of operations faced by the companies managed by interviewees.*

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### 5.5.1 Challenges of insufficient finances

The respondents have reported the increase of challenges for financing with time. In order to stay current with the food production technologies, the companies need continuous investment. The companies' priority is constant renewal and perfection of the existing machinery and equipment. This is made partially by the reinvesting of the profits. Both of the companies rely mostly on their own yearly profits and financing from banks. The gradual, systematic reinvestment has been a key to their expansion as they have reached the current state. Each decision is carefully considered as a balance between the need and the available resources, which is made in order to keep consistency with the company plans (pers. com., Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.4, 1.4.4).

One of the main difficulties faced is the long waiting period for accounts receivable from the warehouses. The delivery to retail chains also faced many struggles related to accounts receivable. This often creates high pressure on the management to secure financing, while the obligations are met by the debtors (pers. com., Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.4, 1.4.4).

The financial resources of Buldex were not sufficient for the big steps of change that were required. Financing was made by a banking loan, which was an important step for fulfillment of the company's agenda. The build-up of experience and knowledge has played an important role in the approval of their application for the loan, as banks lend only to trusted firms. The entrepreneurial willingness and vision for future exports led to the licensing of the company in 2005 for exports to the EU. Currently, the facilities occupy 4500 sq. m. There were not many credit lines from the banks and no external financing was used (pers. com., Denchev, 2014, Appendix 1: 1.1, 1.2.4).

In 2004, a large credit was taken by MeatME and used for a brand new buildings and expansion. A reconstruction and upgrade of the facilities was done. It was a step of preparation for the changes in the environment, after the country become member of the European Union and the new requirements associated with it. The first floor of the building is used for the preparation before slaughter and the second floor for the main processes. The capacity has also been increased, and this imposed a subsequent search for new clients. Moreover, after joining the EU, gradually the small producers failed (Pers. com. Milkova, 2014, Appendix 1: 1.3, 1.4.4).

### 5.5.2 Challenges of unfair banking practices

The respondent from MeatME has reported that throughout the years, the company ran into credit problems owing to unfair banking practices. When the crisis came in 2008, the bank had required the company to make full repayment of the remaining amount of the loan within one month. The ways for refinancing were limited, which was posing a risk of business failure. Immediately the managers began negotiations with many other banks for refinancing loans because of the insufficiency of funds available. Before they got contracts for refinancing, the bank decided to review its request for the entire amount and prolonged the term. This was an important moment in the company's history, to succeed in the renegotiation of a loan. The management hopes that they will not need to take an additional credit anymore. The loan taken was for the purpose of renewal and increase in efficiency (Pers. com. Milkova, 2014, Appendix 1: 1.4.4).

## 5.6 Growth challenges in networking of case companies

*This subchapter outlines the main challenges in the networking faced by the companies managed by interviewees.*

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The interviewees have reported that part of their growth strategies is maintaining relationships with professional, educational, and research organizations. However, the size of the companies is determining the extent of networking the companies can afford. MeatME is a member of the Association of the Meat Processors, and Buldex is a member of the Bulgarian Association of Dairy Processors in Bulgaria. Those memberships have contributed to the development of the companies. The business associations are responding to possible questions

on organizing educational courses (pers. com., Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.5, 1.4.5).

Furthermore, Buldex has established its own practice of regular expert visits, mainly from the Food Research and Development Institute and the University of Food Technologies. The company partnerships start with the development of dairy products. Subsequently, the managers of the firm intend to register those products according to the Bulgarian State Standards. Buldex partners with the University of Food Technologies to receive information about the students from the region, in order to attract them for future work in the company. The company cooperates with the approved laboratories for testing and qualifying the products. Teamwork with specialists and technologists also finds its share in corporate networking (pers. com., Denchev, 2014, Appendix 1: 1.2.5).

The company does not maintain any connections or relationships with educational or research institutions. The main collaboration outside the business association consists of cooperation with the Bulgarian agency for food safety. The well-established partnership with the farming company it is working with is contributing to the high efficiency time saving organization of deliveries (pers. com. Milkova, 2014, Appendix 1: 1.2.5, 1.4.5).

## 5.7 Summary of the empirical data.

In the following table are summarized the challenges that rose throughout the development of the companies, their managerial responses, and the results, by addressing the challenges in the way these case companies have faced them

*Table 2. Summary of the main identified growth challenges, responses and consequences for the studied firms*

<b>Marketing</b>		
<b>Challenge</b>	<b>Response</b>	<b>Result</b>
Lack of Business Experience	Known and traditional products with high quality	Experience accumulation and steady demand for the produced goods
Changing Market Conditions	Loyalty to clients	
	Search for new opportunities and new niches in the market	New products for the companies launched
Challenges in Market Research	Identifying potential issues	Close connections with the business clients
Entering New Market Niches	Starting new, but known products, capable to produce	Production of well-accepted products
Establishing Companies' Position in the Market	Maintaining the quality, brand establishment, fast response to possible problems	Brand establishment, consistent demand of products
Increase of Market Share	Focus on consumer satisfaction by maintaining high quality	Network of own warehouses
Cheaper products	Maintaining the quality	Keeping the market share
Fluctuations of the market	Offering cheaper products,	Balancing between demand

demand		
Fraudulent business practices	Hard to manage and consist of serious risk	and capacity to produce Unpredictable danger despite evaluation of the opportunities
Market pressure from products of larger companies	Hard to be manage due to the limitations for further optimization	Search for optimization of the costs, but without overall state policies it is nearly impossible to withstand

### Operations Management

Challenge	Response	Result
Setting the proper goals and priorities	Orientation toward consumer satisfaction	Main operational principles are formulated
Technology management	Suitable technology and machinery	Adequate production capacity with traceable quality
Quality management	Constant laboratory tests, veterinarian employed	Protecting the production processes from accepting unqualified raw food
Product development challenges	Well-accepted traditional products, which are feasible with the available technology	New products are rather not developed, as traditional products possess qualities that the consumers are expecting
Challenges of overall process organization	Interior style	Saving of time and financial resources
Food Safety Requirements as a Challenge	HACCP and/or ISO 22000 requirements are applied for	Safety is compliant with the current standards
Challenges of the Business and Political Environment	Slow and hard planning owing to changes and possible instability; delays of payments of accounts receivable	Delayed decisions, insecurity about the outcome of decisions
Challenges of the regulatory framework	Hardly manageable owing to unpredictability of the regulatory requirements	Increased cost of doing business owing to new regulatory requirements introduced

### Human Resources

Challenge	Response	Result
Challenges to attract and keep personnel	Understanding and responding to the needs of the personnel	Lack of turnover and absenteeism; consistent teams
Challenges for Workforce Development	Internal and external training, team building	Multifunctional positions and interchangeability of the persons

### Finances

Challenge	Response	Result
Insufficient Finances	Resource accumulation	Reinvestment of the profits
Unfair Banking Practices	Finding another bank	Securing banking loans

### Networking



<b>Challenge</b>	<b>Response</b>	<b>Result</b>
Establishment and maintaining of relationships with professional, educational, and research organizations	Memberships in business associations, collaboration with educational and research organizations	Contribution to the development of the company; saving time for delivery
Relationships with government institutions		Avoiding risks of non-compliance with the regulations

## 6 Analysis and results

*This section is subdivided into subchapters related to analysis of the growth challenges in marketing, operations management, human resources, finances, and networking of the case enterprises.*

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The aim of the thesis is to identify, describe, and analyze the growth challenges and their impact on food processing small-sized enterprises, started and operating in Bulgaria. In order to reach its goals, two small food-processing companies from the Severoiztochen (North-East) region of Bulgaria were randomly selected. Using the theoretical background challenges the case enterprises are analyzed. The sections are discussed one by one and every identified challenge is analyzed in correlation with other factors. Doern (2009) has pointed out that the difficulties that the small firms experience can be employed as marks of the growing enterprises. Analysis of the difficulties can be applied for additional understanding and subsequent forecasting of the growth. Limiting factors of growth are also used for evaluation of the environment (Doern, 2009). The threatening conditions are undoubtedly not hindering the firm's growth (Bamiatzi and Kirchmaier 2014).

### 6.1 Analysis of growth challenges in marketing of case companies

*This subchapter analyzes the main challenges in marketing faced by the companies of the interviewed managers.*

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#### 6.1.1 Lack of business experience

Starting business without experience is risky, however, in the case companies it was compensated with expertise in the respective products and services. Without a strong motivation, however, it will not be possible to start and operate a business. At this point both of the companies are unaware that product distinctiveness will make them recognizable and give them a competitive advantage. However, they have bet on their skills to offer the best that they possibly can according to their critical capabilities. The perception that high quality is a key to marketability has given them the foundation they needed to make the first steps. Such results are in agreement with the findings of Dora *et al.* (2013b) and also reveal some basic knowledge regarding the mechanism of the business. This has also contributed to consumer valuation of the products and drawing consumer-based strategies from the early stages. Only well-known products and services were offered for which firms have had the capabilities. Capability building in the initial development was crucial, as the management of the companies had no business experience (Forsman, 2003, pers. com. Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.1, 1.3). Being consumers themselves has helped the managers to recognize the typical consumer expectations. This has given the companies a strong support in the beginning to overcome the hurdles of establishment in the market. The cases add clarity to the understanding that products of high quality are preferred by consumers, although they are still not clear on what makes one product perform better than the other (Forsman, 2003). It cannot be underestimated that during the time of starting up of the case firms their competitors were also companies in a similar position.

Buldex Ltd and MeatME Ltd had been started under such conditions, where state-owned firms determined the initial shape of the market. The activities of the case firms began when the economic transition processes were developed. The overall environment did not allow the development of the differentiation of the products, but companies built their market images on the commonly accepted values, confirmed generally in the previous research (Forsman, 2003, Dora *et al.* 2013b)

With a strong confidence it can be stated that the lack of experience has a stimulating effect on the researched firms. The managers' desire to stay in business and to grow has had the decisive role in the first period of the business.

#### 6.1.2. Changing market conditions

Case companies faced shut down of export markets, which were vital for the growth. This is not related to ceasing the operations of a certain business partner, but a whole area with a full range of its opportunities. Market changes are external factors, which need internal preparedness and flexibility from the business owners in order to survive and continue to do business. Development of the capabilities in the studied companies is related to the product and market knowledge. Thus, Buldex's choice of other market niches was based on the capabilities to meet the expectations and demands of the consumers. In the case companies, knowledge about the traditional products was the foundation on which the entrepreneurs had stepped (Taylor, 2001). MeatME did not change the market segment. However, 'behavior of the case businesses shows that flexibility is a key for survival and growth'. If the managers did fail to switch to another market, it would mean ceasing the business. The latter helped to accumulate managerial knowledge within the first years of Buldex. This had served as a basis for the expansion of the business (pers. com. Denchev, 2014, Appendix 1: 1.1, Taylor, 2001).

From the analysis of this challenge it could be concluded that management during changes in the market place is faced with hard choices. Capabilities, consistent motivation, and persistence can make the growth sustainable during such periods.

#### 6.1.3 Challenges of market research

Identification of potential issues is crucial for the businesses of the case firms. In their market research they show many similarities to the principles outlined by Forsman (2003). Market research is not taking serious part in the marketing efforts of the managers. The main reason for this is the limited time and other capabilities of market research. MeatME prefers to allow its retail consumers to take the initiative of complaints or praises. This can be described as a passive type of discerning the consumer preferences and it is saving many resources for in-depth market research. It can be stated that the managers' knowledge of how to overcome the challenges of the market research is developed naturally from the necessity to remain competitive. However, competitiveness can be limited by continuous passiveness of the managers.

Analysis of the hurdles in the market research point out that many young firms are unable to make a full spectrum market research. However, proper judgment of the needs of the consumers can be made on the basis of observation of the traditional type of food products. For the yet unknown products, this cannot be performed in the similar manner.

### 6.1.4 Entering New Market Niches

At a certain period of development, the circumstances of Buldex and MeatME had imposed on the companies unexpected and unfavorable conditions, causing disruptions of demand for the producers, similar to those analyzed by Mather (2005). The only way to overcome such hindrances will be to find capabilities and resources (Karipidis, 2009) that will support the continuation of business. Motivation for growth and the confidence that the entrepreneurs have gained by the successful startup have contributed to overcoming the limitations of proper market knowledge (Taylor, 2001). The first-hand learning and accumulated financial resources from the abandoned pasta and tinned vegetables (pers. com. Denchev, 2014) had led to growing the business as a milk processing company. New markets of dairy products were necessary for the growth (Carneiro, 2007).

Results from the analysis of these challenges show two main points. First, the very startup of the company, in making its first steps into a chosen direction, contributes to learning. Second, the extent of this knowledge and accrued expertise is crucial for taking a new direction from small food processing enterprises. This may not conform fully to the findings of Taylor (2001).

### 6.1.5 Position of establishing companies in the market

Challenges to increase and maintain the market share were addressed in various ways. Case companies base their marketing on quality, which has been a factor for establishing and keeping the position in the market. Proactivity for finding new consumers has been in synergy, while maintaining high quality. This is in agreement with the previous research (Dora *et al.* 2013b). In order to prevent complaints and to maintain quality both of the case firms have adopted their own practices. This was critical for them to gain the loyalty of their consumers. As small companies, they are prone to loss of market share if they do not remain competitive. While initially the companies were focused only on fulfilling regulatory requirements in order to operate (Escanciano and Santos-Vijande, 2014), they have made steps toward HACCP certification and in the case of Buldex, ISO 22000. This can be regarded as building preparedness for new and bigger opportunities. In the research literature the fluctuation of demand and how the small food processing firms have coped with it is not mentioned. Consumer preference for well-established traditional foods was targeted by the respondents. Regulatory compliance was the starting position of food safety measures. The food producers Buldex and MeatME have shown that the consumers' perception should be one of the first priorities of small companies. Consumer preference is affected by the low purchasing power. This is setting constant challenges for growth under such conditions (pers. com., Denchev, 2014; pers. com., Milkova, 2014, Appendix 1: 1.1, 1.2.2, 1.3, 1.4.2)

Challenges to establish and maintain the market position can be weathered by proactivity, practices guaranteeing consistent quality according to the consumer preferences, and where possible, getting certifications according to standards.

### 6.1.6 Increase of market share

Managers of the companies are cautiously proactive within the known niches. They focus only on orders that can be fulfilled according to their best capabilities. Orders are selected according to the profit potential. This links marketing with the effective utilization of production capacities. Furthermore, increase in the market share is related to focused and selective marketing. Companies are selective for partners and careful for opportunities,

seeking profitability and lowering the costs. An important characteristic is avoiding the slack of unsold products. An important link of marketing with the logistics is made by the created distribution network of warehouses by Buldex (Forsman, 2003). This has supported closeness to the clients and faster delivery time (Mather, 2005). Additionally, it adds flexibility for the demand fluctuations. Advertising is missing from the portfolio of the marketing tools. The companies rely on returning consumers once they become confident in their products (Röhr *et al.* 2005)

Challenges accompanying the increase of market shares are overcome by implementation of a balance between the cost, benefit, and affordability approach.

### 6.1.7 Cheaper Product Challenge

This challenge is unique in itself for the small food processing companies. It is not explained in the existing literature with exception of mentioning of the lower profit margins by Mather (2005). Considering the cheaper products, it is necessary to take into account the low purchasing power of the consumers. Low priced products are preferred, even when they do not offer the same quality of the content. This would make the research more relevant to the case firms. Cheaper products are appealing to consumers by saving them money. At the same time they leave products from our case companies unsold. Consumer preference for cheaper products is posing a serious risk to every enterprise. Overcoming such a challenge is not possible only by changing consumer perception. The consistency of the quality will be communicated by the products themselves. Better taste, appearance, and texture are obvious and they are recognized by the buyers. The remaining unsold products on the shelves could soon result in an even lesser demand (pers. com. Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.2, 1.4.2)

Although this challenge is placed under section ‘marketing’, it is relevant also to the investments in technologies, quality assurance, and overall management. It is contraindicated for the companies to give up their profits. This would result in the inability of those firms to meet their needs and to grow.

### 6.1.8 Fluctuations of the market demand

Food products of the case firms are experiencing seasonal fluctuations of demand. This is mainly determined by the consumer ‘behavior’. On the other hand, the supply of meat or milk to the case firms is also fluctuating. It can be said that strategies for offering different products to increase sales while the demand is low, is based on building strategies based on customer ‘behavior’ and ‘market knowledge’ (Forsman, 2003, Taylor, 2001). This has been derived by observation of the market in the initial stages of business. (pers. com. Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.2, 1.4.2)

### 6.1.9 Fraudulent Business Practices

Fraudulent business practices were placed under ‘challenges in marketing’, because they arise exclusively on business-to-business sales. Specifically for food processing enterprises, frauds were not analyzed in the existing literature. However, two perspectives can be taken in the current analysis. The first is the food safety perspective and the second is the financial one. It is important to understand that loopholes in the regulatory framework are one of the reasons of fraudulent practices. The possible traps that come from potential sales partners are, attempting to mislead managers of MeatME. Another challenge has been the farmers’ tricks

with the dilution of milk and cheaper cheeses that were introduced in the market. From the viewpoint of the marketing challenges, it can be stated that, to a large extent, if such risks are to be realized, they have the potential to make victim businesses obsolete owing to the realized financial losses.

Specifics of the food industry imply that safety standards have to be implemented to serve as a preventive tool for damages that might arise from accepting fraudulent offers, (pers. com., Denchev, 2014; pers. com., Milkova, 2014, Appendix 1: 1.2.2, 1.4.2).

#### 6.1.10 Challenges of market pressure

Buldex did experience a pressure mostly from reputable retail chains that are looking for higher profit margins. On the other side MeatME is subject to competitively priced products. This is described here as ‘market pressure’. Such type of a ‘pressure’ puts a huge dilemma in front of the small-sized food processing enterprises. On the one hand they aspire for access to larger retail channels, while on the other, to achieve that they will stop being profitable.

Both of the companies have chosen to stay away from such partnerships with larger retail chains. They have preferred alternative channels of distribution of their products (Forsman, 2003). Such channels have to be compatible with the goals of the respondents.

### 6.2 Analysis of growth challenges in operations management in case companies

*This subchapter analyzes the main challenges in the management of operations faced by the companies managed by interviewees.*

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#### 6.2.1 Setting the proper goals and priorities

Proper goals and priorities are strongly related to the performance of both companies. The questions of ‘why’ and ‘how’ a small food processing enterprise will do its business are the key questions for both companies. It is seen that the whole management is depending on the decisions of the same people. As a family-run business, it does not employ people from outside the families as owners/manager, and it is they that exercise control over the business. As small companies they do not implement any management technique for improvement of efficiency, which to a large extent matches the findings of Kotey (2005). Operations are organized around the principle ‘to respond to the consumers’ needs. Enterprise growth is not an ultimate goal, but a consequence of balancing the resources with the managerial practice (Kotey, 2005, pers. com. Denchev 2014, pers. com. Milkova 2014). Lack of predictability in the environment is a serious obstacle for drawing business plans for new developments and changes. Thus, the results contrast with the findings that factors outside firms have negligible impact on growth.

The case results confirm to a large extent the previous findings on the importance of growth motivation and preparedness to grow (Carland *et al.* 1984; Sexton and Smilor 1997; O’Dwyer M, Ryan E., 2000, Zhou and Wit 2009, pers. com. Denchev 2014, pers. com. Milkova 2014). The strategies of the companies resemble the ‘pushing strategy’ described by Farouk and Saleh (2011).

### 6.2.2 Technology management

Case firms are examples for the necessary possession of in-depth knowledge about the food processing, manufacturing, and selection of suitable and low-cost machineries. The companies have shown patterns that are commonly found in literature as the equipment should be selected according to the goals of the companies, which is in agreement with the findings of Kotey (2005). Buldex and MeatME attempt to stay current with the latest technologies, which allow them to meet the consumers' expectations and regulatory requirements. Both companies exemplify the overcoming, to a certain extent, of the obstacles they were facing. The risk of accepting unqualified milk was minimized by in-house laboratory in the case of Buldex. Thus, a preventive approach can be observed, in which the growing firm manages outside risks by implementation of the technology inside.

### 6.2.3 Quality management

Quality management is performed without a specific person appointed for quality control (Karipidis, 2009). This is a challenge for both firms as quality is perceived as crucial. At MeatME the negative effect of the lack of skilled personnel was 'neutralized' by studying a masters degree of Food Technologies by the respondent (pers. com. Milkova, 2014). Taking full responsibility for quality management required knowledge that was acquired in order to cope with the increased skill requirements. However, HACCP is viewed as resource consuming and this requires direct involvement of the respondent as a technology manager of the company. The ISO 22000:2005 certification of Buldex is a managerial choice, as adherence to the principle of organization of the quality control in the most optimal way. Quality management at both companies is managed in a highly competent manner, despite serious limitations, which is in contrast to the research by Karipidis (2009)

### 6.2.4 Product development

As small businesses, the choice to stay with the traditional products is justified. Both companies stay in 'the safe zone' of known products. Attempts for developing new products are dependent on the degree of difference of the new products, which require new equipment (Carneiro, 2007). Thus, much differentiation is not possible. Buldex and MeatME have to emphasize on other features of their products, such as, freshness and consistent quality. This is related to the consumer preferences. Despite good product knowledge obtained through business experience and university studies, new products require substantial changes in the operations. Furthermore, failures of new products result in ineffective use of resources.

### 6.2.5 Overall process organization

The reported organization in an interior style is very much related to the desire of the managers to keep control over the whole management (pers. com Denchev, 2014, Kotey, 2005). It also reduces the costs of operations, as companies make maximum use of the internal capacities (pers. com. Denchev, 2014; Carneiro, 2007). Overall organization had to have proper organization in an interior style, without the need for the use of external services (pers. com., Denchev, 2014). At MeatME the organization is structured around the technological part and sales part between the two owners-managers. Consistency of organizational changes requires knowledge, which may appear deficient. At the same time openness and flexibility have to be maintained in order to maintain competitiveness. These are achievable with the company growth (pers. com., Denchev, 2014). The value generation can be seen in their organizational models, which allow them to achieve and sustain their

market share (Hughes and Morgan, 2007). New equipment increases the costs, which are recouped after a long time, thus limiting the prospects for business expansion.

#### 6.2.6 The food safety requirements

On the operational level, it was necessary to organize the production in a way to allow the implementation of the food safety requirements. It has to be noted that the HACCP system showed demands that are resource consuming. The results point out that the size of the company is crucial for the successful implementation of the HACCP approach. Micro enterprises can hardly afford to fulfill the requirements of the ISO 22000, and therefore, it is not preferred, which is in agreement with Dora *et al.* (2013a) and Aggelogiannopoulos (2007). The paperwork required by the HACCP approach seriously hinders the growth of the micro enterprises, as it slows down the production and thus makes such companies to be slow to respond to the higher demand of their products. This is clear from the statement 'Production of the raw sausages is faster than all of the paperwork.' which although made jokingly exemplifies the HACCP as time consuming. This is in agreement with Taylor and Kane (2005). Micro enterprises cannot afford to employ someone with specific knowledge and responsibilities for standard compliance. However, in order to achieve conformity, someone from the company must be responsible. In the case of MeatME it was one of its managers (pers. com., Denchev 2014, Milkova 2014).

#### 6.2.7 The business and political environment

Business and political environment has impacted the operations of the companies in several ways. The political decisions for EU accession have raised the necessity for re-alignment with the new requirements. Additionally, the lack of systematic steps toward the new requirement has often put smaller companies face to face hard choices: To change or sell the business to someone else. Operations management has to take into account the business and political environment. Delays of decisions for growth are caused by uncertainties of the business and political environment. No investment returns are guaranteed, however, the stable environment increases the probability of meeting the expectations while making investments. The higher instability increases the vulnerability of the small food processing companies and could result in failure of plans. Readiness for change is associated with the costs and the benefits, which are expected (Kotey, 2005). Long-term planning was impossible, and despite the recent improvements, risks still persist. Additionally companies have to respond to the large retail chains, which demand not only quality, but also lower prices. However the operation costs cannot be optimized indefinitely (pers. com., Denchev 2014, Milkova 2014).

#### 6.2.8 The regulatory framework

This challenge is less studied in theoretical framework that is found. Changes in regulations on food processing companies often lead to the changes in the way they operate. Analysis of the challenges of the regulatory framework here is made in order to see how the companies responded and adapted. It is important to understand that regulations impose additional restrictions on small-sized companies. They need to react appropriately in order to compensate the effect of those restrictions. More flexibility is required to weather challenges of decreased competitiveness, which are caused not by some improper decisions at company level, but by the introduction of new rules in the market. On the one hand many authors discuss diverse limitation of the small enterprises, such as, financial, human resources, knowledge (Carneiro, 2007, Kotey, 2005, Dora *et al.* 2013a, Aggelogiannopoulos, 2007). While on the other side the regulators can twist every effort of the small businesses to cope



with the hurdles. Once invested, the costs have to be recouped, however, the increase of the quality and quantity of regulatory requirements increase the costs of operation of the small food processing companies.

## 6.3 Analysis of growth challenges in human resources in case companies

*This subchapter analyzes the main challenges in the management of human resources faced by the companies managed by interviewees.*

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### 6.3.1 Attracting and keeping personnel

All of the previously discussed matters are depending on persons. Humans do all of the operations. This makes human resources the most important factor in meeting challenges in business. Being business initiators, the founders are the first human resources in both companies. The cases of Buldex and MeatME confirm the findings of Ng *et al.* (2014), in part for their importance in the growth of the firm. Without initial business experience and no knowledge in the area of human resources management, Buldex and MeatME, represent cases that confirm the theory about learning while managing by Penrose (2009), and disprove that stated by Ng *et al.* (2014), which is importance of high experience. The managers also are involved in certain production stages and supervise every process. However, the proper operations require attracting people to the companies. Operating in a region with the lowest income, the timely payment of salaries is a region-specific requirement, which is important for attracting employees. This is challenging in periods of low turnover or delays of payments from business partners (pers. com. Denchev, 2014, pers. com. Milkova, 2014, Appendix 1: 1.2.3, 1.4.3)

Important points of the human resources strategies are the informal communication with workers. The internal environment has a family-like character. The workforce is an active partaker of the success or failure of the companies and has influence over the managerial decisions. Thus, managers trust the appropriate expertise of their employees. This can be described as an informal learning environment where different points of view are taken into consideration. Adding the focus on healthier living, this has contributed to building strategies for personnel retention. Both companies have implemented human resource strategies that eliminated absenteeism (pers. com., Denchev 2014, Milkova 2014, Appendix 1: 1.2.3, 1.4.3)

### 6.3.2 Workforce development

Human resource development at the Buldex and MeatME is related to the needs of the growing businesses. It had to overcome deficiencies in knowledge. Furthermore, regulatory changes in requirements to educate people working at food processing enterprises had to be addressed in a timely manner. Managers did start with themselves, as did the MeatME executive, who passed the Food Technologies masters degree, which also is in response to regulatory requirements. The character of business imposes that the managers acquire detailed knowledge about the different aspects of business.

The reported lack of vocational training poses challenges for assessment of the skills of a hired person. The firm cannot fill its immediate need of capable personnel from outside. This is a serious difficulty for the growth aspirations. In order to have suitable abilities the new employee has to pass through training within the firm, which is in agreement with the findings

of Edelman *et al.* (2002) and Tüzün (2005). These challenges arise from the environment. This means that there is no competition for skilled workers, but rather competition for good learners. The introduction of multifunctional roles of the staff is a way to offset the effects of skill shortages (pers. com. Denchev 2014, Milkova 2014). ISO 22000:2005 certification of Buldex is a choice of continuous human resource development within the company. HACCP requirements also impose the necessity of training (Taylor, 2001)

## 6.4 Analysis of growth challenges in finances in case companies

*This subchapter analyzes the main challenges in the finances faced by the companies managed by interviewees.*

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### 6.4.1 Financial deficiencies

Initial reliance on internal financing was the key for starting up the case enterprises (Carpenter and Petersen, 2002; Rahaman 2011). At the time of their startup, the still underdeveloped financial system was the reason to keep both companies away from other means of financing (Cull *et al.*, 2006; Beck and Demircuc-Kunt, 2006)

Pissarides (1999) identifies the financial system of transitional economies of Central and Eastern Europe as one of the serious barriers for the growth of the SMEs. Pissarides *et al.* (2003) depicts the same categories challenges for SMEs, as they were seen in the cases of Buldex and MeatME. It cannot be determined which one of them is the most critical. Financing by loans was and remains expensive on account of the high interest rates. Other ways of supply of money to the SMEs are underdeveloped, and therefore, not used. Buldex and MeatME did not experience problems with acquiring properties, which differs from the findings of Pissarides *et al.* (2003). The difference observed in some results shall be viewed as normal, because every company has its own specifics. The case companies confirm Brown *et al.* (2005) findings related to importance of the access to credits. Buldex still keep a high level of indebtedness (pers. com., Denchev, 2014, Appendix 1: 1.2.4)

### 6.4.2 Unfair banking practices

Alam (2011) mentions the tough terms and conditions of banks as a hindrance for growth. However, the 'unfair banking practices' is a term used here and describes the actions of enforcement of conditions outside those normally required by banks, which require a response from their customers beyond the usual norms. Such an example is when the bank enforces a one-sided condition that makes the debt immediately payable. Such financing is used to support expansion of the small enterprises. Without doubt such practices motivate small companies to avoid financing from banks. Especially for MeatME, this literally makes external financing undesirable (pers. com., Milkova, 2014, Appendix 1: 1.4.4). This makes internal financing the best source for meeting the needs of the enterprise. This is in agreement with the previous findings that softening of external financing limitations diminishes dependence on the internal funds and changes to external sources as its main type of financing of the growth (Carpenter and Petersen, 2002; Rahaman 2011). The examples from this thesis help to shed more light on the influence of the banking practices over the growth of food processing small enterprises. Unfair banking practices seriously undermine external financing to case companies. Owing to such banking practices, managers are viewing taking loans as potentially dangerous.

## 6.5 Growth challenges in networking

*This subchapter analyzes the main challenges in the management of operations faced by the companies managed by interviewees.*

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Networking of the studied firm is heavily underdeveloped. It can be stated that this is something both companies make individually. They do not possess full spectrum knowledge about networking and this is a hindrance to connect with partners. The word used by the interviewees to describe the networking was 'relationships', which has a character of individual company relations, rather than to more developed interactions. However, this may be a good starting point as described by Ahlstrom- Soderling (2003). Buldex and MeatME have size-dependent approaches of networking. Both cases confirm previous results for the small-sized enterprises that they lack ability to build strategic networks (Jämsä *et al.* 2011). The previously discussed fraudulent business practices are a serious hindrance for both studied enterprises to trust potential partners. To a large extent the behavior of the case firms confirm the findings of Gilmore *et al.* (2006).

Networking within business association is a good source of education. As a larger enterprise Buldex has gone further and created a relationship with one of the universities in order to source expert knowledge for development of dairy products. Additional directions are needed for development of the networks.

Business associations can be regarded as the initial phase of networking, which need to be further developed. In this form, the relations of the studied companies cannot serve effectively as a vehicle for minimizing the disadvantages they have (Chaston and Mangles, 2000). They also provide a 'safe zone' for connections with companies with a proven track record. This is very important with regard to previously discussed fraudulent business practices.

MeatME has a well-established partnership with a farming company, which is reducing time needed for overall organization. Buldex have additional relations with approved laboratories for testing and qualifying the products. Teamwork with specialists and technologists also finds its share in corporate networking (pers. com., Denchev, 2014, Pers. com. Milkova, 2014, Appendix 1: 1.2.5, 1.4.5).

## 7 Conclusions

The aim of this thesis was to identify, describe, and analyze the growth challenges and their impact on food processing small-sized enterprises, which have started and are operating in Bulgaria. The conducted case study has taken into consideration the integration of activities into the small management bodies of one to two executives. Many studies are taking one perspective without taking into account that in small companies' decisions are taken by everyone who manages that and how many other.

The most challenging for the small enterprise growth is the integration of many responsibilities. In the small food processing companies, the same people are responsible for the marketing, operations management human resources, financial management, and networking. The need for finding a proper balance and playing many roles at once makes it very difficult. This requires constant learning, insight, and flexibility.

There are no more or less critical difficulties. They rather can be grouped into two subcategories: potentially manageable and potentially non-manageable. To the potentially manageable category belong those that overcome and transform them into a stimulating series of events if they are met in the appropriate way by the managers. Challenges may be turned into opportunities and can cause the development of small-sized food processing enterprises. Their difficulties are mainly in the spheres of marketing, operations management, human resource management, and networking. However, from these spheres some difficulties can be assigned to the potentially non-manageable category. The latter are related to market pressure, business and political environment, and the regulatory framework. Depending on their magnitude, such obstacles could result in subsequent ceasing of the business. Growth challenges, which are potentially non-manageable are mainly in the financial sphere and the fraudulent business practices in the marketing sphere.

Growth challenges are correlated and must be considered in their complexities. In order to overcome growth challenges in marketing, the firms must possess adequate technology to meet the quality and quantity for their products. At the same time the small-sized food processing enterprises depend on the workforce they hire. Optimal organization of the production, marketing and human resources cannot be a constant, but this optimum has to be changed accordingly to overcome deficiencies. All the previously mentioned have to be adequately financed, however the availability of the finances does not contribute to the development of the strategies and organization.

Case companies were impacted by the challenges both in a positive and a negative way. In a positive way they have been valuable vehicles of managerial learning on the pathway to growth. In a negative way, they have contributed seriously to the stalling the rate of growth. Small-sized food processing enterprises to a large extent replicate the patterns in other sectors. However some growth challenges they face are unique, such as, those related to food safety. Failure to provide a safe food product could translate itself into discontinuation of business.

As this thesis is based on a case study, more in-depth results require performing additional case studies in the same business segment.

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## **Personal messages**

Denchev Dimo, Manager and Owner, Buldex Ltd, Belitsa, Silistra Region, Bulgaria,  
Interviews on 04.4.2014, 23.04.2014 and 21.5.2014

Milkova Maria, Manager-Technologist at the small meat processing company MeatME Ltd.,  
Silistra Region. Interviews on 04.4.2014, 18.4.2014 and 22.5.2014

# Appendix 1: Questions from the interviews

## **1.1. Questions asked on 04.4.2014 during the interview with Dimo Denchev, the manager and owner of Buldex Ltd, village Belitsa, Region Silistra, Bulgaria**

- Q1: Please share the history of the company Buldex OOD.
- Q2. Did you changed the organization of the production with the increase in processing quantities from 500 liters to 7 tons initially, then 10 tons and currently 60 tons per day?
- Q3. Which management approach is dominant in your company?
- Q4. Do you produce exclusively traditional products?
- Q4a. And don't you add new products?
- Q5. Which are the main risks do you see with the introduction of new products?
- Q6. Do you reassess your business periodically? Do you do something like revision: where you have reached, and do you move in the right direction or there is something additional that needs to be done?
- Q6. Do you have any failed product, although they are all traditional?
- Q7. Did you used external financing for the increase of the growth, or you rely wholly on the profits, accumulation and reinvestment?
- Q7. What is the average growth of your firm for the last 14 years of operation?
- Q8. Which types of developments did differ from what you have planned and how do you mitigate the risk? Do you have a risk mitigation strategy?
- Q8a But you do not produce other type of product?
- Q9. The yogurt /"kiselo mlyako"/is probiotic product. Did you tried to use additional to the traditional Bulgarian starter culture?
- Q10. What is your marketing strategy?
- Q11. How do you optimize the organization of the production?
- Q11a. Is this determining for the decision to start the business?
- Q12. Has the profit grown with the growth of the output, or it has maintained the same level as a percentage?
- Q13. Approximately what is the percentage you reinvest during the years? If it is firm secret you can avoid answering this question
- Q13a. But do you maintain a low level of indebtedness?
- Q14. When you need to change things, do you face resistance to change?
- Q14a. For assessment of the opportunities, do you use external consultants or everything is done internally?
- Q14b. How do you find the effectiveness of the external consulting?

## **1.2. Questions asked on 23.4.2014 during the interview with Dimo Denchev, owner and manager of Buldex Ltd., Region Silistra, Bulgaria**

### **1.2.1 Questions related to the marketing (referred as MQ)**

- MQ1: Were there moments in the development of the company, when the demand of the products was high, but the productivity not enough to match the demand?
- MQ1.1. When approximately has begun this delivery of cheap cheeses?
- MQ1.2. Which were the measures undertaken to keep the sales share?
- MQ2. Were there moments in the development of the company, when the demand of the products was low, which was leading to slack?

MQ2.1. Do you implement any specific measures to counter the slack accumulation? For example, do you lower the production during such periods?

MQ2.2. And you don't look to export?

MQ3. Do you do research on consumer satisfaction from your products?

MQ4. Do you know which sensory characteristics of your products are making them preferred by the consumers?

MQ4. Do you inform yourselves about the consumers, who do not buy your products?

MQ5. If you exclude the factor of price, are there any sensory characteristics that make them not preferred?

MQ5.1. Do you have any specific strategy to reach for such groups of clients?

MQ6. Which would be the main measures in order to increase your market presence and to achieve the maximum utilization of the production capacity?

MQ6. Do you set market goals, for example, 20% increase of the sales in the next year?

MQ7. Which are factors specific for your products, which make them attractive for the consumers in other countries?

MQ8. Which is the most appropriate strategy for the increase of sales in the months of drop and diminishing the cyclic recurrence?

#### 1.2.2 Questions related to the operations management (marked with OQ)

OQ1. Do you set the operational goals? For example, where is possible and not dependent on microbiological processes – shortening the time of processing.

OQ2. Is there any main, priority product respectively production?

OQ3. Do you have strategies for the efficiency increase?

OQ3. Which factors do impact the reduction of the production costs, if that is possible at all?

OQ4. What would influence the most the full capacity utilization? (The answer is contained in the previous replies)

OQ5. Which were the biggest pitfalls you have faced in regard of production organization throughout the years until now?

#### 1.2.3 Questions regarding the human resources (marked with HRQ)

HRQ1. Do you raise the qualification of the personnel?

HRQ2. Do you hire people without suitable qualification?

HRQ3. Which are the main things that motivate the people to work at your company?

HRQ4. Does exist risks with the human resources supply?

HRQ5. Do you have a strategy for human resources development?

HRQ4. Do you measure the profit per employee?

HRQ5. How many days per year the employee is absent, when exclude the normal paid job leave and how do you handle the reduction of the absenteeism?

HRQ6. Do you measure the employee satisfaction?

#### 1.2.4 Questions regarding the finances (marked with FQ)

FQ1. Do you have a strategy for credit risk reduction?

FQ2. Which are the three main factors, which could contribute for increased profitability?

#### 1.2.5 Questions regarding the networking with other companies and/or institutions (marked with NQ)

NQ1. Do you have and maintain any connections and relationships with educational and/or research institutions. If “yes”, please describe the main moments. If “no”, what would be the factors that enable the building and maintaining of such relationships?

NQ2. Has the interaction with the government institutions been useful, or it created risks for the development?

NQ3. How the suppliers add value to your products, if this is possible? For example speed up the production process (where possible), free up your employees to do more activities for the accomplishment of your goals, save expenses.

Additional question:

As a diversification of your portfolio except the petrol-gas station, are you engaged in land cultivation too?

### **1.3. Questions asked on 04.4.2014 during the interview with Maria Milkova, a technology manager at MeatME Ltd, Region Silistra, Bulgaria**

Q1: Please share the history of the company MeatME Ltd.

Q2. How do you handle the entrepreneurship? In the sense of management process, which involves opportunity search and risk assessment and exploiting the opportunities.

Q3. Do you develop new products or place stake on traditional products mainly?

Q4. So, the main growth of the company has been achieved after taking the credit?

Q5. Does every expansion of the production caused organizational changes and how? In order to maximize the efficiency, effectiveness and profitability.

Q7. Which management approach is dominant in your company?

Q8. Do you apply ISO 22000 standard or similar?

Q6. Do you have a strategy for growth?

Q7. What is your marketing strategy?

Q8. What risks do you see from an organizational viewpoint?

### **1.4. Questions asked on 18.4.2014 during the interview with Maria Milkova, a technology manager at MeatME Ltd, Region Silistra**

#### **1.4.1 Questions related to the marketing (referred as MQ)**

MQ1: Were there moments in the development of the company, when the demand of the products was high, but the productivity not enough to match the demand.

MQ1.1. So, you experience a cyclical pattern of the demand – high around year-end and low in the months after that?

MQ2. Were there moments in the development of the company, when the demand of the products was low, which was leading to slack?

MQ3. Do you make research on consumer satisfaction from your products?

MQ4. Do you inform yourselves about the consumers, who do not buy your products?

MQ5. Which would be the main measures in order to increase your market presence and to achieve the maximum utilization of the production capacity?

MQ6. Despite the risks, would you set market goals, for example, 20% increase of the sales in the next year?

MQ7. Are there factors specific for your products, which could make them attractive for the consumers in other country (-ies)?

MQ8. Which is the most appropriate strategy for the increase of sales in the months of drop and diminishing the cyclic recurrence?



#### 1.4.2 Questions related to the operations management (marked with OQ)

OQ1. Is there any main, priority product respectively production? (It is clear that this is the slaughterhouse, but if there is a product designed for the end user, it would be good to mention it, such product that is produced because it has a larger profit margin)

OQ2. Do you strive to increase efficiency?

OQ2.1. Not switching to shift mode of operation?

OQ3. Which factors do impact the reduction of the production costs, if that is possible at all?

OQ4. What would influence the most the full capacity utilization?

OQ5. Which were the biggest pitfalls you have faced in regard of production organization throughout the years until now?

#### 1.4.3 Questions regarding the human resources (marked with HRQ)

HRQ1. Which are the main things that motivate the people to work at your company?

HRQ2. How do you respond to the risks associated with the human resources security?

HRQ3. What are the key moments in your strategy for keeping the personnel? (You stated that there is almost no personnel turnover)

HRQ4. Do you measure the profit per employee?

HRQ5. How many days per year the employee is absent, when exclude the normal paid job leave and how do you handle the reduction of the absenteeism?

HRQ6. Do you measure the employee satisfaction?

#### 1.4.4 Questions regarding the finances (marked with FQ)

FQ1. Do you have a strategy for credit risk reduction?

FQ2. Please, share which are the three main factors you see as the most important for the increasing the profitability?

#### 1.4.5 Questions regarding the networking with other companies and/or institutions (marked with NQ)

NQ1. Do you have and maintain any connections and relationships with educational and/or research institutions. If “yes”, please describe the main moments. If “no”, what would be the factors that enable the building and maintaining of such relationships?

NQ2. Does the interaction with the government institutions contribute to your success, or it creates a risk for the development?

NQ3. How the suppliers add value to your products, if this is possible? For example speed up the production process (where possible), free up your employees to do more activities for the accomplishment of your goals, save expenses.

### **1. 5. Questions used for the third series of interviews with the managers of the both companies on 21.5.2014 and 22.5.2014**

This interview will add some additional details to the previously discussed matters and introduce some new important matters.

1. What were the main elements for your development like company in the beginning? I know we have discussed it at the start, but there are things like opportunity identification, strategies, organization and management, planning that is typical of the well-developed business, not for inexperienced.

2. To which extent the company has been endangered by the gray sector? If yes, what has been the most important for the business sustainability?
3. To what extent you see the improvement (or worsening) of the conditions for the business development in the recent years (including the EU accession)
4. What hindrances inside of the firm do you see, which are stumbling blocks to be exploited additional opportunities?
5. To what extent the learned by the practice during the years is applicable within the new conditions now and what perspectives do you see for the development of the entrepreneurial capabilities?