

GROWTH CHALLENGES AND OPPORTUNITIES FOR MSMEs IN BULGARIA

PhD

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ABSTRACT

Micro, small, and medium enterprises (MSMEs) are frequently established in Bulgaria. They face many unique challenges from all business perspectives: management, finance, marketing, human resources, etc. While MSMEs have certain advantages, the challenges they face are quite different from the ones medium and large companies experience. This article used a mixed-method research design to determine the key challenges of MSMEs in Bulgaria. To overcome their challenges, MSMEs should rely on their main advantages – flexibility, adaptation, and resilience.

KEYWORDS: business, management, challenges, MSMEs

JEL: G3, J0, L1, L2

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a key role in the marketplace of the economies around the world. While definitions vary from country to country, their impact on battling economic issues such as poverty and unemployment while supporting innovation and growth is recognized in the different regions (Salgado et al., 2018; Scuotto, Santoro et al., 2017). MSMEs impact job creation and economic development (Sahut et al. 2019) in a world that's heavily driven by the digitalization (post-COVID-19 pandemic) of both public services and businesses. A variety of factors impact the performance of a company, with the environment creating a unique set of growth challenges and opportunities to explore.

Some of the main advantages and growth opportunities that MSMEs have compared to large corporations are their adaptability and flexibility (lacking the larger structure and established processes in larger companies), their open innovation (Torchia & Calabrò, 2019), and their collaboration possibilities (Zahoor & Al-Tabaa, 2020). The main challenges for MSMEs can come from an administrative/legislative perspective, market-wise (competitors, marketing budget restrictions), and internal (employees, their qualifications, expenses, etc.).

1. Challenges for MSMEs in Bulgaria

MSMEs hold a key position in the economic balance – they account for 90% of businesses, 60-70% of employment, and 50% of GDP worldwide (UN data). Small and medium-sized enterprises represent 99% of all companies in the EU and employ around 100 million people. As a member of the European Union, Bulgaria applies the same definitions concerning the

classification of the enterprise. As per the European Commission (2003) the limit under which a company is considered an MSME is 250 employees and a turnover below €50 million. Table 1 outlines the specific numbers regarding staff headcount and turnover for each of the MSME types.

Table 1. Classifications of enterprise

Enterprise type	Staff headcount	Turnover
Micro	<10	≤ €2m
Small	<50	≤ €10m
Medium	<250	≤ €50m
Large	> 250	> €50m

Source: European Commission, 2003

As per NSI (2022) Bulgaria, the impact MSMEs have on the economy is similar to the worldwide data. 93.4% of 449,481 enterprises are micro, 5.4% are small-sized, 1% are medium and only 0.2% are large companies. MSMEs are essential for countries' potential growth and development (Stel, A. V., Carree, Thurik, 2005, Acs, Desai, Leora, 2008). In Bulgaria, 72% of the total revenue received by nonfinancial enterprises is received by MSMEs affirming the considerable impact that this type of enterprise has on the economy.

1.1. Administrative Challenges

Regulatory business freedom is the ability to create, operate, and close a registered company easily and quickly. This freedom is also highlighted as an important part of the EU-wide legislation through the EU Charter of Fundamental Rights (within Title II Freedoms, Article 16 – Freedom to conduct a business). While Bulgarian legislation and requirements are being simplified for an easier process for companies (e.g. company registration), there are still many areas that could be improved in terms of services provided by the government to make the process for micro and small companies including providing a bigger variety of online services and quicker deadlines. Some aspects of the regulations are burdensome and redundant – they create the biggest challenges and barriers to MSMEs in Bulgaria.

The importance of reform in the public administration *modus operandi* has been highlighted by the recent Structural Reform Support Program (EU, 2019) in which the Commission offered support for the conduct of a comprehensive review of the central administration organization, compliance of allocated functions and competencies applying a model pre-defined in the Administration act.

While those recommendations would benefit all companies, they are crucial for small business owners whose operations can sometimes be wholly blocked by administrative delays and deadlines it's even more pivotal. The benefit of larger companies is that their operations are larger and their overall performance won't be affected as strongly as the smaller MSMEs (which can be fully blocked/stopped).

Another challenge many MSMEs are facing is easy access to government services. This is especially valid for owners in small cities and villages who have to travel and spend more time reaching administrative offices. Easy online access to all government services will save costs and provide further flexibility for MSMEs.

1.2. Competition and market pressures

MSMEs in Bulgaria are positioned in a challenging environment – with factors such as poverty (Veleva, 2023), low-level quality of education in the workforce, and competition from international conglomerates across different sectors. Micro companies face intense competition from larger manufacturers and imported goods, often struggling to compete on price due to higher production costs. Globalization offers both bigger opportunities and challenges to MSMEs. Many companies operate on multiple markets and expand to international reach through platforms like Etsy, Amazon, eBay, etc. Many Bulgarian micro-companies are offering their goods using this model while others prefer to have local reach only (services such as personal grooming for example). The market conditions continuously accentuate the need to improve the product or service for the business to survive.

A core element of MSMEs is entrepreneurship. While there are many definitions of what entrepreneurship entails, it has been agreed upon by a consensus that entrepreneurship helps with the ability to generate desirable economic outcomes of growth, innovation, and flexibility (Tiessen, 1997). Key aspects of entrepreneurship such as innovation, productivity, risk-taking, and motivation are important since they add a competitive edge in the business world. The entrepreneurial mindset provides a unique competitive advantage to MSMEs.

The author has surveyed Bulgarian business owners of MSMEs through survey questionnaires. All respondents were assured confidentiality of the information provided and anonymity regarding their participation in this study. 67 respondents completed the survey. The survey had 3 distinct parts:

1. General and statistical information about the owner and the business
2. Perceived challenges and advantages for the business

Table 2. Characteristics of a sample of MSME representatives

Characteristics of respondents		Number of respondents	Percentage %
Gender	Male	42	63%
	Female	25	37%
Education	High School	21	31%
	Bachelor Degree	29	43%
	Master's Degree	15	22%
	Doctorate or higher	2	3%
Location of the enterprise	Capital (Sofia)	33	49%
	Regional city	12	18%
	Small city or village	5	7%
Offering	Online only	17	25%
	Product	53	79%
	Service	13	19%
	Both	1	1%

Characteristics of respondents		Number of respondents	Percentage %
The period business has been operating for	0-3 years	12	18%
	3-5 years	42	63%
	5-10 years	9	13%
	10+ years	4	6%
Size of the business	1-10 employees	48	72%
	11-50 employees	16	24%
	50-250 employees	3	4%

Source: Own (survey conducted online, 2024)

To determine the specific growth challenges MSMEs in Bulgaria are facing the author has first focused on understanding the situation in which the analysed companies operate. The respondents who fulfilled the survey were predominantly male (63%), while 37% were females. The highest level of education obtained by the constituents was a doctorate (PhD.) or higher – with only two respondents having it (3%). The majority of respondents had completed either high school (31%) or a bachelor's degree (43%), while only 22% had obtained a master's degree. This shows that people with an entrepreneurial mindset rarely follow the academic development path, preferring to focus on their business pursuits.

The majority of the enterprises are located in the capital city of Bulgaria, Sofia – 49%, with 18% being located in a regional city, 7% in a small city or village, and interestingly enough – 25% of the companies do not have a physical store/location where they interact with their customers, instead of that focusing only on online presence and operating their business fully through digital channels.

Most of the businesses that participated in the survey have been operating between 3 and 5 years (63%), with 18% of them operating between 0-3 years and 13% of respondents with businesses operating between 5-10 years. Only 6% of the respondents were operating over 10 years. Although the survey conducted is relatively small (only 67 respondents), the results show that few MSMEs make it long-term (over 10 years) which means they cannot maintain their position in the marketplace long-term.

In terms of the size of the business, the majority of firms within the respondents are micro-enterprises and have 1-10 employees – 72%. 24% of the companies have between 10-50 employees and only 4% have between 50 and 250 employees. This shows us that the majority of respondents work in smaller teams and are still in the development/entrepreneurial stage of their business journey.

The second part of the survey focused on the challenges and general marketing activities of the respondent companies. The results are outlined in Table 3.

Table 3. Growth Challenges and Opportunities for MSMEs

Focus area		Number of respondents that feel positive towards the statement	Percentage %
Product			
COGS advantage		26	39%
Product/Service quality advantage		18	27%
Final price for the customer		13	19%
Workforce			
Employee effectiveness		46	69%
Employee experience		32	48%
Employee skill set		28	42%
Employee loyalty		25	37%
Marketing efforts			
Website	Yes	42	63%
	No	25	37%
Facebook page	Yes	50	75%
	No	17	25%
Instagram account	Yes	29	43%
	No	38	57%
TikTok Account	Yes	2	3%
	No	63	94%

Source: Own (survey conducted online, 2024)

The second part of the survey focuses on the business challenges that MSMEs face and the growth opportunities. This part of the survey is divided into several segments touching points on key functionalities/elements of the business operations: Product, Workforce, and Marketing efforts.

Within the product questions, the enterprises have answered whether they feel they have a COGS advantage (COGS stand for Costs of Goods Sold, the expenses for manufacturing the product). A solid 26 respondents (39%) of the companies have advised they feel they have a COGS advantage which is a good result and is most likely attributed to unique products and cheaper costs for manufacturing and shipping within Bulgaria compared to other countries. At the same time, micro companies face intense competition from larger manufacturers and imported goods, often struggling to compete on price due to higher production costs (Iliev, I., 2024). Only 27% of the respondents feel they have an advantage concerning the quality they're offering. Regarding the final price that is offered to the marketplace (and customers) only 19% feel confident that they have a competitive advantage.

As of the workforce, 69% of the respondents of the survey feel they employees are effective, while only 48% would say that they're experienced. The impressive 42% feel that the employee

skill set is offering a strong competitive advantage for the business. 37% of the respondents confirm that their employees are loyal to the company.

The next part of the survey focuses on the presence online of the companies since it's a crucial element to the marketing mix and success. 63% of respondents have a website, while the remainder do not have one. Only 2 companies or barely 3% have a TikTok account, while the remaining 63 participants (or 94%) do not have one.

The survey shows that while MSMEs believe in the qualities of their employees, they have room for improvement with regards to the product or service being offered and their digital marketing efforts. Marketing plays a pivotal role in promoting innovation and enhancing the value offered to consumers. It provides insights into consumer needs and preferences, guiding the development of new products and services that fulfil unmet demands. (Ilieva, 2024).

2. Growth opportunities for MSMEs in Bulgaria

Product economics is important for a company's budgeting and financial success. One of the challenges that many micro and small companies face is related to budgeting and understanding the basic principles of analysis and prognosis of a budget (Jolovski, 2018) is crucial for the long-term survival and success of the entity.

MSMEs could benefit from a consultancy from experienced business and financial professionals to help them look for opportunities to optimize their COGS. With regards to the product and service offered and its uniqueness – this is an area that might change the outcome of the business. MSMEs should spend extensive time researching their competitors and learning from their customers what features they're looking for in the products/services niche they're in. Personalization, customization, and unique design – all of these features can allow MSMEs to be competitive on the marketplace.

MSMEs should focus on creating a work environment that supports skill development and inspires the employees to improve their performance – this will only benefit the company long term. Thinking about ways to incentivize employee loyalty as well as build closer relationships with the employees is something that could help MSMEs build a strong team to help them grow and improve their profits.

The digital presence of the MSMEs in Bulgaria offers opportunities for the growth and development of the business. Social media platforms are no longer just digital business cards for companies – they can be used as marketplaces and help customers go through the marketing funnel successfully. MSMEs in Bulgaria can benefit from learning more about the ways to use social media to their benefit and support them in growing their business.

In conclusion, there are many growth opportunities where MSMEs can use their strengths and improve their financial performance. They need to use their flexibility, quicker adaptation to changes, and strong resilience when facing difficulties to manage all aspects of their business. Identifying the weak spots in each specific business also allows for the identification of the areas where the biggest growth can occur.

CONCLUSION

The biggest challenges MSMEs in Bulgaria face can be distinguished between two main categories: administration and market pressure. While the administration is undergoing a digitalization process, there is room for improvement both in terms of technical operations and legislative ease in terms of processes regarding MSMEs. The market challenges MSMEs face come from the competitors operating with imported goods or larger volumes that can offer better prices to the end customers. Digital expansion and marketing efforts are another area that presents both challenges and opportunities to MSMEs. When exploring growth opportunities Bulgarian MSMEs should focus on the product/service they're offering, optimizing their COGS, and creating a work environment that supports skill development and inspires employees to be better and loyal to the company. Creating a strong internal core will help MSME companies to be stronger in the competitive marketplace. Relying on their strengths is the way MSMEs can explore growth opportunities such as a stronger digital presence and reaching out to their target audience.

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