

# Investment Activity of SMEs in the Furniture Industry in the Republic of Bulgaria

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**Abstract**— The article presents data from a survey conducted in 26 furniture companies in the country in the period 2023 - 2024. The aim is to diagnose the main limiting factors affecting their functioning; to obtain information about their investment activity for analysis and assessment of the management of the investment process in SMEs by identifying problem areas. The method used is a questionnaire survey among line and functional managers. Conclusions are formulated about the investment needs of the surveyed enterprises..

**Keywords**— investment activity, investment projects, furniture SMEs, limiting factors.

## I. INTRODUCTION

Investments are an essential factor for the development of any company, and investing is an important activity in the overall business process. In practice, due to the limited capital resources, owners often have to choose one or another sphere of activity, area or object of investment. Making the right investment decisions depends on the knowledge, competences and skills of managers. Making investments to provide new fixed assets has a long-term impact on the production process [1].

Furniture production is one of the traditional economic sectors for Bulgaria with a history that goes back far back in time. The first large furniture factory was established two centuries ago, but long before that, domestic furniture was famous for its quality and skillful workmanship. Our country ranks 21<sup>st</sup> in Europe in furniture production, with production worth 614 million euros in 2023. The furniture industry in the Republic of Bulgaria is famous for its excellent price/quality ratio, which makes it a preferred partner for Western European companies. Over 85% of production is exported, and according to some analysts, this percentage reaches 90.

The purpose of the study is to obtain information about the investment activity of small and medium-sized enterprises in the country by analyzing the management of the investment process in them, identifying problem areas, and outlining the prospects for sustainable development and higher investment activity [2].

## II. MATERIALS AND METHODS

For the purposes of the study, the following approaches and methods were used: literature research and analysis; comparative analysis; graphic and tabular methods. methods of analysis and synthesis, surveys, interviews, statistical methods for analyzing interrelationships. Expert assessments published in numerous specialized publications, scientific reports, macroeconomic analyses, statistical reference books, annual reports, strategies and results of survey studies were also used. The data are from official publications of the Ministry of Finance (MoF), the National Statistical Institute (NSI), the Institute of Market Economy (IME), the Executive Agency for the Promotion of Small and Medium-sized Enterprises (ESME), the Branch Chamber of the Woodworking and Furniture Industry (BCWFI), etc.

According to NSI data, production in Bulgaria related to this sector in Europe and the world has recorded a 25.4% growth. Only three countries on the Old Continent – Bulgaria, Latvia and Italy – have managed to achieve over 25% growth in furniture. Chairs, upholstered furniture with a lot of manual labor, mattresses – these are just some of the industries in which Bulgarian companies have proven themselves. There is specialization in furnishing shops and showrooms of famous brands all over the world. High-class hotels are also being furnished. In some of the production segments, a serious contraction in orders is already being reported. Among the reasons are the lack of raw materials and the increase in the price of materials and energy carriers. Our country is in 19<sup>th</sup> place in Europe in furniture exports. The main export

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destinations are Romania, Greece, France, Germany, the Czech Republic, Italy, the Netherlands and the United Kingdom [3].

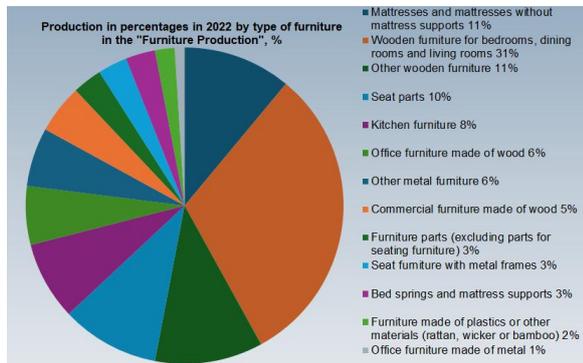


Fig. 1. Production in percentages in 2023 by type of furniture in the "Furniture Production" sector, Source: Chamber of Commerce of Wood and Furniture Industry (CCWFI).

As a type of furniture, the largest share in the manufactured output is made up of bedroom, dining room and living room furniture (31%), mattresses (11%), other wooden furniture (11%), parts for seating furniture (10%), kitchen furniture (8%) and others.

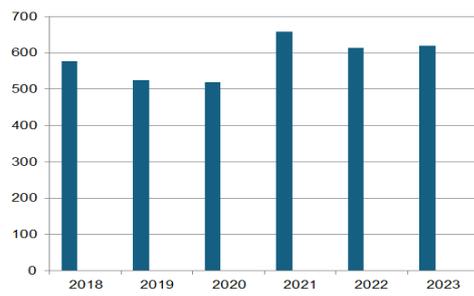


Fig. 2. Furniture production in Bulgaria (2018 – 2023), million EUR, Source: Chamber of Commerce of Wood and Furniture Industry (CCWFI).

In 2023, the employed in the "Furniture Manufacturing" sector accounted for 4.5% of the employed in the manufacturing industry, and the share of their net turnover was about 2% of the net turnover in the industry. The enterprises in the sector are mainly micro (from 0 to 9 employees) and small (from 10 to 49 employees), representing nearly 98% of all enterprises in the sector. The share of medium-sized enterprises (from 50 to 249 employees) is 2%, and of large enterprises (with 250 and more employees) - 0.4%. The employed in micro- and small enterprises occupy a share of 55% (respectively 25.7% for micro- and 29.4% for small enterprises), the share of the employed in medium-sized enterprises is 21.1%, and in large enterprises - 23.7%. Large enterprises account for 36.7% of the net turnover in the sector, medium-sized enterprises account for 23.6%, and micro and small enterprises account for 39.7% [4].

TABLE 1 EMPLOYEES AND NET TURNOVER IN THE "MANUFACTURE OF FURNITURE" SECTOR BY ENTERPRISE GROUPS ACCORDING TO THE NUMBER OF EMPLOYEES IN THEM FOR 2022, SOURCE: EUROSTAT

Indicators	Group of companies					Total
	0 to 9	10 to 19	20 to 49	50 to 249	250+	
Employees, number	5 592	2 774	3 637	4 606	5 172	21 781
Net turnover, million EUR	129,5	84,0	134,9	207,3	321,6	877,3

The following graph shows that the main group for which investments are made in training is the 18-26 year old group. The reason for this is the insufficient adequacy of the curricula and the lack of real practical training of graduates of specialized educational institutions. A problem for companies in the furniture industry is the very low commitment and willingness of employees to participate in training to improve their qualifications or to improve their knowledge and skills [5].

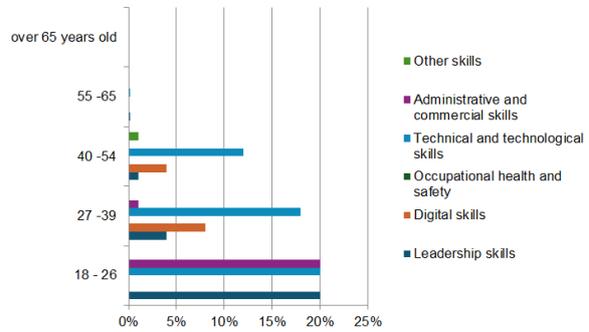


Fig. 3. Personnel training conducted (2022 - 2023) - by age group in percentages - in the "Furniture Production" sector.

The industry has the potential to develop a circular economy. An important direction is the recycling and reuse of materials, associated with appropriate technologies, a lot of investment, time and targeted efforts towards changes in the utilization of materials. Companies from the industry, pressured by high energy prices, are building their own photovoltaic power plants on the roofs of their enterprises in order to cope with the energy crisis and price pressure on their own [6].

More and more companies in the furniture industry are investing in the construction of photovoltaic power plants. According to data from the Chamber of Woodworking and Furniture Industries (CWFI), companies in the industry are turning to such projects to cover their own electricity needs, but also to meet the requirements for transitioning to a circular economy and reducing their carbon footprint. Geopolitical events and the unstable external environment present SMEs in the Bulgarian furniture industry with serious challenges and the need to seek options to cope with the high and unpredictable costs of electricity and gas [7].

Digitalization and automation, improving the qualifications of those employed in the sector will provide prospects in the competitive race. The Bulgarian furniture industry is an example of innovation, modernization, optimization of production and implementation of

robotization, with high-quality production, highly valued in Europe and around the world [8]. However, the industry is struggling with the lack of wood and raw materials. Furniture industry enterprises in Bulgaria employ 50,000 people in small settlements located next to the raw material. The Bulgarian furniture industry is a sector with very serious traditions, which produces mainly for export. Over 80% of furniture production in Bulgaria is mainly directed to Western Europe. One of the advantages of Bulgarian SMEs, which makes them preferred by Western partners, is their exceptional flexibility. They are ready to respond extremely quickly to changing requirements. Value-added production, export development, modernization, adoption of new technologies and the concept of Industry 4.0 – this is the modern image of Bulgarian furniture production [9].

A key stage in achieving the main objective of the report is the application of SWOT analysis, with the help of which the investment climate is outlined in a synthesized form, used to identify the problem areas in the investment management of furniture companies such as [10 - 11]:

- influence of the environment;
- presence of investment activity,
- financing of investments;
- development of investment strategies;
- information and personnel security in the investment process;
- development activity and innovations in companies from the furniture industry.

The analysis of the factors affecting the investment management of furniture companies is structured into three groups, distinguished as follows [12]:

- analysis of external environmental factors with indirect impact;
- analysis of external environmental factors with direct impact;
- internal systemic analysis of enterprises.

TABLE 2 SWOT ANALYSIS OF THE FURNITURE INDUSTRY IN REPUBLIC OF BULGARIA

Opportunities	Threats
<ul style="list-style-type: none"> <li>▫ attracting foreign investments</li> <li>▫ taking advantage of the advantages of EU membership</li> <li>▫ increasing investment in exports</li> <li>▫ investing in technologies that reduce the use of materials</li> <li>▫ investing in energy-saving production</li> <li>▫ investing in reducing the harmful impact of production</li> <li>▫ investing in personnel training</li> <li>▫ investing in R&amp;D,</li> </ul>	<ul style="list-style-type: none"> <li>▫ global economic crisis</li> <li>▫ danger of deflationary pressure</li> <li>▫ legislative restrictions</li> <li>▫ political instability</li> <li>▫ corporate indebtedness</li> <li>▫ weak investment activity</li> <li>▫ difficulties with financing investments</li> <li>▫ mismatch between the demand and supply of labor</li> <li>▫ strong competitive pressure from foreign companies on the Bulgarian and international markets</li> </ul>

interaction between scientific organizations and business	
▫ increasing innovation activity	
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▫ traditions in production</li> <li>▫ qualified workforce</li> <li>▫ sufficient quantities of cheap local raw materials and energy</li> <li>▫ low labor costs</li> <li>▫ flexibility and quick response to market needs</li> <li>▫ good technological equipment in a large part of the enterprises in the sector</li> <li>▫ branch organization, contacts with international organizations</li> <li>▫ export orientation of the sector</li> </ul>	<ul style="list-style-type: none"> <li>▫ lack of long-term strategies</li> <li>▫ strong dependence on a small number of customers (markets)</li> <li>▫ insufficient knowledge in the field of marketing and management</li> <li>▫ weak innovation activity</li> <li>▫ low degree of internationalization, poor knowledge of good practices</li> <li>▫ insufficient investment in development and personnel</li> <li>▫ need for product reorientation, use of modern materials and changes in furniture design</li> <li>▫ insufficient reliable and consistent product quality</li> </ul>

TABLE 1 INDICATORS FOR STUDYING THE STRATEGIC MANAGEMENT OF INVESTMENTS IN FURNITURE COMPANIES

Environmental influence	Firms' reaction to changes in the external environment
	Factors limiting the investment activity of firms
Investment	Investment structure
Financing of investments	Investment Financing Structure
	Investment Financing Sources
Investment strategy	Development of investment strategies in companies
	Methods for economic evaluation of investments
	Discount rate
	Risk assessment in investment projects
Information security	Sources of investment ideas
Staffing	Making a decision to invest in companies
	Organization of the investment process
Development/Innovation	Generating ideas for investing in companies

The conducted surveys provide an opportunity for practical verification of the existing problems in investment management, related to the level of competence and training of the management team, the lack of systematicity and strategic orientation in the investment process in furniture companies, and the existence of a relationship between the size of the companies and the way in which their investment management is carried out [13].

### III. RESULTS AND DISCUSSION

A survey was conducted in 26 leading small and medium-sized enterprises in the sector, selected by the criterion of volume of production, forming the image of the furniture industry in Bulgaria [14]. The analysis of the

results of the survey was carried out on the basis of summarized information about the companies. A purposive sample of 26 companies in the furniture sector, selected by the criterion of sales volume for the period 2018 - 2023, was observed. Comparisons were made between the answers given by them. The distribution of the companies into three groups, according to their size, is as follows:

- medium (over 100 employees) - 10 pcs.;
- small (between 51 and 100 employees) - 8 pcs.;
- micro (up to 10 employees) - 8 pcs.

The comparison was carried out in order to derive a relationship between the size of the companies and the investment management they conduct. The questions included in the questionnaire at this stage of the study are systematized in the following groups: Main characteristics of the surveyed companies;

- Influence of the environment on the activities of companies;
- Investment activity of furniture companies;
- Management of investments in furniture companies.

Based on the comparative analysis, regularities are derived regarding the management of investments in furniture companies. The reaction of enterprises to the external environment during the period under review is that they rather try to adapt to changes. Only about 1/3 of them express readiness for bolder investment decisions (Fig. 4).

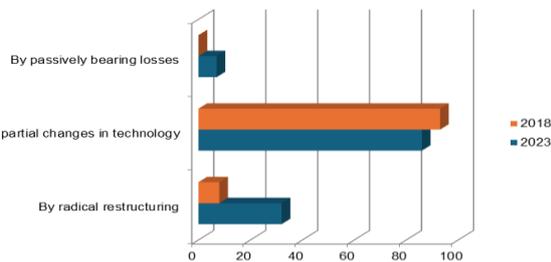


Fig. 4. Reaction to the external environment

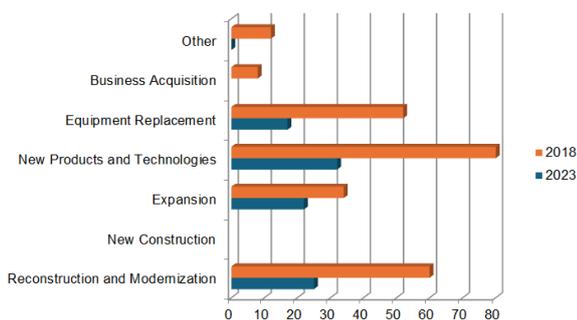


Fig. 5. Investment structure

The structure of investment financing shows that the share of financing with own funds is predominant compared to that of financing with attracted capital (Fig. 6).

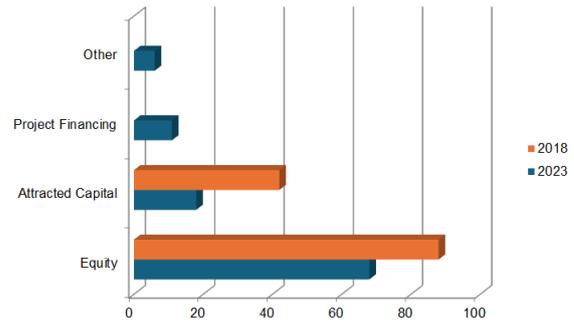


Fig. 6. Financing Structure

The limiting factors for the investment activity of companies are more likely to be associated with internal weaknesses of the companies than with the negative influence of the external environment (Fig. 7).

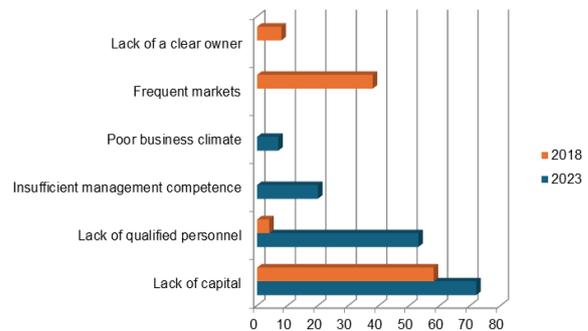


Fig. 7. Factors limiting the investment activity of companies

The results of the analysis show that investment ideas come almost entirely from managers and owners. They are significantly less frequently proposed by middle management in companies (Fig. 8).

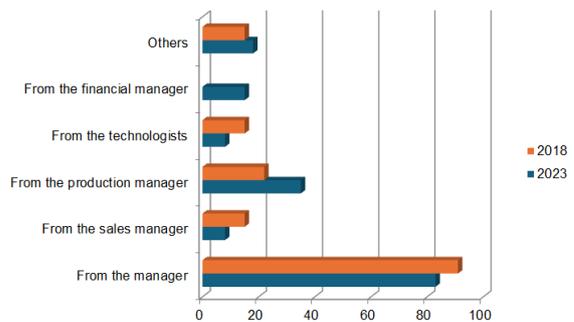


Fig. 8. Comparison of results on the question: who are the generators of ideas for investing in the furniture industry in 2018 and 2023

Regarding the sources of investment ideas:

- in the first place are visits to fairs, exhibitions and scientific conferences;
- in the second place – contacts with customers, distributors, suppliers, etc.;
- in the third place – observations of competitors' activities.

Publications in specialized publications are used much less frequently. The number of companies with their own R&D unit is insignificant (Fig. 9).

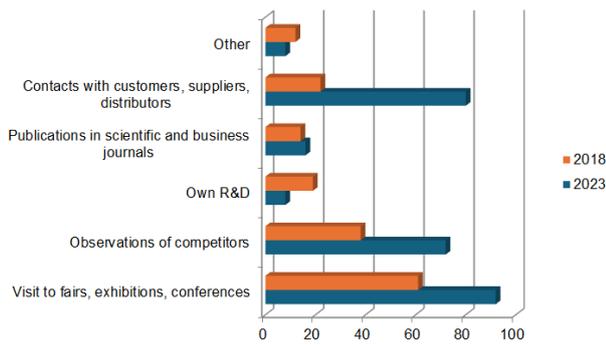


Fig. 9. Sources of investment ideas

Most often, the organization is not assigned to any specific unit in the companies, but is decided for each individual investment case. The results of the analysis show a lack of independent investment units in the furniture companies for the period studied (Fig. 10).

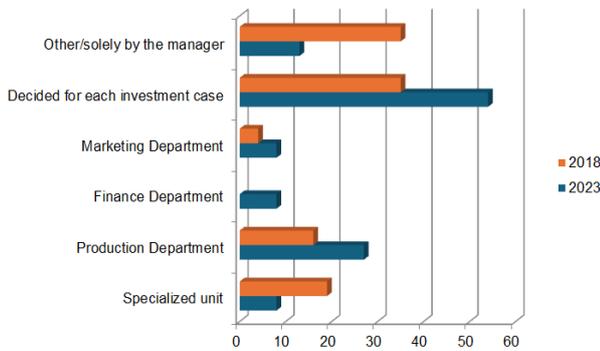


Fig. 10. Which unit organizes the investment process on company

The majority of the surveyed line and functional managers in furniture companies in our country carried out current and follow-up control over the implemented investment projects present on Fig. 11 and Fig. 12.

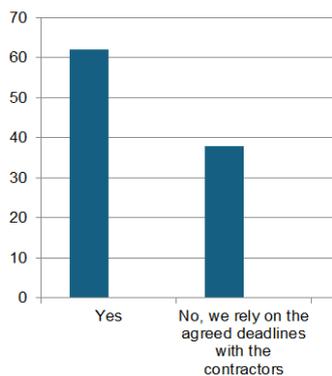


Fig. 11. Control over the progress of investment projects

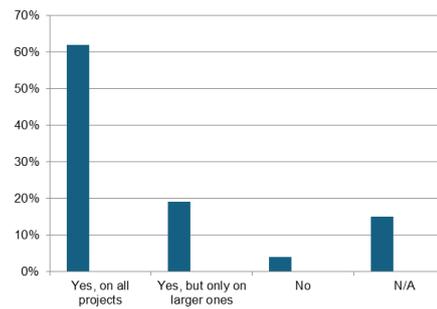


Fig. 12. Post-investment control over projects

#### IV. CONCLUSIONS

The conducted research shows the presence of serious management gaps and errors in the investment management of furniture companies in each phase of the investment process and in each of the functions performed in the management process - in the planning, organization and control activities. Improving investment management in furniture companies is also related to the need for a more in-depth knowledge of the environment, which requires a wider use of marketing information in the process of making investment decisions. Managers of furniture SMEs encounter difficulties in planning investments, determining their economic efficiency, as well as assessing the risk of investment. There is a need for a wider use of dynamic methods for investment analysis and increasing the burden of risk assessment. One of the permanent tasks of management in companies should be to create opportunities for training specialized personnel through participation in specialized courses; scientific conferences and external training on issues related to investment management. The implementation of investment decisions of strategic importance for enterprises in the furniture industry depends on their future sustainable development. For this reason, it is of utmost importance to:

- Create units or attract specialists in companies with the necessary knowledge and competencies in the investment field;
- Provide broader opportunities for staff participation in the process of generating investment ideas with the assistance of scientific institutes and universities;
- Strengthen ongoing control. For smaller projects, it is appropriate to apply linear schedules, and for more complex ones - network schedules, which cover all stages of the investment process.

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