International Business Management 11 (2): 322-333, 2017
ISSN: 1993-5250
© Medwell Journals, 2017

Exploring Performance Differences Between Bulgarian Family and Non-Family Businesses: The Role of Organizational Factors

Desislava I. Yordanova
Faculaty of Economices and Business Adminstration, Sofia University,
St. Kilment Ohridski, Palo Alto, USA

Abstract: The research on family businesses in former socialist countries in general is very scarce and research findings about family businesses in other contexts may not be directly applicable to economies in Central and Eastern Europe. The aim of the present study is to explore differences in firm performance between Bulgarian family and non-family firms. It contributes to the fields of family business literature and performance research by providing hypotheses about organizational characteristics which mediate the effect of the family business status on firm performance. Our hypotheses are guided by the resource-based view of the firm and previous empirical research on determinants of performance. The results reported in this study advance our knowledge about firm performance among family and non-family businesses in a transition context and have important practical implications.

Key words: Socialist countries, firm performance, knowledge, non-family, transition context

INTRODUCTION

Although, entrepreneurship in the transition economies in Central and Eastern Europe has attracted some research attention, the role of family business is largely neglected by academics (Gallo, 1995). However, family businesses have increasing role in the growth-oriented economies in Central and Eastern Europe (CEE) Gallo (1995) and Donckels and Frohlich (1991). In one of the first studies on family business in the Balkans, note that family business activity in Bulgaria is in the foundation phase. Almost 20 years after the Poutziouris research, the role of family businesses in Bulgarian economy may have increased significantly. The research on family businesses in former socialist countries in general is very scarce because private business ownership was not a legal activity during the period of central planning (Duh *et al.*, 2009). Research findings about family businesses in other contexts may not be applicable to economies in Central and Eastern Europe due to differences in institutional environments, historic development, culture, resources, entrepreneurial role models, etc.

The aim of the present study is to explore differences in firm performance between Bulgarian family and non-family firms. Firm performance, its determinants and approaches for its improvement is an important topic for both management research and practice (Kamel, 2007; Ahmad *et al.*, 2010; Iwarere, 2010).

The research exploring the differences between family and non-family businesses constitutes one of the basic fields of family business research (Gallo and Pont, 1996). Chua *et al.* (2003) emphasized the importance of discovering and explaining differences in behaviour and performance between family and non-family businesses for the development of a theory of the family firm. Identifying differences in management practices between family and non-family businesses has important theoretical and practical implications. There is lack of understanding about differences between family and non-family businesses in the transition economies in Central and Eastern Europe. Most research on this topic has been conducted in other contexts (Donckels and Frohlich, 1991; Daily and Thompson, 1994; Chhibber and Majumdar, 1999; Daily and Dollinger, 1993; Gallo, 1995; Cromie *et al.*, 1995; Coleman and Carsky, 1999; Claessens *et al.*, 2002).

The study is structured as follows. The next section describes the context of the research. The following section includes a theoretical framework that discusses the nature of family business and the role of firm resources and capabilities for firm performance. The forth section contains testable hypotheses derived from the outlined theoretical arguments and past empirical findings. In the fifth section, the research methodology is described. The following section outlines the main empirical findings. Finally, the conclusions, limitations, practical implications and future research recommendations are discussed.

The context of the study: During the period of central planning, Bulgarian economy and other economies in Central and Eastern Europe were based on large state-owned industrial enterprises using mass production methods and relatively inflexible production processes, producing for geographically restricted markets (Tkachev and Kolvereid, 1999). In most planned economies including Bulgaria, entrepreneurship was not allowed (Tkachev and Kolvereid, 1999) while private business was practically eliminated or part of the grey economy (Smallbone and Welter, 2001).

As in other Eastern European countries, the Bulgarian transition was a complex process involving radical economic and political transformations which resulted in the establishment of liberal democracy and civic society and prompted the emergence of a functioning market economy. The transition was not completed even after the accession of Bulgaria to the European Union in 2007 which may be attributed to the fact that people's mindset adapts slower than regulatory reforms. The transition created many opportunities for entrepreneurship which became an important factor for the transition from centrally-planned to market economy. The major obstacles to business development in transition countries were the heritage from the planned era and the lack of appropriate institution.

The profound political and economic changes in Bulgaria led to the emergence of privately owned businesses some of which were owned and controlled by a single family. Until recently there was no any official statistical information about the number of Bulgarian family businesses and their contribution to the economy. The first survey on family business in Bulgaria conducted in 2010 by the National Statistical Institute and initiated by the Association of the Family Business reveals that family businesses represent >42% of all enterprises. They employ 28.3% of the workforce in the private sector. About >43% of the Bulgarian family businesses operate in the trade sector and employ 34% of the total workforce in family businesses. About >37% of the Bulgarian family businesses operate in the service sector and employ >28% of the total workforce in family businesses. Only 9% of the Bulgarian family businesses are involved in manufacturing but they provide employment to almost 25% of the total workforce in family businesses. Other sectors with family businesses are construction, agriculture and the financial sector. The turnover of family businesses is about 20% of total turnover of Bulgarian enterprises, while the amount of investments in fixed assets of family businesses are 16% of all investments in the country. Family businesses provide >17% of the total amount of products and services produced by the Bulgarian enterprises. Most family businesses have to transfer the ownership and management control to the next generation in the next 5-10 year because they were founded in the period 1990-1995.

Theoretical framework: Family business: a specific organizational form: Although there is no widely accepted family firm definition several studies have detected that family firms differ from otherwise similar organizations because of the critical role that family members play in business processes at many levels (Davis and Harveston, 1998; Chua *et al*., 1999). Chrisman *et al*. (2005) find that in the literature a family business is defined either by a combination of the components of a family's involvement in the business (involvement approach) or by focus on the intention, vision, familiness and/or behaviour that constitute the essence of a family business (essence approach). These approaches may be used hierarchically to differentiate family from non-family firms and to distinguish different types of family businesses. The criteria most often used to define family business include ownership, family involvement in management and family involvement in the board of directors of the business. It was acknowledged that family businesses represent a heterogenous group of businesses which may exhibit a great diversity in the stages of development of the family, ownership and business systems the level of complexity and the degree of structure development, culture (Dyer, 1988), family involvement, emotions, sentiments and relationships within the controlling family (Iwarere, 2010), etc.

Differences between family and non-family business concern the basic core of the firm. Family influences all aspects of the business (Bresciani *et al*., 2015). Family businesses tend to pursue both economic and non-economic goals and their competitive strategy emphasises on quality, reputation and long-term relationships. Longevity is very important for family businesses and this influences all aspects of their business activity. Despite many advantages, family businesses face specific disadvantages, conflicts and challenges. Family business exhibits a focus on the local community. This tendency is strong "because its resources are established and or utilized at a local level" (Fragoso, 2015). Local community may affect strongly the ability of family businesses to be successful through network ties. Family businesses tend to rely on internal financial resources as sources of capital and are reluctant to use other sources of capital. Small family businesses lack critical resources and capabilities including human capital, financial resources, marketing resources, international experience and foreign language skills (Leonidou and Constantine, 1996).

Resource-based view of the firm: The Resource-Based View of the firm (RBV) (Wernerfelt, 1984; Barney, 1991) is considered as an appropriate theoretical framework for research in the field of firm performance as well as in the context of emerging and transition economies. RBV posits that strategic formulation and competitive advantage are dependent on the resources and capabilities of the firm. Central to the resource-based view of the firm are the assumptions of heterogeneity and immobility of resources (Barney, 1991). RBV assumes that strategic human capital, physical capital and organizational capital resources may differ across firms in an industry or a group (Barney, 1991). Resource immobility refers to the inability of a firm to purchase or create strategic resources held by a competing firm (Barney, 1991). According to RBV, firm resources are sources of competitive advantage (Barney, 1991). Competitive advantage is defined as occurring when a firm "is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors" (Barney, 1991). In contrast, a firm has a sustained competitive advantage "when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when those other firms are unable to duplicate the benefits of this strategy" (Barney, 1991). One of the principal insights of the resource-based view is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage. Barney (1991) argues that sustained competitive advantage can only be established through implementing unique product market strategies and points out that the key to understanding what makes strategies valuable and sustain their uniqueness are the resources controlled by the firm. Wernerfelt (1984) stresses that one could identify type of resources leading to high profits. Much attention has focused therefore, on the characteristics of advantage-creating resources including value, rareness, non-inimitability, non-substitutability, non-tradability, durability, transparency, transferability, replicability, appropriability, competitive superiority (Dierickx and Cool, 1989; Zahra, 1991; Barney, 1991; Collis and Montgomery, 1995).

Literature review: Family businesses exhibit some disadvantages and shortcomings including institutional overlap between family and business norms and principles, low access to financial resources, confusing organization, nepotism, paternalism, altruism, conflicts, financial strain by unproductive family members and succession problems which may lead to lower performance in comparison with non-family firms. Family businesses tend to rely on internal financial resources as sources of capital and are reluctant to use other sources of capital. Family businesses lack not only critical resources and capabilities including human capital, financial resources, marketing resources and international experience (Leonidou and Constantine, 1996) but also the ability to make appropriate shedding decisions about resources which may influence negatively their performance. Although, recent studies of large publicly traded US family and non-family firms reveal that family firms have superior market valuations in comparison with non-family businesses a large number of empirical studies from other countries and contexts and based on more inclusive samples demonstrate that non-family businesses tend to outperform family businesses (Claessens *et al*., 2002; Barth *et al*., 2005; Miller *et al*., 2007). The contradictory empirical evidence about performance differences between family and non-family businesses may be explained with the high sensitivity of findings to the nature of the sample and the adopted family business definition (Miller *et al*., 2007). Therefore, we suggest that:

- H_1: Family business status influence negatively firm performance

Entrepreneurial orientation of an organization may be seen as valuable resource which leads to superior performance. Indeed, empirical research on the consequences of corporate entrepreneurship in organizations from different countries, sectors and size classes demonstrates that corporate entrepreneurship improves various measures of firm performance including financial performance, value to stakeholders, profitability, earnings per share, change in profits, employment growth and sales growth (Zahra, 1991, 1993; Becherer and Maurer, 1997; Barrett and Weinstein, 1998; Zahra and Colin, 1995; Zahra *et al*., 2000; Caruana *et al*., 2002; Covin *et al*., 2006; Hughes and Morgan, 2007; Moreno and Casillas, 2008). The positive effect of corporate entrepreneurship on organizational performance was confirmed in transition economies as well (Chow, 2006; Tang *et al*., 2007, 2008). The causal relationship between corporate entrepreneurship and organizational performance has been identified in several empirical studies with a longitudinal design (Zahra and Covin, 1995; Wiklund, 1999; Antoncic and Hisrich, 2004; Madsen, 2007). Family businesses may be more conservative and risk averse than non-family businesses and therefore, unwilling to undertake entrepreneurial activities (Zahra *et al*., 2005). Family firms take risks to lesser extent (Donckels and Frohlich, 1991) tend to be less innovative and exhibit lower entrepreneurial orientation than non-family businesses. Therefore, we suggest the following hypothesis:

- H_2: Entrepreneurial orientation mediates the effect of family business status on firm performance

Learning orientation refers to the manifestation of organization's propensity and capacity to learn and adapt (Mavondo *et al*., 2005) and may be considered as a crucial resource necessary for achieving superior perfromance. Slater and Narver (1995) argue that learning orientation should lead to greater new product success and superior growth. Empirical research on learning orientation demonstrates that learning orientation has a positive impact on organizational performance. Descriptive studies of various industries including automotive industry, financial services and nuclear industry depict the "power of learning" and the importance of learning for winning competitive advantage. Learning orientation influence performance not only indirectly through qualitative improvements of market-oriented processes but also has a direct positive effect on performance (Baker and Sinkula, 1999). Learning orientation contributes significantly to the change in relative market share, new market share and performance (Baker and Sinkula, 1999; Calantone *et al*., 2002). Higher-growth manufacturing firms tend to exhibit a more active learning orientation and make greater use of knowledge assets than lower growth firms. In the context of emerging economies, state-owned enterprise exhibit a higher level of changes in organizational outcome due to stronger learning orientation. Family businesses may lack learning orientation and systems that allow learning to occur. Family and non-family businesses differ in their learning behaviour in the context of internationalization. Compared to non-family businesses, family businesses exhibit worse sharing and institutionalization of experience and impediments to knowledge diffusion. Family firms are less likely to systematically analyze training needs and to provide training to employees. Therefore, we suggest that:

- H_3: Learning orientation mediates the effect of family business status on firm performance

Resources are important for establishing competitive advantage and achieving superior performance (Wernerfelt, 1984; Barney, 1991). Financial resources can easily be converted in other resources and thus may help the firm to overcome resource constraints in other types of resources (Wiklund and Shepherd, 2005). Greater access to financial capital stimulates risk-taking because it improves the chance for success of risky projects (Wiklund and Shepherd, 2005). The availability of financial resources facilitates reinvestment and therefore makes it easier for the firm to become proactive in the marketplace (Wiklund and Shepherd, 2005). The access to financial capital may provide slack which may enhance experimentation, alleviate capital restrictions and improves strategic choices of managers (George, 2005). Empirical research suggests that availability and amount of financial capital influences significantly firm performance (Cooper *et al*., 1994; Bosma *et al*., 2004; Wiklund and Shepherd, 2005; Coleman, 2007). Family firms may experience difficulties to acquire the necessary financial resources which may hamper their performance. Family businesses prefer to use internal financial resources as sources of capital and are reluctant to use other sources of capital. Therefore, we suggest that.

- H_4: Access to financial resources mediates the effect of family business status on firm performance

Companies in transition economies lack managerial and entrepreneurial skills. Foreign investors in Central and Eastern Europe may transfer products and marketing skills, technology and management skills and know how to local companies which may improve their product lines and market penetration and thus make them more competitive. Foreign ownership in companies operating in Central and Eastern Europe may be associated with high learning, high efficiency governance and high corporate restructuring effectiveness (Filatotchev *et al*., 2003). Companies with foreign shareholdings may have greater access to technical and financial resources and may dispose with superior managerial capital which may contribute to superior performance (Douma *et al*., 2006). Empirical findings from various countries show that the presence of foreign owners is positively associated with firm performance (Willmore, 1986; Boardman *et al*., 1997; Chibber and Majumdar, 1999; Wiwattanakantang, 2001; Douma *et al*., 2006; Aydin *et al*., 2007; Huang and Shiu, 2009). Family businesses tend to keep the ownership within the family and therefore may be less likely to have foreign owners among owners than non-family firms. Indeed, family firms have significantly lower percentage of the firm's equity held by foreign investors than non-family businesses (Calabro *et al*., 2013). The share of family ownership is negatively related to the proportion of shares owned by foreign investors. Drawing upon these considerations, we formulate the following hypothesis:

- H_5: Foreign ownership mediates the effect of family business status on firm performance

Foreign market expansion is associated with net positive benefits to firms including learning, accumulating international experience, accessing cheaper resources, etc.

(Contractor, 2007). Internationalization may allow for using otherwise locked resource pools and for creating new resources (Bausch and Krist, 2007). Sapienza *et al.* (2006) suggest that internationalization exposes firms to opportunities to grow, forces them to adapt to uncertainty and risks through structural changes and generating new capabilities, which may contribute to improvements in firm performance. Glaum and Oesterle argue that involvement in foreign operations may increase profits and therefore may lead to superior performance. Empirical findings demonstrate that internationalization has overall positive impact on firm performance (Geringer *et al*., 2000; Elango and Sethi, 2007). Family business internationalization may be hindered by various organizational factors (Gallo and Pont, 1996). Empirical research demonstrates that family businesses are less likely to get involved in international activities than non-family businesses (Fernandez and Nieto, 2005, 2006; Cerrato and Piva, 2012). Family businesses neither monitor regularly the international marketplace nor integrate global developments into domestic decisions. The knowledge gained from the internationalization process remains concentrated in the family business founder. The lower export propensity and intensity of family firms compared with non-family firms is explained with the difficulties for acquiring essential resources and capabilities for building competitive advantage in international markets (Fernandez and Nieto, 2005). Family ownership influence negatively scope and rhythm of internationalization. Therefore, we suggest that:

- H_6: Internationalization mediates the effect of family business status on firm performance

MATERIALS AND METHODS

This study aims to explore the ability of several organizational factors to mediate the effect of the family business status on firm. The proposed hypotheses are tested in a sample of 235 companies operating in Bulgaria. Respondents are the Chief Executive Officers (CEOs) of the companies. Due to high financial costs for obtaining a representative sample of Bulgarian enterprises, this research relies on a convenient sample of Bulgarian companies. The structured questionnaire used in the study contains questions about the characteristics and performance of the organization and the attributes of the chief executive officer. Since the indexes of some of the variables used were adopted from previous studies, the items included in these indexes were translated from English to Bulgarian and then translated back to English to ensure accuracy. A pilot study was conducted among 5 companies in order to pre-test the initial version of the questionnaire. Due to comments from these respondents, minor changes were introduced in some questions. The share of family businesses in the sample (37.4%) is close to the share of family businesses among Bulgarian enterprises announced by the National Statistical Institute http://www.fbn-bulgaria.org/bg/news/59/17/nad-42-ot-kompaniite-v-blgariya-sa-familni. Accessed on 20 January 2012. Most sample firms are located in Sofia (70.6%). About >63.4% of the sample companies operate predominantly in the service sector while 17% of the companies are involved in a wholesale or retail trade. As in the population of Bulgarian enterprises in general, the great majority of the enterprises in the sample used in this study are small and mediums sized enterprises (80.9%).

Following Ruzzier in this research internationalization is defined as “geographical expansion of economic activities over a national country’s border”. As there is no commonly accepted measure of internationalization, researchers use various approaches to operationalize internationalization. Some authors explore one or more specific modes of entry to foreign markets such as exporting and/or foreign direct investment (Lu and Beamish, 2001; Chiao *et al*., 2006; Armario *et al*., 2008). Empirical research on internationalization in family firms also examines exporting (Fernandez and Nieto, 2005). Empirical studies on internationalization using data from Bulgaria or other Eastern European countries are also focused either on exporting (Smallbone and Welter, 2001) or on foreign direct investment. Therefore, the present investigation examines the involvement of the sample companies in exporting and/or foreign direct investment. The variable internationalization is a binary variable. It takes value 1 if the company exports products or services and/or has made foreign direct investments and value 0 if not.

The most common definition of family business applied in literature on internationalization of family businesses is based on a combination of ownership and management criteria. Therefore, in this study family firms are firms where one family controls the company and is represented in its management team. This approach to defining family business will increase the comparability of our results with previous empirical findings about internationalization of family businesses, which was recommended by Kontinen and Ojala. The dummy variable family indicates whether the company is a family business (value 1) or not (value 0).

The variable EO reveals the level entrepreneurial orientation of the sample firms. EO is measured with

9-item, 7-point Likert scale proposed by Covin and Slevin (1989). Its validity and reliability was poven in previous research (Wiklund, 1999). In this study the EO scale reports acceptable reliability (Cronbach alpha's value is 0.858).

The variable LO indicates the level of learning orientation of the studies companies. LO is measured through a scale developed by Sinkula. The scale is retested by Baker and Sinkula who provide further evidence for its validity and reliability. The Cronbach's alpha of the learning orientation scale adopted in this study is 0.833.

Following Wiklund and Shepherd (2005), this study uses a subjective measure of the owner-manager's access to financial capital. The dummy variable resources is coded 1 if the respondent's answer to this question is somewhat satisfactory, mostly satisfactory or fully satisfactory for the firm's development and 0 if the respondent has given another answer.

The dummy variable foreign indicates the presence of foreign owners (value 1) or otherwise (value 0). It was acknowledged that self-reported performance measures are valid and reliable measures of firm performance (Venkatraman and Ramanujam, 1987). This study measures organizational performance (performance) in relation to the performance of a firm's competitors using 4 items adopted from previous research (Hult *et al*., 2004; Wang, 2008; Wiklund and Shepherd, 2005; Tang *et al*., 2007, 2008). The chief executive officers were asked to compare the growth of sales, market share, growth of profit before tax and overall performance of their own firm with those of their main competitors in the past three years on a 5-point Likert scale ranging from "much worse than our competitors" to "much better than our competitors". The variable performance is the sum of the four items. The Cronbach's alpha of the scale is 0.867 which exceeds significantly the minimum acceptable level of 0.6.

In this study, we attempt to clarify how the family business status and other independent variables account for differences in the performance of family and non-family firms. Specifically, we focus on the mediator function which will help us to "to probe more deeply into the nature of causal mechanisms" (Baron and Kenny, 1986) underlying performance of family and non-family firms. The most widely used method to assess mediation is Baron and Kenny (1986)'s approach (MacKinnon *et al*., 2007). Since Baron and Kenny (1986)'s approach may suffer from low statistical power (MacKinnon *et al*., 2007), a formal test of mediation should be performed. The mediation effect can be assessed with the procedure developed by Sobel (1982) which is superior in terms of power in comparison with 14 methods for assessing mediation (MacKinnon *et al*., 2007). Standardized regression coefficients can be used to estimate mediation if the mediator and/or the dependent variable are binary (MacKinnon *et al*., 2007). MacKinnon *et al*. (2007) suggest another approach for testing mediation which does not require the independent variable to be a significant predictor of the dependent variable. To have a more complete picture, this study tests mediation using both Baron and Kenny's (1986) approach and MacKinnon *et al*. (2007) approach.

RESULTS AND DISCUSSION

In this study, we test the hypotheses about possible mediation effects of several characteristics of the studied organizations on the relationship between the family business status and firm performance. The analysis combines Baron and Kenny (1986)'s approach and MacKinnon *et al*. (2007) approach to testing mediation (MacKinnon *et al*., 2007). Baron and Kenny (1986)'s argue that one of the conditions for mediation to occur is the presence of a significant relationship between the Independent Variable (IV) and the Dependant Variable (DV). Perfect mediation occurs if the independent variable has no effect on the dependent variable when the mediator is controlled (Baron and Kenny, 1986). Partial mediation occurs when the effect of the independent variable on the dependent variable is less in the third step than in the second step but is different from zero (Baron and Kenny, 1986). MacKinnon *et al*. (2007) demonstrates that it is not necessary the independent variable to be a significant predictor of the dependent variable in order mediation to occur. Table 1 presents the results of several regressions models involved in Baron and Kenny (1986)'s procedure for testing mediation. According to Step 1 in Table 1 the independent variable family is a significant negative predictor of the dependent variable performance. The requirement that the independent variable is a significant predictor of the dependent variable proposed by Baron and Kenny (1986) and later rejected by MacKinnon *et al*. (2007) has been met in the studied sample. The hypothesis H_1 cannot be rejected. In Table 1 we also test whether:

- The Independent Variable (IV) is related to the mediator (M) (Step 2 in Table 1)
- The Mediator (M) is related to the Dependant Variable (DV) controlling for the effects of the Independent Variable (IV) on the dependent variable (DV) (Step 3 in Table 1)

Table 1: Testing mediation effects on performance

Variable	Step 1 Coeff.(SE)	Step 2 Coeff. (SE)	Step 3 Coeff. (SE)	Sobel test Z-value
IV: Family	-0.83** (0.40)	-4.01 (1.32)	-0.26 (0.36)	-2.86***
M: EO			0.14*** (0.017)	
Model fit	Adjusted R^2	Adjusted R^2	Adjusted R^2	
	0.014**	0.034***	0,236***	
IV: Family	-0.83** (0.40)	-2.15***(0.41)	-0.39(0.43)	-2.42**
M: Foreign				1,20**
Model fit	Adjusted R^2	Nagelkerke R^2	Adjusted R^2	
	0.014**	0.215	0.40**	
IV: Family	-0.83** (0.40)	(0.018)		
M: LO				
Model fit	Adjusted R^2	Adjusted R^2	Adjusted R^2	
	0.014**	0.00		
IV: Family	-0.83** (0.40)	0.16		
M: Resources				
Model fit	Adjusted R^2	Nagelkerke R^2	Adjusted R^2	
	0.014**	0.01		
IV: Family	-0.83**	-0.69**	-0.71* (0.39)	-1.47
	(0.40)	(0.28)		
M: Internationalization				
Model fit	Adjusted R^2	Nagelkerke R^2	Adjusted R^2	
	0.014**	0.036	0.024**	

* p<0.1, ** p < 0.05,*** p < 0.01; A constant has been estimated in Step 1, Step 2 and Step 3 but is not included in the Table

The mediation effect is assessed with the procedure developed by Sobel (1982). Standardized regression coefficients are used to estimate mediation when the mediator is binary (MacKinnon et al., 2007).

In Step 2, the mediator (M) (EO, foreign, internationalization, resources, LO) is regressed on family (IV). The independent variable FAMILY has no statistically significant effect on the variables LO and resources. Therefore, theses variables cannot act as mediators of the effect of the family business status on internationalization because one of the conditions for establishing mediation proposed by Baron and Kenny (1986) is not accomplished. The hypotheses H_3 and H_4 are rejected.

Only the variables EO, foreign and internationalization may possibly mediate the effect of family on internationalization and the statistical analysis will check if these variables meet all the conditions for establishing mediation proposed by Baron and Kenny (1986). In Step 3, performance is regressed on both family (IV) and the mediator (M) (EO, foreign and internationalization). The VIF values for the two regressors in all regressions in Step 3 indicate that there are no serious multicollinearity problems. To address the possibility of auto-correlated error terms in the regressions, we employ the Durbin-Watson statistic for error terms in the estimated models and the estimated values are between 1.73 and 1.91 which indicates absence of any first order correlation. The last column in Table 1 reports the results of the Sobel test. Residual plots were reviewed and there were no heteroscedasticity problems in the data.

The conditions for establishing mediation suggested by Baron and Kenny hold for the variable EO. Family has a significant effect on EO. Controlling for family, EO has a significant effect on performance. The results from the Sobel test reveal that there is a strong mediation effect ($Z = -2.86$, $p<0.001$). The variable EO is able to mediate perfectly the effect of the independent variable family on the dependent variable performance because after controlling for the mediator EO the independent variable family has no effect on the dependent variable performance. The hypothesis H_2 cannot be rejected.

The variable foreign also fulfils the conditions for establishing mediation suggested by Baron and Kenny (1986). Family has a significant effect on foreign. Controlling for family, foreign has a significant effect on the dependent variable performance. Controlling for foreign, family has no effect on the dependent variable performance. The variable foreign is able to mediate perfectly the effect of the independent variable FAMILY on the dependent variable performance because after controlling for the mediator foreign the independent variable family has no effect on the dependent variable performance. The results from the Sobel test indicate that there is a strong mediation effect ($Z = -2.42$, $p<0.05$). The hypothesis H_5 cannot be rejected.

The conditions for establishing mediation suggested by Baron and Kenny (1986) do not hold for the variable internationalization. The results from the Sobel test reveal that there is no mediation effect ($Z = -1.47$, $p>0.1$). The variable internationalization is not able to mediate the effect of the family business status on the dependent variable internationalization. The hypothesis H_6 can be rejected.

Transition economies in Central and Eastern Europe have experienced profound economic, political and institutional changes which have led to the emergence of

a large number of private enterprises including family businesses. In order these enterprises to remain competitive in both local and international markets it is of the utmost importance to gain understanding what factors may account for inferior performance among groups of enterprises with significant economic and social importance for the society such as family businesses. Prior research has found that family businesses tend to exhibit inferior performance than non-family businesses (Claessens *et al*., 2002; Barth *et al*., 2005; Miller *et al*., 2007) but failed to determine what factors account for the observed differences. This study creates a more complete picture of the effect of family business status on firm performance and a deeper understanding of the relationship between the family business status and various organizational factors. The research is among the incipient investigations that attempts to compare performance in family and non-family firms and to identify organizational factors that account for the effect of the family business status on performance in a sample from Central and Eastern Europe. It contributes to the fields of family business literature and performance research by providing hypotheses about organizational characteristics which mediate the effect of the family business status on firm performance. The hypotheses are guided by the resource-based view of the firm (Barney, 1991) and previous empirical research on determinants of performance. The results reported in this study advance our knowledge about firm performance among family and non-family businesses in a transition context.

Empirical findings of the present study demonstrate that family business status has a significant negative effect in firm performance. As in other countries and contexts (Claessens *et al*., 2002; Barth *et al*., 2005; Miller *et al*., 2007), non-family firms tend to outperform family firms in the studied sample from a transition economy. Our analysis of possible mediation effects of various organizational factors on the relationship between the family business status and performance reveals that entrepreneurial orientation and the presence of foreign owners account for differences in firm performance between family and non-family firms.

The presence of foreign owners mediates completely the effect of the family business status on entrepreneurial orientation. Family firms exhibit inferior performance because they are less likely to have foreign owners than non-family firms. The presence of foreign owners may stimulate the transfer of products and marketing skills, technology and management skills and know-how to companies which may improve their product lines and market penetration and therefore may enhance their performance. The presence of foreign owners in companies operating in Central and Eastern Europe may also improve other aspects of the business including learning, efficiency governance and corporate restructuring effectiveness (Filatotchev *et al*., 2003) which may enhance their competitive advantage and performance. The foreign owner(s) may demand the local company to achieve higher profits and greater market share than competitors.

Entrepreneurial orientation is also able to mediate completely the effect of the family business status on firm performance. Non-family businesses tend to have superior performance because they possess higher entrepreneurial orientation than family businesses. This finding is consistent with resource-based perspective that entrepreneurial orientation may be seen as an important resource driving firm performance. In economies, where business environment is characterized by scarcity of resources and lack of entrepreneurial tradition and adequate institutions, entrepreneurial orientation appears as a strong driver for superior firm performance. Risk-taking, proactiveness and innovativeness may create sustained competitive advantage which helps companies to outperform their competitors in the marketplace. Empirical research in other countries demonstrates that the link between corporate entrepreneurship and organizational performance is highly significant in organizations operating in hostile environments (Zahra and Covin, 1995) such as the context of the present study. Although, entrepreneurial orientation may be a resource consuming strategic orientation, both family and non-family organizations may benefit from it in the long run (Madsen, 2007; Wiklund, 1999).

The hypotheses that learning orientation, access to financial resources and internationalization are able to mediate the effect of family business status on firm performance were rejected. These organizational factors cannot explain differences in entrepreneurial orientation between family and non-family businesses. Family and non-family businesses do not differ in relation to learning orientation and access to financial resources. Therefore, these variables cannot act as mediators of the effect of family business status on firm performance. Although family businesses are less likely to have international involvement than non-family businesses, internationalization is not able to mediate the effect of family business status on firm performance. Involvement in foreign operations may increase profits and therefore may lead to superior performance but the analysis indicates that this does not contribute to differences in firm performance between family and non-family businesses.

Before discussing the implications of the findings, some limitations of the study should be noted. First, this

study uses a convenient sample of family and non-family businesses and therefore the findings should be interpreted with caution. Second, data was collected through a self-reported survey and thus may be subjected to cognitive biases and errors. Third, the findings may be influenced by specific features of the Bulgarian cultural and institutional environment and therefore may not be applicable to other transition or mature economies. Finally, due to the cross-sectional design of the research causal relationships cannot be deduced.

In order to enhance the understanding of performance in family and non-family businesses in various contexts, future research needs to examine the following aspects. The presented hypotheses should be tested in large representative samples of companies operating in various contexts. New hypotheses about the role of other individual and organizational characteristics as mediators of the effect of the family business status on firm performance may be devised and tested as well. A longitudinal analysis of firm performance should complement the findings of this research in order to confirm causal relationships. The multiple measurements of mediators and firm performance in the study over time will allow examining the bidirectional relationships between the variables studied.

CONCLUSION

The findings reported here have several important implications for practitioners. It is clear from the results of our study that owners and managers in organizations, especially family SMEs, must foster entrepreneurial culture throughout the organization in order to achieve superior performance. Loan institutions, risk capitalists, business partners and business angles trying to identify (potentially) successful businesses should pay more attention on the entrepreneurial orientation of the business. Entrepreneurially oriented businesses may achieve superior performance. Attracting foreign investors appears as a critical factor for firm performance. Family and non-family businesses should be aware that foreign investors may provide valuable resources such as know-how finance and other resources, knowledge, information about foreign clients and markets, etc.,which may enhance their chances to enter successfully foreign markets and to achieve competitive advantage in these markets.

REFERENCES

Ahmad, N.H., H.A. Halim and S.R.M. Zainal, 2010. Is entrepreneurial competency the silver bullet for sme success in a developing nation? Int. Bus. Manage., 4: 67-75.

Antoncic, B. and R.D. Hisrich, 2004. Corporate entrepreneurship contingencies and organizational wealth creation. J. Manage. Dev., 23: 518-550.

Armario, J.M., D.M. Ruiz and E.M. Armario, 2008. Market orientation and internationalization in small and medium-sized enterprises. J. Small Bus. Manage., 46: 485-511.

Aydin, N., M. Sayim and A. Yalama, 2007. Foreign ownership and firm performance: Evidence from Turkey. Int. Res. J. Finance Econ., 11: 103-111.

Baker, W.E. and J.M. Sinkula, 1999. The synergistic effect of market orientation and learning orientation on organizational performance. J. Acad. Market. Sci., 27: 411-427.

Barney, J.B., 1991. Firm resources and sustained competitive advantage. J. Manage., 17: 99-120.

Baron, R.M. and D.A. Kenny, 1986. The moderator-mediator variable distinction in social psychological research: Conceptual, strategic and statistical considerations. J. Pers. Social Psychol., 51: 1173-1182.

Barrett, H. and A. Weinstein, 1998. The Effect of market orientation and organizational flexibility on corporate entrepreneurship. Entrepreneurship: Theory Pract., 23: 57-70.

Barth, E., T. Gulbrandsen and P. Schonea, 2005. Family ownership and productivity: The role of owner-management. J. Corporate Finance, 11: 107-127.

Bausch, A. and M. Krist, 2007. The effect of context-related moderators on the internationalization-performance relationship: Evidence from meta-analysis. Manage. Intl. Rev., 47: 319-347.

Becherer, R.C. and J.G. Maurer, 1997. The moderating effect of environmental variables on the entrepreneurial and marketing orientation of entrepreneur-led firms. Entrepreneurship Theor. Pract., 22: 47-59.

Berry, H. and M. Sakakibara, 2008. Resource accumulation and overseas expansion by Japanese multinationals. J. Econ. Behav. Organiz., 65: 277-302.

Boardman, A.E., D.M. Shapiro and A.R. Vining, 1997. The role of agency costs in explaining the superior performance of foreign MNE subsidiaries. Int. Bus. Rev., 6: 295-317.

Bosma, N., M. Van Praag, R. Thurik and G. De Wit, 2004. The value of human and social capital investments for the business performance of start-ups. Small Bus. Econ., 23: 227-236.

Bresciani, S., B. Bertoldi, C. Giachino and A. Ferraris, 2015. An exploratory investigation on new product development in family luxury businesses. World Rev. Entrepreneurship Manage. Sustainable Dev., 11: 186-199.

Calabro, A., M. Torchia, T. Pukall and D. Mussolino, 2013. The influence of ownership structure and board strategic involvement on international sales: The moderating effect of family involvement. Intl. Bus. Rev., 22: 509-523.

Calantone, R.J., S.T. Cavusgil and Y. Zhao, 2002. Learning orientation, firm innovation capability and firm performance. Ind. Marketing Manage., 31: 515-524.

Caruana, A., M.T. Ewing and Ramaseshan, 2002. Effects of some environmental challenges and centralization on the entrepreneurial orientation and performance of public sector entities. Serv. Ind. J., 22: 43-58.

Cerrato, D. and M. Piva, 2012. The internationalization of small and medium-sized enterprises: The effect of family management, human capital and foreign ownership. J. Manage. Governance, 16: 617-644.

Chhibber, P.K. and S.K. Majumdar, 1999. Foreign ownership and profitability: Property rights, control and the performance of firms in Indian industry. J. Law Econ., 42: 209-238.

Chiao, Y.C., K.P. Yang and C.M.J. Yu, 2006. Performance, internationalization and firm-specific advantages of SMEs in a newly-industrialized economy. Small Bus. Econ., 26: 475-492.

Chow, I.H., 2006. The relationship between entrepreneurial orientation and firm performance in China. SAM Adv. Manage. J., 71: 11-20.

Chrisman, J.J., J.H. Chua and P. Sharma, 2005. Trends and directions in the development of a strategic management theory of the family firm. Entrepr. Theory Pract., 29: 555-576.

Chua, J.H., J.J. Chrisman and L.P. Steier, 2003. Extending the theoretical horizons of family business research. Entrepreneurship Theor. Pract., 27: 331-338.

Chua, J.H., J.J. Chrisman and P. Sharma, 1999. Defining the family business by behavior. Entrepr. Theory Pract., 23: 19-19.

Claessens, S., S. Djankov, J.P.H. Fan and L.H.P. Lang, 2002. Disentangling the incentive and entrenchment effects of large shareholdings. J. Finance, 57: 2741-2771.

Coleman, S. and M. Carsky, 1999. Sources of capital for small family-owned businesses evidence from the national survey of small business finances. Family Bus. Rev., 12: 73-84.

Coleman, S., 2007. The role of human and financial capital in the profitability and growth of women-owned small firms. J. Small Bus. Manage., 45: 303-319.

Collis, D.J. and C.A. Montgomery, 1995. Competing on resources: Strategy in the 1990s. Harvard Bus. Rev., 73: 118-128.

Contractor, F.J., 2007. Is international business good for companies? The evolutionary or multi-stage theory of internationalization vs. the transaction cost perspective. Manage. Intl. Rev., 47: 453-475.

Cooper, A.C., F.J. Gimeno-Gascon and C.Y. Woo, 1994. Initial human and financial capital as predictors of new venture performance. J. Bus. Venturing, 9: 371-395.

Covin, J.G. and D.P. Slevin, 1989. Strategic management of small firms in hostile and benign environments. Strat. Manage. J., 10: 75-87.

Covin, J.G., K.M. Green and D.P. Slevin, 2006. Strategic process effects on the entrepreneurial orientation-sales growth rate relationship. Entrepreneurship: Theory Pract., 30: 57-81.

Cromie, S., B. Stephenson and D. Monteith, 1995. The management of family firms: An empirical investigation. Intl. Small Bus. J., 13: 11-34.

Daily, C.M. and M.J. Dollinger, 1993. Alternative methodologies for identifying family-versus nonfamily-managed businesses. J. Small Bus. Manage., 31: 79-90.

Daily, C.M. and S.S. Thompson, 1994. Ownership structure, strategic posture and firm growth: An empirical examination. Family Bus. Rev., 7: 237-249.

Davis, P.S. and P.D. Harveston, 1998. The influence of family on the family business succession process: A multi-generational perspective. Entrepreneurship Theor. Pract., 22: 31-54.

Dierickx, I. and K. Cool, 1989. Asset stock accumulation and sustainability of competitive advantage. Manage. Sci., 35: 1504-1511.

Donckels, R. and E. Frohlich, 1991. Are family businesses really different? European experiences from STRATOS. Family Bus. Rev., 4: 149-160.

Douma, S., R. George and R. Kabir, 2006. Foreign and domestic ownership, business groups and firm performance: Evidence from a large emerging market. Strat. Manage. J., 27: 637-657.

Duh, M., P. Tominc and M. Rebernik, 2009. Growth ambitions and succession solutions in family businesses. J. Small Bus. Enterp. Dev., 16: 256-269.

Dyer, W.G., 1988. Culture and continuity in family firms. Family Bus. Rev., 1: 37-50.

Elango, B. and S.P. Sethi, 2007. An exploration of the relationship between Country of Origin (COE) and the internationalization-performance paradigm. Manage. Intl. Rev., 47: 369-392.

Fernandez, Z. and M.J. Nieto, 2005. Internationalization strategy of small and medium-sized family businesses: Some influential factors. Family Bus. Rev., 18: 77-89.

Filatotchev, I., M. Wright, K. Uhlenbruck, L. Tihanyi and R.E. Hoskisson, 2003. Governance, organizational capabilities and restructuring in transition economies. J. World Bus., 38: 331-347.

Fragoso, R.M.D.S., 2015. Sustainable development and guidance for entrepreneurship in unfavoured regions: The case of the Alentejo region. World Rev. Entrepreneurship Manage. Sustainable Dev., 11: 358-376.

Gallo, M.A. and C.G. Pont, 1996. Important factors in family business internationalization. Family Bus. Rev., 9: 45-59.

Gallo, M.A., 1995. The role of family business and its distinctive characteristic behavior in industrial activity. Family Bus. Rev., 8: 83-97.

George, G., 2005. Slack resources and the performance of privately held firms. Acad. Manage. J., 48: 661-676.

Geringer, J.M., S. Tallman, and D.M. Olsen, 2000. Product and international diversification among Japanese multinational firms. Strategic Manage. J., 21: 51-80.

Huang, R.D. and C.Y. Shiu, 2009. Local effects of foreign ownership in an emerging financial market: Evidence from qualified foreign institutional investors in Taiwan. Financial Manage., 38: 567-602.

Hughes, M. and R.E. Morgan, 2007. Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. Ind. Marketing Manage., 36: 651-661.

Hult, G.T.M., R.F. Hurley and G.A. Knight, 2004. Innovativeness: Its antecedents and impact on business performance. Ind. Market. Manage., 33: 429-438.

Iwarere, H.T., 2010. Special pricing decisions as instrument for improving companies` performance in Nigeria. Int. Bus. Manage., 4: 99-104.

Kamel, H., 2007. The measurement of the organisational performance: Case study of the economic public companies (EPC). Int. Bus. Manage., 1: 118-129.

Leonidou, L.C. and S.K. Constantine, 1996. The export development process: An integrative review of empirical models. J. Int. Bus. Stud., 27: 517-551.

Lu, J.W. and P.V. Beamish, 2001. The internationalization and performance of SMEs. Strat. Manage. J., 22: 565-586.

MacKinnon, D.P., A.J. Fairchild and M.S. Fritz, 2007. Mediation analysis. Ann. Rev. Psychol., 58: 593-614.

Madsen, E.L., 2007. The significance of sustained entrepreneurial orientation on performance of firms-A longitudinal analysis. Entrepreneurship Reg. Dev., 19: 185-204.

Mavondo, F.T., J. Chimhanzi and J. Stewart, 2005. Learning orientation and market orientation: Relationship with innovation, human resource practices and performance. Eur. J. Marketing, 39: 1235-1263.

Miller, D., I. Le Breton-Miller, R.H. Lester and A.A. Cannella Jr., 2007. Are family firms really superior performers? J. Corporate Finance, 13: 829-858.

Moreno, A.M. and J.C. Casillas, 2008. Entrepreneurial orientation and growth of SMEs: A causal model. Entrepreneurship Theory Pract., 32: 507-528.

Sapienza, H.J., E. Autio, G. George and S.A. Zahra, 2006. A capabilities perspective on the effects of early internationalization on firm survival and growth. Acad. Manage. Rev., 31: 914-933.

Slater, S.F. and J.C. Narver, 1995. Market orientation and the learning organization. J. Market., 59: 63-74.

Smallbone, D. and F. Welter, 2001. The distinctiveness of entrepreneurship in transition economies. Small Bus. Econ., 16: 249-262.

Sobel, M.E., 1982. Asymptotic confidence intervals for indirect effects in structural equation models. Sociol. Methodol., 13: 290-312.

Tang, J., Z. Tang, L.D. Marino, Y. Zhang and Q. Li, 2008. Exploring an inverted u-shape relationship between entrepreneurial orientation and performance in Chinese ventures. Entrepreneurship Theory Practice, 32: 219-239.

Tang, J., Z. Tang, Y. Zhang and Q. Li, 2007. The impact of entrepreneurial orientation and ownership type on firm performance in the emerging region of China. J. Dev. Entrepreneurship, 12: 383-397.

Tkachev, A. and L. Kolvereid, 1999. Self-employment intentions among Russian students. Entrepreneurship Regional Dev., 11: 269-280.

Venkatraman, N. and V. Ramanujam, 1986. Measurement of business performance in strategy research: A comparison of approaches. Acad. Manage. Rev., 11: 801-814.

Wernerfelt, B., 1984. A resource-based view of the firm. Strat. Manage. J., 5: 171-180.

Wiklund, J. and D. Shepherd, 2005. Entrepreneurial orientation and small business performance: A configurational approach. J. Bus. Venturing, 20: 71-91.

Wiklund, J., 1999. The sustainability of the entrepreneurial orientation-performance relationship. Entrepreneurship: Theory Pract., 24: 37-48.

Wilmore, L., 1986. The comparative performance of foreign and domestic firms in Brazil. World Dev., 14: 489-502.

Wiwattanakantang, Y., 2001. Controlling shareholders and corporate value: Evidence from Thailand. Pac.-Basin Finance J., 9: 323-362.

Zahra, S.A. and J.G. Covin, 1995. Contextual influences on the corporate entrepreneurship-performance relationship: A longitudinal analysis. J. Bus. Venturing, 10: 43-58.

Zahra, S.A., 1991. Predictors and financial outcomes of corporate entrepreneurship: An exploratory study. J. Bus. Venturing, 6: 259-285.

Zahra, S.A., 1993. Environment, corporate entrepreneurship, and financial performance: A taxonomic approach. J. Bus. Venturing, 8: 319-340.

Zahra, S.A., D.O. Neubaum and M. Huse, 2000. Entrepreneurship in medium-size companies: Exploring the effects of ownership and governance systems. J. Manage., 26: 947-97