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The role of the board and the family council in the governance and strategic decision making

An explorative study of a Bulgarian family business

Master's thesis within Business Administration

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Master's Thesis in Business Administration

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Abstract

Introduction: Family businesses play a major role in the economy of every country. However, they represent a complex system, because they need to manage successfully two different networks at the same time – the family network and the organizational network. Two government mechanisms, which can influence the effective management of the company and the strategic decision making are the board of directors and the family council. Little is known about the family companies and their governance in Bulgaria.

Purpose: The purpose of this research is to investigate the role of the board of directors and the family council in the governance and strategic decision making in a family business. The research will be conducted in Bulgaria through a case study of a Bulgarian family owned logistics company named Ekont Express Ltd.

Methodology: For the purposes of this research a qualitative approach was used. Interviews with two members of the board and two members of the family council were arranged. An interview with the owner of the company, who takes part in the board meetings, as well as in the family council meetings, was also conducted.

Conclusions: The results from the interviews turned out to be very interesting. They show that in regard to the strategic decision making the board has more important role than the family council. It takes decisions regarding the brand strategies, growth strategies, main business strategies, as well as the price and quality strategies. The board has an active role in the process of decision making by discussing and then voting about particular solutions and suggestions. All the results show that it enhances a good governance system in the company. On the other hand, results show that the family council does not have a great influence of the governance of the company and strategic decision making process. It turned out that it serves as an instrument that introduces the younger family members to the business.

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I Introduction

I.1 Background

Family businesses play a vital role in the world economy (European Commission, 2009). According to a project performed by the European Commission (2009) they ensure a significant number of work places, they carry stability and also they represent the values of their owners, which is very important factor during the 21st. century financial crisis. Moreover, family firms represent more than 60% of all European companies. Great part of the family companies are SMEs (European Commission, 2009). In addition, 30% of all family businesses in Europe reach second generation, 12% reaches third generation and only 3% of them reach fourth generation of ownership (24 Hours, 2007).

Because of the fact that there are not enough surveys about the family business in Bulgaria, it is difficult to define their role in the economy of the country (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). According to the same source approximately 98% of the active companies in Bulgaria are SMEs and 90% of them are micro firms. According to another survey conducted in Bulgaria the results show that the owner of a small family company is also a manager (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). However, the results from the same survey for bigger family firms show that the ownership and management roles are divided into more than one person's hands. Also in most of the cases all of the family members work in the company (Overview of family business relevant issues, Country Fiche Bulgaria, 2008).

Statistical observations made in Bulgaria show that there is not enough information published concerning the family businesses in the country (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). One reason is that it is not an interest of publications. Another reason according to the writers is that there is no accepted definition of family business. According to the Austrian Institute for SME Research usually, these are small-scale businesses, most often-micro firms, representatives mainly for the sectors like agriculture and services (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). Moreover, according to the publications by the Bulgarian Agency for the SME Promotion it becomes clear that they do not make difference between family and non-family companies (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). Another research conducted by the national statistics office NSI in Bulgaria (2011) shows that the family firms in the country represent 40% of the business in the country and more that 156 000 companies are family owned.

Data published by the Association of Family Business in Bulgaria (2009) shows that the family companies in the country are usually “young” and they are governed from the so-called first generation of owners. It is expected that from now on they will meet the biggest challenge – motivating the inheritors. Therefore, it is of great importance to understand the role of the two governance bodies and

their relation to the motivation of the heirs in regard to the succession of the company.

Recently, the topic of corporate governance and especially governance of a family business, has reached high attention from the scholars (Arosa, Iturralde & Maseda, 2010). As Caddbury (1999) explains, the corporate governance is a “system by which companies are directed and controlled” (as cited in Suare and Santana – Martin, 2004, p.141). According to Gubitta and Gianecchini (2002) the family firms’ behavior depends on the ability to manage successfully two networks – the first one includes the family members, and the second one includes the organizational network (top, middle and lower levels of management). A lot of studies and research works focused on the board of directors from different perspectives. The board of directors plays a major role in the governance of a family firm (Arosa et. al., 2010). However, when it comes to the decision making most of the family owned companies rely mainly on the decisions taken by the CEO, usually the owner of the company (Woods, Dalziel & Barton, 2012).

An example of a family owned company, having the two types of governance system – the board and the family council is a leading Bulgarian company Ekont Express Ltd. That is why it will be interesting to explore their governance model.

I.2 Problem

Investigating the role of the board of directors and the family council in the governance and strategic decision making of a family business in Bulgaria.

According to the literature reviewed, issues related to the family businesses in Bulgaria and especially their governance are neglected (Overview of family business relevant issues – Final report, 2008). The biggest problems the firms face is building trust between the generations and preparing the inheritors to take the control over the company.

Furthermore, there is a lot of information published in the academic journals about the role of the board in the family business and its role in the governance structure in family-owned firms. On the other hand, regarding family council not a great amount of research has been done so far. Simultaneously there is a gap in research of Family Business literature related to the role of the family council in the strategic decision making process and control of the companies in Bulgaria (Overview of family business relevant issues – Final report, 2008).

Ramos and Olalla (2011) state that as the family business grows and expands different forms of governance may be needed. Here comes the conflict between the board of directors and family members in relation to the control and management of the business as well as the strategic decision making. It is not clear in what situations the firms need to have a board and a family council and what are the reasons and advantages of having them. It is also not clear whether they improve the strategic decision making or just have a passive role. A survey conducted in Bulgaria shows that one of the biggest problems that family

firms in the country face relate to the distribution of the roles (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). One of the challenges they face is to balance the family and business issues (Overview of family business relevant issues – Final report, 2008).

The already discussed problems concerning the Bulgarian family businesses in regard to the succession of the company, governance and the distribution of roles between the family members, as well as the conflicts that can arise between them lead to the purpose of this research project, which is discussed in the next section.

I.3 Purpose

This paper centers on two government mechanisms in family companies – the board of directors and the family council. The importance of these two government bodies depends on the type of the business, its size and characteristics. The aim of this research is to explore the role and the relationship of these two government systems and the extent to which they influence the strategic decision-making in Bulgarian family owned company. Moreover, it tries to explain in what situations it is important or even necessary for the company to have board of directors and a family council.

The purpose of this research is to explore the role of the board of directors and the role of the family council in the governance and strategic decision making in a family business in Bulgaria. In order to achieve the aim of this project the author has prepared the following core questions:

I.4 Research Questions:

- 1. What is the role of the family council in the family business governance in the case study of Ekont Express Ltd? Does it enhance a good governance of the company?*
- 2. What is the role of the board of directors in the case study of Ekont Express Ltd? Does it enhance a good governance of the company?*
- 3. How are the board of directors and the family council related to each other?*
- 4. Which role is perceived by the owner to be more important for the governance of the company – the role of the board or the role of the family council?*
- 5. In what kinds of situations it is especially important to have a family council/ board of directors?*
- 6. In what way does the size and type of the business influence the importance of the council/ board of directors?*

7. What is the role of the family council and the board of directors in the strategic decision making? Do they enhance this process?

By exploring the roles and the relations between these two government systems, the author of this paper is trying to find out in what situations other businesses need to have them and how they can help the governance of the company.

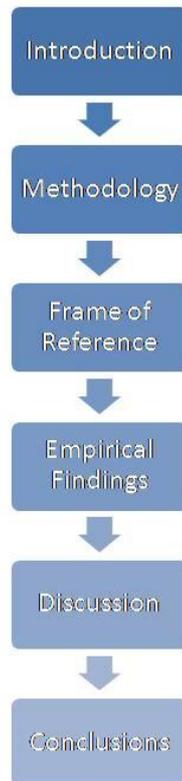
1.5 Delimitation

The focus of this paper is to investigate the role of the board of directors and the family council in the governance of a family business and strategic decision making. Therefore the emphasis is solely on these two government bodies. As this is a single case study and the author uses an inductive approach the results cannot be generalized.

1.6 Interested parties

The results of this research could be used and further developed by academics or different associations in Bulgaria who have interest in family businesses in the country or could be used by the companies themselves as an advisor. Moreover, other growing family companies in Bulgaria can use this model of governance in order to increase their company performance, prepare their heirs to take control over the company and to build trust between the stakeholders.

I.7 Outline of the thesis



1.7.1 Introduction

This chapter introduces the topic of the thesis and presents the specific problem the author is researching. Then the purpose and the research questions are presented. After that the delimitations and possible interested parties are also acknowledged.

1.7.2 Methodology

This section of the paper describes how the study was carried out and provides explanations of the research approach, as well as for the data collection method. Further on, a critique of the method is also presented.

1.7.3 Frame of Reference

This part of the paper presents the relevant literature, which is connected to the topic of the thesis.

1.7.4 Empirical Findings

This chapter presents a detailed description of the history, services and the governance structure of the case of Ekont Express Ltd. The qualitative empirical findings are presented here.

1.7.5 Discussion

Empirical findings are analyzed and compared to the literature in this part of the paper. The answers of the research questions are also proved in this section.

1.7.6 Conclusio

This chapter presents the main conclusions the author of the thesis has reached.

2 Methodology

This part of the paper gives information on how the research was planned and executed, as well as explanation of the methods used. Both secondary and primary data were gathered and used. The secondary data is received from articles and journals published by different scholars in the spheres of family business, corporate governance and business strategies. This is done in order to find what other authors have found in relation to similar research projects.

2.1 Research Approach

For the purposes of this research, inductive approach has been used. As Lewis, Saunders and Thornhill (2009) explain it is used by the researcher who wants first to gather the data and then to build up a theory. The purpose of this approach is gain understanding of what is happening in order to understand better the nature of the problem. In addition, the researchers using this type of approach are more likely to work with qualitative data and to use a number of different methods to gather these data. This will help them to get different views in order to understand the phenomenon (Lewis, Saunders & Thornhill, 2009).

In contrast to the deductive approach, inductive approach works from something more specific (like observations) to the more general conclusions and generalizations (Burney, 2008). It is also called a “bottom-up” approach.

The author of this thesis has chosen this approach because it best suits the purposes of the research. First, there is no relevant theory in the literature, which provides explanation of the role of the family council in the governance of a family company as well as in relation to the strategic decisions taken in this firm. Furthermore, the author is trying to investigate how the role of the family council is related to the role of the board and which governance system enhance good management and control over the company. For the aim of this research project solely qualitative data has been gathered.

2.1.1 Qualitative data methods

Lewis, Saunders and Thornhill (2009) explain that the exploratory study is a method that can help the researcher to find out what is happening, to seek new insights and ask questions. Moreover, it is very helpful in clarifying an understanding of a problem. Zainal (2007) explains that in the exploratory case study, the data collection can start before the research questions are formulated. The author also states that this type of case study can explore any interesting to the researcher fact in the data. In addition, Lewis, Saunders and Thornhill (2009) explain that there are three ways of conducting this type of research: by searching in the literature, second – by interviewing experts in the field and finally yet importantly – by conducting focus group interviews.

One advantage of the exploratory study is that it is very flexible and allows the researcher to adapt to the arising changes (Lewis, Saunders & Thornhill, 2009). These are the main reasons the author has chosen this type of method for this research.

The author of the paper has chosen to undertake an exploratory study in order to better investigate and comprehend the problem, since very few studies have been conducted concerning the role of the family council in the governance of a family firm. This type of study is also appropriate in a situation where some facts are known but more information is needed. This is exactly the situation of this research – lot of facts are known about the role of the board of directors. However, more information is needed for the role of the family council, in order to develop a framework for successful governance system in a family owned company.

2.1.2 Research strategy

Depending on the research objectives, different research strategies can be used. In an attempt to address the research questions, the author of this paper decided to use a Case Study method of approach and the case is a family owned logistic company based in Bulgaria named Ekont Express Ltd. As Robinson (2002) states case study is “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (as cited by Lewis, Saunders & Thornhill, 2009). Moreover, the authors explain that it could be very useful to person, who wants to gain rich understanding of the researched phenomenon and the processes involved. This strategy also allows the researcher to find answers to questions “why?”, “what?”, “how?”. In addition is usually used with the explanatory or exploratory type of study (Lewis, Saunders & Thornhill, 2009).

In order to define the case of analysis the author has used Yin’s (2003) criteria: “(1) it must relate clearly to the research question; (2) it should represent an extreme case; and (3) it is possible to delineate the unit of analysis clearly.” (as cited by Goel, Mazzola, Phan, Pieper and Zachary, 2012). Ekont Express is a family owned logistics company situated in Bulgaria and the author considers that it meets all the requirements mentioned earlier.

The case study strategy the author has chosen is a single case, because it allows me to represent a critical case (Lewis, Saunders & Thornhill, 2009). Another reason is that few researchers have analyzed and considered this phenomenon in their works. However, this type of research strategy has some drawbacks, which are mentioned later in the next section.

The writer of the thesis decided to study and to try to define the role of the board of directors and the role of the family council in the governance of this firm Ekont Express Ltd. by interviewing some of the members of the board of directors, as well as some of the family members, taking part in the family council. In the beginning of this research project, the researcher was planning to attend some of the meetings of the board of directors in order to gather information from first hand about the nature of the discussed topics and problems by the governance bodies of the company. However, this turned out to be impossible. That is why the author gathered detailed information about the meetings from a member of the board right after two of these meetings.

The writer started the research by reviewing the literature related to family business, business strategies and corporate governance. In addition, the research questions are formulated by the help of the theories.

In order to gather valid and reliable data, interviews are chosen as a research strategy. The author has chosen semi-structured type of interviews. This type is very appropriate when the researcher wants to probe answers, where he/she wants the participant to explain (Lewis, Saunders & Thornhill, 2009). Typical for them is that they will help the researcher to understand the meanings the interviewee and ascribe them to the answers (Lewis, Saunders & Thornhill, 2009). The participant however, is guided by the questions of the interviewer. He/she can probe their answers and this will add depth to the gathered data. Interviews are conducted on one-to-one basis and the meetings are face-to-face. The interviews are also analyzed qualitatively. According to Lewis et al., (2009) semi-structured interviews are usually used when the study has exploratory nature and the author is trying to reveal and understand questions related to “what” and “how”.

Open-ended questions were used in order to let the interviewees talk freely, describe different events and situations (Lewis et al., 2009). This was done in order to gather detailed information from the participants. Probing questions were also used to explore the answers that are important to the research subject (Lewis et al., 2009). All the answers were audio recorded. In order to identify the scope of decisions taken by the board and the family council, the questions for the interviews were formulated based on the literature about corporate strategies.

Moreover, the participants in the interviews are selected due to their positions in the company and involvement in the strategic and operational decision making process. Two members of the board of directors are interviewed, representing two different departments in the company. They are also external to the family. Three members of the family are also interviewed – the owner of the company, who is also the CEO and two of his daughters, who also take part in the board of directors.

The interviews started by presenting the topic of the research and its purpose. After that, general information about the company background, history and profits was required. The questions continued with more specific purpose, related to different strategies decisions, policies and actions. The questions were very broad, so the participant can provide more extensive information. Some of the questions from the interviews can be found in Appendix 1.

2.1.3 Analysis of the interviews

First, the author did a theoretical framework of the main themes and issues in order to direct the analysis. In addition, they have not had any expectations about what will possibly the findings show. According to Lewis et al. (2009), this is a typical characteristic of the inductive approach.

Second, the writer of the thesis started transcribing the information that was gathered from all the interviews. Every single word was written down, line by line and this was very time consuming effort. As Taylor-Powell and Renner

(2003) suggest it is very important to read the participants' responses a couple of times in order to organize the data and to gather impressions about its quality and its relevance.

Taylor-Powell and Renner (2003) explain indexing the data or coding as a method to categorize the information gathered from the interviews. Lewis et al. (2009) defines categorizing data as method, which divides the information into different categories and linking these categories to meaningful parts of the data. Thus, the author will find relationships between the categories and will be able to further develop them and make conclusions. In order to make better analyses I coded/categorized the answers from the interviews.

Thus the data was defined into six categories: strategic decisions, operational decisions, family council's decisions, board of directors' decisions, management and advice.

2.1.4 Critique of the method and delimitations

The research has several limitations. First, in relation to the case study approach – one case does not provide enough bases for generalizing scientific conclusions. In addition, it takes too long time to be conducted and to organize the data. Due to the insufficient time, only one case study was conducted. In contrast to the case studies, quantitative research methods are considered to have more validity, i.e. "statistical significance" (Boutellier & Gassmann, 2008). As the authors describe external validity refers to the extent to which the results and the conclusions from the particular case study can be generalized to an entity, country, organizations or industries. Moreover, triangulation is missing. This is a combination of different data collection techniques in one study in order to prove the data that the respondent is telling (Lewis et al., 2009).

"Reliability is an internal requirement of a case study" (Boutellier & Gassmann, 2008). It means that if you conduct the same research the results will be the same. The authors also add that a good management and organization of the documents related to the case study (for example) ensure that it will meet the prerequisites for reliability. Unfortunately, this is another factor that possesses shortcomings of the research. There is absence of documentation or protocols, taken at the meetings of the board of directors.

Another test, which can be used to measure the research reliability, is called construct validity (Schell, 1992). According to the author, it is very important and relates to the data collection period. As much evidence the author gathers to support his/her findings, the more reliable is the research.

Credibility of the research is also influenced by the fact that participants did not have access to the prepared questions and to the interview themes beforehand. This could have increase the validity by giving the interviewees gather supporting company documentation from their files (Lewis et al., 2009).

Another factor influencing the reliability of the research is the audio recording. It takes again too long time to transcribe the audio recording. It may distract at some point the participants in the interview and thus reduce the reliability.

Bias could also exist in relation to the interpretation of the responses of the interviewees.

In addition, one of the most important factors related to the reliability of the project refers to the results of the interviews, gathered from the members of the family council and their analysis. There is a chance that the family members will not reveal all the information about the informal meetings they have and about the decisions discussed and taken on the same get-to-gathers.

3 Frame of reference

3.1 Definitions and role of family companies

According to the literature of family business, there is no official or common statement/definition describing what a family firm is (Overview of family business relevant issues, Country Fiche Bulgaria, 2008). However, I will use a definition that in my opinion gives a good understanding of the term. "A family company is a business in which one or more members of the family or more than one family own the firm and share a significant amount of commitment and capital" (Gubitta & Gianecchini, 2002). Suare and Santana-Martin (2004) state that all the definitions of a family business are centered around the notion of the participation of a member of the family in ownership and management of the company. Moreover, the authors state that in order to understand this type of companies it is first more important to understand the interaction between the two sub-systems, i.e. the family and the business. As Chua et al. (1999) mentions "what makes a family business unique is the influence of a family group on the ownership, governance, management and succession, as well as on objectives, strategies, firm structure and the way in which these are formulated, designed and implemented" (as cited in Suare and Santana – Martin, 2004, p.142).

The private family firms represent the most common type of business nowadays (Woods & Barton, 2012). A data from recent studies and research works presented by Lane, Astrachan, Keyt & McMillan (2006) show that the US family owned companies represent the biggest share of all annual tax return fillings for the country, approximately around 89%. Moreover, according to the same authors these businesses generate 64% of the GDP of the United States of America. Family firms play a significant role for whole world economy. Gubitta and Gianecchini (2002) also state that they employ more 64% of the workforce. That is why they require an effective governance system. And here comes the conflict that arises between the owners of the company and the top management in relation to the separation of the roles, responsibilities and control. Not all of these government structures and systems can be applied for every company. Some of them can be too complex for them due to the size and the turnover of the firm. Lane, Astrachan, Keyt & McMillan (2006) argue in their work that the majority of the companies use models that are mainly applied in the US and UK. They consist of external shareholders and external board members. However, a typical family owned firm use a corporate governance structure, which is prevalent in Europe, Asia and Latin America. It can be characterized as a one in which family members take part in the management and in the board of directors (Lane et. al., 2006).

3.2 Types of corporate governance structures

Based on the company size and the ownership of the firm, businesses require different types of corporate governance (Neville, 2011).

Recently a research on corporate governance is growing and according to Gubitta and Gianecchini (2002) the governance of a family business is a compromise between the family values and business rules. It can be both advantage and disadvantage for the family members to take part in the control and the management process of the firm (Sciascia, Salvatore, Mazzola & Pietro, 2008). On the other hand this reflects on the decision making process, management process, the entrepreneurial succession process. In a situation when the family decides on expansion, development and growing the business they come into collision with the problem of delegating the tasks and control.

According to Sciascia and Mazzola (2008) family business can be governed by individuals who are not members of the family. However the members of the family circle, i.e. husbands, wives, daughters and sons, brothers and sisters, usually take part in the strategic decision making process (Sciascia & Mazzola, 2008). Thus we can say that a typical family owned company usually posses complex structure of governance. The board of directors, top management and the family members take part in that structure. The last also play different, but very important roles in the management of the firm, because usually they take the most important business decisions (Mustakallio, Mikko & Zahra 2002). The authors also state that in these formal and informal meetings the members of the family usually share and express their vision and ideas about the future of the company.

3.2.1 Control and market model of corporate governance

Lane, Astrachan, Keyt & McMillan (2006) describe two types of corporate governance models: control and market model of corporate governance. Typical elements of the first type of model are focus on long-term strategy; insider board members, ownership and management of the company are overlapping. The second model is characterized by focus on short term strategy, independent board members and ownership and management are separated from each other. In the market model the role of the board to monitor the management has a great importance (Lane, Astrachan, Keyt & McMillan 2006).

3.2.2 Executive board of directors

Family members are afraid of losing control (Gubitta & Gianecchini, 2002). In order to ensure control and to improve the decision making process some family owned companies turn to an executive board of directors. A person with a high position within the company usually takes part in the board. In addition his/her role is to take care of the strategic goals and objectives, to solve operation problems and to monitor the implementation of the strategies (Gubitta & Gianecchini, 2002). When the resources that the company needs and the resources that the family can provide to the business are able to support the plans for growth and developing the business, then we can say that the board of directors become an effective government structure (Gubitta & Gianecchini, 2002). Moreover, it is vital for family firms to develop a structure that builds a connection and common vision within the family and board of directors in order to avoid conflicts (Mustakallio, Mikko & Zahra 2002).

3.2.3 External consultant

When companies are trying to make big changes concerning the management, strategies, operations, process or anything concerning the organization, they hire an external consultant (Chrusciel, 2004). They introduce the employees to new concepts, help them to adapt to the changes and integrate the new working methods. Thus they add value to the company and they are compensated for helping the organization.

3.3 The role of the board of directors

It is of great importance to define the role of the members of the board of directors, to determine the decision making process according to the hierarchy in the firm and to specify participation of these nonfamily governance figures in order to define which structure enhances good governance and good strategic decision making.

The theories, which provide explanations of the role of the board of directors can be classified into two groups

3.3.1 Agency theory

Neville (2011) argues that the agency theory is the prevailing theory in the literature and its main objective is to explain what is the role of the board of directors. It focuses mainly on the conflicts that arise between the owners of the company and the managers. According to the agency theory, board of directors' primary role is to monitor the actions of the managers, monitor the implementation of the strategies as they all should align with the interests of the owners. (Corbeta & Salvato, 2004). This problem usually arises in the large, listed companies (Neville, 2011).

3.3.2 Resource – based theory

Another perspective in the literature of corporate governance related to the role of the board is the resource dependency theory. It is more related to the resources, which the board can provide to the company (Neville, 2011). It is usually used to explain the role of the board in the small and medium-sized companies and especially in a family-owned businesses. Moreover, in these companies the issues concerning the conflicts between the managers and the owners are less relevant. Zhang (2010) explains that information that the board possesses (for example knowledge, experience, intelligence and judgement) should be used wisely and it is very important how the board will manage the flow of this information to the top managers.

Blumentritt (2006) states that the main role of the board of directors is related to governance and provision of resources. The governance role focuses more on the company control in regard to the stakeholders, as well as maintaining managerial accountability. Moreover, their main role is to observe and assure that the management acts in the best interest of the company's owner (Blumentritt, 2006). According to the author the second role of the board relates

to the provision of strategic contributions. Blumentritt (2006) suggests that the members can provide valuable resources to the firm like skills, experiences, reputation and contacts.

The resource dependency theory on the other side also explains how the company can win a competitive advantage in front of the competitors (Zhang, 2010). Neville (2011) state the board has another important function, which can be related to the external environment of the company. Board members can use their networks to attract more resources to the firms and thus to create more value.

3.3.3 Stewardship theory

In contrast to the agency theory, the stewardship theory the boards' primary function is to service and advise the CEO (Neville, 2011). According to the author it could be related to the second type of theory – the resource based theory. Moreover, the board members' role is to be in pursuit of the owner's goals and interests.

3.3.4 Advisory role of the board

However, there should be made a difference between board of directors and advisory board (Blumentritt, 2006). The first one represents the owner or the shareholders and has voting rights, while the second one's role is as the name suggests advisory. Usually it is used in smaller companies due to the lack of need (Blumentritt, 2006).

3.3.5 Mediator role of the board

Other authors state that one of the roles of the board of directors is of a mediator. They should monitor and advise the managers in a way to work and pursue the owners' interests and goals. On the other hand this helps improving the quality of the company's strategic decision making (Mustakallio, Mikko & Zahra 2002). The authors also state in their article that the board's activities can be classified under two broad tasks: control and service tasks. In addition both of them have a great influence on the strategic decision making process. The writers also provide a definition for a strategic decision: "a choice with important consequences and resource demands for the organization". The firm performance depends on these decisions and how well they are executed.

3.3.6 Monitoring and service roles of the board

The writers also argue that two of the main important roles of the board of directors are monitoring and service roles (Mustakallio, Mikko & Zahra 2002). The authors state that the first one relates mainly to the hiring and firing of the senior and middle-level managers, defining the levels of compensation and incentives to the top and middle level management, evaluating the senior managers' performance. The board of directors also plays another role; they

advise and counsel the senior management. They also connect the company and the external environment, the company and the family.

Garratt (2005) argues that there is great difference between managing and directing. Managers' role is oriented towards actions like executing projects. Directors' role is to think strategically and effectively. The author states that the only way for them to think strategically is to have freedom to think independently beyond the executive planning (Garratt, 2005).

3.3.7 Creating mission and vision of the company

In addition Zhang (2010) states that of the main roles of the board of directors is to create the company's mission and vision, to formulate the business concepts, to propose new strategies and after their approval to monitor their introduction and implementation in the company. The writer also mentions in his work the concept of the board capital. It focuses on the directors' knowledge, skills, expertise and experience as a premise for the firm's successful performance.

3.4 Structure of the board of directors

Villaseca (2002) suggests the board of directors could consist of family and external to the family members. Also, the higher the number of the members of the board and non family members, the better information system created.

Some authors like Barach, Mathile and Nash state that an effective board of directors is constituted mainly by external members and the CEO (Corbeta & Salvato, 2004). However, other authors like Ford (1988, 1992) state the opposite, i.e. if the members are outsiders this will diminish their performance and influence due to their knowledge about the company and its business (Corbeta & Salvato, 2004). Simultaneously, Brunninge and Nordqvist (2004) state in their article that the external members of the board can reduce the overall performance and the results of the internal members.

To sum up, I want to conclude that although in some companies it is legal to have a board of directors, the rest of the businesses can also benefit in different aspects from creating a board of directors. But as Brunninge and Nordqvist (2004) argue in a great number of companies the board plays a passive role. The authors also add that the board becomes active when external members are included in the composition.

3.5 Family members and the family council

3.5.1 Reasons to create a family council

There is no clear definition in the corporate governance literature of the composition of the family council and its activities and main governance role or duties (Dickstein, 2003). The writer explains that the composition of the family council depends on the number of the family members involved, number of

different generations involved and also the family's member geographis disperssion. Every member of the family has the right to drop off these meetings if he is not interested in them (Dickstein, 2003). The author also suggests that the family meetings should be planned carefully and with priority, there should be at least one annual meeting.

Family members and the person/people that govern the business usually have different criteria according to which they take decision (Jaffe, 2005). Sometimes this can have a negative impact on the company performance. According to the author hiring a person only because he/ she is a family member, doesn't mean that he/she is qualified enough for this position (Jaffe, 2005). The writer also states in his work that usually when parents hire their children in the firm they decide to treat and pay them equally. This rises interesting questions like: whether they should be treated equally or differently for the work they do; whether a husband can fire his wife, etc.. Here comes the conflict and challenge of governance the business: how to plan and negotiate the family world and the company world. Jaffe (2005) suggests that one way to diminish this conflict is by creating planning teams – family council. Their main task is to focus on development of a new generation of family members, controlling the family member's involvement in the company and aligning the business with the family plans (Jaffe, 2005). However according to the author a family council cannot help the business to develop and innovate. In order to achieve these tasks the business needs to create board of directors, which will secure and represent the needs of the business (Jaffe, 2005). Moreover, family members usually avoid issues and deny some problems, and to some extent keep secrets from each other (Jaffe, 2005).

Jaffe (2005) also states that family council must think of and secure:

- Company's mission and value
- Next generation succession plan
- Planning family involvement in the company
- Ownership and transfer policies

In addition, Mustakallio, Mikko & Zahra (2002) state that family members also play an important role in the government of the family firm. Different kinds of meetings like formal and informal get-togethers, family councils and family plans represent the goals, the vision and the interests and the owner-family members. All these meetings create a number of opportunities for the family members to discuss different issues in regard to the government of the business. In the ownership of the company may take part members of the family from the same or different generations due to succession. But it is necessary for all of them to have a shared vision for the future of the firm. They have to share their ideas related to the desired growth rates and desired financial performance etc. The authors (Mustakallio, Mikko & Zahra 2002) argue that these interactions between the family members create a shared vision and boost long-term value creation.

Taking strategic decisions requires a great amount of data and information. According to Mustakallio, Mikko & Zahra (2002) shared vision serves as a framework, which helps evaluating the available information and focus on particular issues. This also decreases the level of opportunism among the middle level management, the other employees and the owners of the company.

3.6 Types of strategic decisions

Different types of corporate governance and ownership can also affect the company's strategy (Le Bretton-Miller & Miller, 2008). Some authors as James (2006) and Ward (2004) state that family companies perform better than the non-family because make long-term investments in their business. In contrast, Bertrand and Schoar (2006) argue the opposite, because these companies serve only the family needs (Le Bretton-Miller & Miller, 2008).

3.6.1 Business strategies

According to Key (1993) successful corporate strategy focuses on the main strengths of the company and the economic environment at the same time. The author also mentions in his work that the strategy needs to be adaptive and opportunistic and the company needs to have a good corporate plan. In addition Key (1993) also argues that adaptiveness is the opposite of just waiting for something to happen. The firm needs to take very good measured actions. Moreover, in order the company to be successful, it needs to have a competitive advantage. It can be achieved by the unique relationships between the company and its employees, its customers and stakeholders.

As Astrachan (2010) states in his work, family firm strategies also concern the family interests, goals, succession issues, culture and family members' relationships (Goel, Mazzola, Phan, Pieper and Zachary, 2012). Moreover, the authors also state in their article that the relationship and the influence the family members have on the business strategies are not examined extensively. According to the academic literature, family members must have a measurable influence on strategies concerning the innovation processes within the company (Goel, Mazzola, Phan, Pieper and Zachary, 2012).

Business strategy also relates to the following aspects: business vision, business models, strategic assets, etc. (Uggla & Filipsson 2009).

3.6.2 Brand strategies

Uggla & Filipsson (2009) also provide definition for the brand strategy: it covers brand equities, identities, and other strategies that create meaning in value for the brand of the firm. It is also build on three cornerstones: brand vision, core values and brand identity.

As Vallaster and Lindgreen (2011) explain, in order to define what the company is, it needs to be paid attention to the company's values and culture. Corporate brand is also dependent on the promise given to the external stakeholders. That is why it involves values that can be distinguished from the firm's competitors

and these values should be aligned with the corporate culture. To create a successful brand image, the company has to make all these values explicit to its stakeholders.

According to Vallaster and Lindgreen (2011) brand management literature often centers on the role of the CEO and top management team on what the branding strategy means, how it is implemented in the company and how it processes have to be managed. The authors also mention that in the process of creation the brand strategy can take also part not only the top management, but also other employees from the company. This happens in some industrial marketers and it is called “bottom up approach to brand building” (Vallaster and Lindgreen, 2011). Thus the middle management also influences the brand building strategy, because they act as mediators between the company’s internal and external environment.

In addition the brand management literature identifies three main brand actors: managers who drive the brands strategy, consumers – the people who use it, and the stakeholders – people who create brand meaning (Vallaster and Lindgreen, 2011). To the best of my knowledge, no research defines clearly whether the family council influences the creation of the brand strategy.

Furthermore, if the employees consider the company’s values important they will start to identify themselves with the brand and behave accordingly (Vallaster and Lindgreen, 2011).

3.6.3 Growth strategies

Other researchers have examined the role of growth strategies within the family firms. Planning the expansion and the growth of a family business is very important issue (Upton, Teal & Felan, 2001). In order to survive they should start making business, strategic and succession planning. A data presented in the work of Upton, Teal and Felan (2001) shows that companies that perform better than the average usually have prepared business plans, in which preparation the board of directors played a significant role. According to the writers, growth is not the main priority for family firms. The authors describe three main growth strategies in their article: overall cost leadership, differentiation strategy and time-based strategy. The first one focuses mainly on the price of the product/service, which needs to be lower than the one offered by the competitors (Upton, Teal & Felan, 2001). The second one aims at offering products that are unique or superior to the market. A time-based strategy is characterized by catching the best time to seize the market opportunities (Upton, Teal & Felan, 2001).

Growth strategies focus mainly on developing competencies that will help the company to catch and realize opportunities in the market (Le Bretton-Miller & Miller, 2008). They usually require long-term investment and may relate to the development of new products and services, new channels of distributions and innovative technologies (Le Bretton-Miller & Miller, 2008). In addition, investments could be made concerning the employees’ skills, knowledge and competencies. The authors argue that family firms usually focus on the priorities of the

family and thus do not take risky decisions that may threaten the family control (Le Bretton-Miller & Miller, 2008).

3.6.4 Harvest strategies

According to the strategy literature, harvest strategies are those that main purpose is to reap the business (Le Bretton-Miller & Miller, 2008). They neglect the long-term investments and risky decisions, but on the other hand, they provide security for the family members as they minimize the risk and the family can dispose fully with the income (Le Bretton-Miller & Miller, 2008). Moreover, they run away from a conflict with the top management.

3.6.5 Price strategies

Recently, partly because of the world financial crisis many companies use price as a strategy to hold up market share or sales volume (Piercy, Cravens & Lane, 2010). Some firms stake on the so called “value pricing” where they set lower prices for a product range in order to replace existing products. In the past, many companies created the price just by calculations or they formed it by the sale negotiations (Piercy, Cravens & Lane, 2010). Nowadays the situation is much more different – firms use it a strategic tactic. According to Piercy, Cravens and Lane (2010) deciding and forming the price strategically also has advantages for the customers, sometimes they gain more value.

There are different pricing strategies based on quality offered, unique necessities and superior value to the clients. A high-active price strategy for example usually stands for expensive brand and offers greater value to the customers (Piercy, Cravens & Lane, 2010).

3.6.6 Quality strategies

Quality has an enormous impact on company’s successful performance, return on investment and gaining market share (Novack, Grenoble & Goodbread, 1993). The authors outlined 8 critical features of quality management and they are the following:

- “the role of management leadership and quality policy
- the role of the quality department
- training; product/service design
- supplier quality management
- process management
- quality data reporting” (Novack, Grenoble & Goodbread, 1993)

Total quality management is practice that aims at maximizing the company’s competitiveness by the continuous improvement of the quality of the services offered, people, processes and environments (Aydin, Tuzunturuk & Eryilmaz, 2008).

4 Empirical findings

4.1 Ekont Express Ltd.

4.1.1 Company background

Ekont Trans Llc. was established on 13th of July 1993 with the decision of Rousse District Court. The company is mainly known for its international and domestic transportation services, as well as warehousing. At this time the list of the people working in the firm consists of only two persons: The CEO – Nikolay Sabev and the broker – Tihomir Tiholov. In 1993, the team of Ekont Trans joint-stock company increases with one more broker. In March 1994 the brokers become and thus with the price of lot of efforts, energy and strong motivation starts the history of Ekont (Deneva, 2011).

During the interview, the owner Nikolay Sabev also provided detailed information how the business started. First, he was working in the Bulgarian River Shipping Company (BRSC). He had experience in almost every single department – marketing, accounting, customer service, etc. One of the problems he has seen with this company has been the frequent changes of the managers/directors of the department. At the same time, the company had the need of changes in its strategies and processes at all levels. However, the new controlling bodies of the departments, as they were external to the organization, did not have knowledge to take the necessary decisions. Thus Nikolay Sabev decided that he has a very good knowledge of economics, psychology and transportation and at the same time enough experience to open his own business. At that time, he was married. He discussed his ideas only with his wife, because their children were too young. However, in every aspect concerning the new company as well as the governance he took the decisions by himself.

During these years, the market of this type of services and the trade require transportation of goods from China to Russia, and from Russia through Ukrainian ports by sea to the middle of Bulgaria and Turkey. Operating with all kinds of transportation Ekont proves to be the most promising partner in the logistic services in Bulgaria (Deneva, 2011).

In 1997 another company was established by the same owner. Ekont Express is specializing in rail transportation. After the big Russian crises, in the year 2000 Nikolay Sabev takes the risky decision to invest in the courier services. Ekont Express becomes a courier company (Deneva, 2011).

During all these 18 years since the registration of the company, the difficulties in front of the business and the burdens overcome by the owner in order to change the history of his family firm are countless (Deneva, 2011).

Nowadays, the people working in Ekont Express are more than 1447. The company's own offices are 43 and the number is increasing almost every one/two months. The offices of successful franchising partners are more than 252. The company offers these services and attends clients in more than 5400 cities and villages in Bulgaria and there is no place to which is not possible to deliver a shipment (Deneva, 2011).

The most powerful Bulgarian logistic company operates with more than 800 different transportation routes – within the town area (delivers shipments to the offices and to the address of the customers). There are also national routes in order to deliver the shipments between the cities and villages in county. This is done with the successful management of Ekont's own auto park, consisting of more than 350 own motor vehicles, as well as significant number of automobiles, property of Ekont's partners (Deneva, 2011).

The international service of the company includes deliveries from and to Solon, London, Bucharest, Prague, Hungary, Budapest and Brussels. The list of new offerings to all these countries increases every day (Deneva, 2011).

In 2011 the total number of shipments per month reach the number 389 694. Their total weight is 3 702 089,12kg per month of June (Deneva, 2011).

4.1.2 Corporate governance structure

Information shared by the owner of the company shows that nowadays the governance structure of Ekont Express Ltd. Consists of a CEO, who is also the owner of the company and a board of directors. The board includes 10 directors of different departments – the postal service (PSD), the market department (MDD), the quality department (QDD), the department of knowledge (DKD), consultative center department (DCCD), the department of traffic and Auto Park (DTD), the department of material resources (MRDD), the department responsible for the UK shipments (UKDD), trade activity and sociological investigations department (TASPDD) and the project manager (PM). In the board also take part two of the procurators (P1 and P2) of the company and the managing director (MD). The total number of the members is 13.

Two of the members of the board – the Director of the UK service and the Director of the Postal Service Departments – Lora Sabeva and Alina Sabeva are also daughters of the CEO/owner of the company Mr. Nikolay Sabev. As such, they also take part in the family council. The information shared by the CEO gives a proof of the existence of a family council, despite it is more informal than formal. However, it also influences the governance of the Bulgarian family company Ekont Express Ltd.

The following figure represents visually the governance structure of the company.

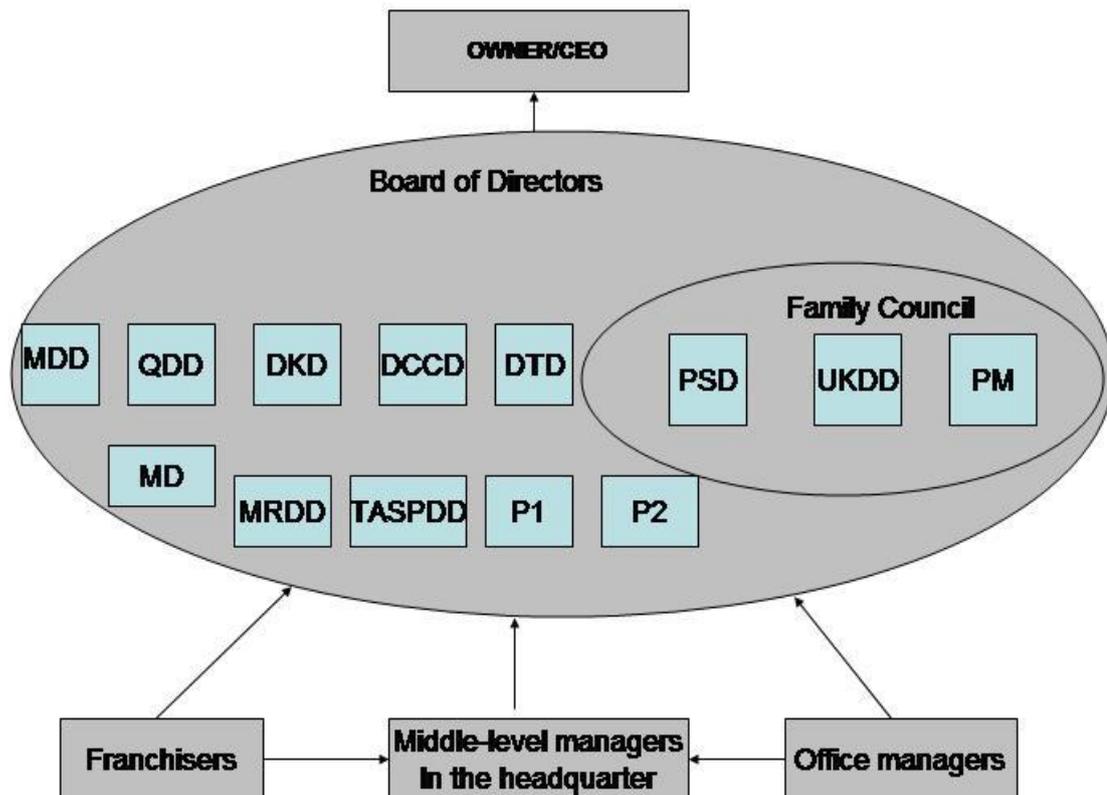


Figure 1
Ekont Express Governance Structure

4.2 Case findings from the interviews

In this part of the section the author presents in details the responses received from the interviews with the members of the board of directors and the members of the family council.

4.2.1 Interviews with the members of the board of directors

4.2.2 Lora Arsova – director of the market department

Lora Arsova is the director of the market department in Ekont Express Ltd. She works in the company since the beginning of 2004. Lora has experience in different departments and on different positions in the firm. She explained that at the time she started working in the company, the owner was the only one person in charge of the governance of the business. She mentioned that she is not sure about the reason for the creation of the board, but most probably, it is because the business was growing fast and the CEO felt the need for more effective governance. First, the members of the board were two and this number was increasing with the time, some of the members of the board have been also replaced. She is a member of the board since 2008.

In an interview with the market director Lora Arsova she explained that Ekont always strived to be innovative company and to offer services, which best fit the

customers' needs. One goal of the company is to make simple and easy for use the services. The members of the board are responsible for suggesting ideas and taking decisions how to achieve these objectives. An example of this statement is the quote received from Lora

"We always offer different/innovative services to our customers that follow their needs and wants and we are always first on the Bulgarian market. And this is one of the roles of the board – to come up with such ideas about new services and to make them become real".

Another strategic decision that the board discussed recently according to Lora concerns the company brand strategy. She explained that the owner hired an external American consultant, who is one of the best in the field and he gives advice to internationally known organizations like Bosch. One of his advices has been to better create and formulate their brand strategy, because this lies at the bottom of all the other processes of management, control and direction of the employees. The board approved the idea and started working on different aspects of the brand strategy.

"We have a lot of meetings during the last six months to take decisions regarding the brand strategy and company values..." (Response received from the interview with the director of the market department).

In every meeting, they discussed different views concerning the competitors, the goals of the company, and the means how to achieve them. Each member proposed their ideas and at the end, they all vote which one to be approved.

The board also took the decision of formulating the company's values. After a number of meetings and different suggestions from the members of the board, as well as the procedure of voting, six main words expressing the values of the company have been chosen. This has been an important decision taken by the boards because they also stay at the bottom of the company processes, procedures, operations and have an enormous influence on the final product/ service. Lora explained that like in every society values stay at the core of the culture. It is the situation with the company. They help the managers choose their employees understand their actions and behavior choose methods to motivate and control them.

Moreover, Lora mentioned that the board takes strategic decisions concerning the key account clients as well as for the strategic alliances of the company. They have alliances with companies like Vivacom Bulgaria (Mobile Operator Company), Savecard, UniCredit Bulbank and some others. They decide to enter these alliances based on discussions of the board of directors, based on the companies profile (good reputation and customers base).

4.2.3 Georgy Georgiev – director of the quality department

Georgy Georgiev is the director of the quality department. He works for Ekont since 2007. He started as a courier in the company then he was promoted and later took the position of a quality and control manager. As a quality and control manager he gained extensive knowledge of almost all the company's processes and procedures. He had to control and monitor the work processes in every de-

partment in the company. If he notices some shortcomings, he needs to offer good solution or something which will improve the current flaws.

During the interview Georgy mentioned that the company's governance structure at the time when he started to work for Ekont has been conservative. The board of directors has been existing but he has not had an idea about their duties and responsibilities.

Georgy explained that his role as a member of the board and as quality director is to improve the quality of the services offered and even to make them perfect. They should make all the processes related to the employee's work easy to follow. The company uses different Japanese techniques to achieve these goals and the Company's consultant suggested these techniques.

Furthermore, Georgy also provided information about the composition of the board of directors. He mentioned that as to his knowledge the board consists of only internal members/ employees of the company, because these people know very good the services, the strengths and weaknesses of the products and working processes. Thus they can provide knowledgeable advice according to their experience and knowledge in the particular departments. An example is the following quote:

"The director of every single department knows better which process needs improvements and what are its flaws. So for example when we discuss particular issue on the meetings of the board, he can provide information whether the discussed decision if taken, can be influenced by the flaws of the particular process in his/her department. An example could be the the new introduction of the Ipad. We still use it in a test period, but before we approve it the director of the consultative center had a positive remark-this will reduce the work of consultantants who receive calls from the couriers to help them if needed. If the Ipad is approved the couriers can check whatever information they need right away. On the other hand this could increase the work of the material resources department and the IT department if they have some technical problems."

Georgy Ivanov also mentioned that during the meetings they discuss not only strategic decisions, but also operational issues. If necessary sometimes it could happen that the directors change their positions with the office managers in order to understand the problem in depth and to be able to take better informed decisions.

Another mentioned during the interview by the quality and control director is that sometimes it happened that the owner and CEO has taken strategic decisions in regard to the governance of the company without the advice or voting of the board of directors.

4.2.4 Nikolay Sabev – owner/ CEO/ member of the family council

During the interview, the owner Nikolay Sabev provided detailed information of how the business started. First, he was working in the Bulgarian River Shipping Company (BRSC). He had experience in almost every single department –

marketing, accounting, customer service, etc. One of the problems he has seen with this company has been the frequent changes of the managers/directors of the department. At the same time, the company had the need of changes in its strategies and processes at all levels. However, the new controlling bodies of the departments, as they were external to the organization, did not have knowledge to take the necessary decisions. Thus, Nikolay Sabev decided that he has a very good knowledge of economics, psychology and transportation and at the same time enough experience to open his own business. At that time, he was married. He discussed his ideas only with his wife, because their children were too young. However, in every aspect concerning the new company as well as the governance he took the decisions by himself.

“Since 1993 till 2008 I was the one and only one taking the decisions regarding the governance of the business. Since 2008 all the decisions are taken by the board of directors” (received during the interview with Nikolay Sabev).

The reason that made him to create the board of directors has been that the company has been growing and he needed better system of governance. His goal has been of preparing good educated managers that can control the company by themselves. The owner explained that the existence of the board had a positive effect in the governance of the company, because they are people with very good knowledge of the company services and process. He explained that one person is specialized more in a particular department, but when they get together in a formal meeting everyone can present their ideas and thus they can take better-informed decision. They measure the pros and cons of the situation, the problem or the idea.

Concerning the strategic decision making process, he explained that the board takes more tactical decisions rather than strategic.

“In regard to the strategic decisions the board has more the role of an advisor, however as it comes to tactical decisions they have the right to take the decisions. But this does not mean that they don't vote for strategic decisions too” (received during the interview with Nikolay Sabev).

However, when I asked him to give examples he explained about the company's values, the mobilization of the couriers with Ipads. In addition he also mentioned the formulation of the prices of different services and the introduction and creation of new services that at the time they are unique to the Bulgarian market.

Mr. Nikolay Sabev also explained that there is a family council, but their meetings are more informal, rather than formal. In the family council take part his two daughter – Alina (Director of the Postal Service Department) and Lora (Director of the UK Department), as well as Lora's husband Veselin (Project Manager). However, he explained that the issues they discuss on these meetings do not differ from these discussed on the meetings with the board. In his opinion, this could cause secrets and misunderstandings between the two governance bodies. In addition, if the members of the family council have new ideas and suggestions concerning the management of the company they can prepare an

official presentation and present their ideas in front of the board, so they all can vote for the implementation.

The owner also stated that he would like the company to remain a family business and to be passed from generation to generation.

“...yes I want the company to remain a family business and to be inherited from generation to generation..., every member of my family has the right to work in the company, we discuss these issues, but he/she will be hired on a position in relation to’ his/her qualifications and knowledge...” (Received during the interview with Nikolay Sabev).

Nevertheless, he makes plans for the company only for the next twenty years. He just wants to prepare his children to be able to govern the company successfully and every one of them is on a position depending on his knowledge and skills.

4.3 Interviews with the members of the family council

4.3.1 Alina Sabeva – member of the family council and the board of directors

The questions asked to Alina Sabeva were related mainly to her membership in the family council of Ekont Express Ltd.

Alina Sabeva is one of the daughters of the owner of the company. She works in Ekont Express since 2004. Now she works on the position of director of the postal service department in the headquarter of the firm. Since the beginning of her career in the family business she worked at other positions as a manager quality and control and later as a director of the market department.

During the interview she started to explain how she started to work in the company. She has always been interested in the family business, but in the beginning she she didn't have enough experience and knowledge. That is why her first position has been in the quality department. She was examining the customers' claims and complaints. Her main duty has been concerning the identification of the main reasons and problems concerning the services, which caused the customers' disappointment. Usually the main problems were rooted in the delayed services, damaged parcels or rude attitude of the employees. However, all these complains made her to look deeply in the roots of the problems and to understand better the process. As a result of each claim, she had to offer a suggestion, which will improve the overall quality of the service.

In addition, she mentioned that her father didn't mind her to work in the company, but he has been fair and he always considered that every one in the company should deserve his/her positions. His goal always has been to create a leading company in the market, which responds to every customer need. And if the clients need a particular service, if the company does not offer in the present situation, they should make it available as soon as possible. This is one of the missions of the company. She also mentioned that this is one issue discussed in the family council meetings:

“In order the company to become so successful in the market, because right now it is the leading courier company in Bulgaria, with a turnover of more than 20 millions EUR/year, we needed to define clearly our mission, because it will and should guide all the employees’ actions. Our mission is to provide the highest quality services in the country and to satisfy every customer needs.”

In some of the meetings they discuss how this mission and aims can be achieved, what needs to be done. And if it is a major innovation in the departments or the process, which can change the overall workflow then it needs to be discussed with the board. The reason is that it can be examined from different angles.

Also Alina explained that in some meetings they discuss whether to expand the business in other countries, but she mentioned that these are strategic decisions and she does not want to reveal them due to the fact that their competitors can understand their motives, because there are companies in Bulgaria, which always try to copy their strategies and actions. However, Alina explained that before taking such an important decisions they always investigate the market and the new country, make SWAT (strengths, weaknesses, opportunities and threats) analysis. The decisions of opening new international offices are not discussed with the board of directors, because they usually concern large financial investments and do not require their knowledge and experience, which they have in the domestic market.

4.3.2 Lora Sabeva – member of the family council and the board of directors

The questions asked to Lora Sabeva were related mainly to her membership in the family council of Ekont Express Ltd.

Lora Sabeva is the second daughter of the owner of the company. She works in Ekont Express Ltd. Since 2009. She started as a consultant in the consultative center. Her father explained that she worked there 6 years before she become a director of the UK department.

Lora was quite thrifty in her answers and explanations. However, in this section are summarized the most important and relevant to the topic responses. Lora explained that they usually have these meetings at the end of every one or two weeks. They are not very strict and are more informal than formal. They do not write protocols for each meeting and do not have a leader or chairman. Everyone is free to express his/her own ideas, feelings and whatever they consider as important. They discuss issues from the passed week, they could be concerning daily problems, some plans or ideas. Everyone explains how the things are going on in the company and shares their impressions. Moreover, sometimes they seek solutions to the present problems. In her opinion, if they propose an idea or decision to a particular problem/task the owner can approve or disapprove this suggestion even without the intervention of the board. Its role is more like a

check-up system, which is used for more complicated issues about daily activities.

Moreover, at the last meeting of the family council Lora explained that they discussed the building of new logistic center in Bulgaria, which will be the best one in the country:

“One future plan concerns the building of new logistics center in the Balkans, equipped with the latest technologies. It will be situated in a very strategic place in the country and will be the largest one in Bulgaria. I cannot say more about this project because it is a company secret”

The author also asked Lora whether they show their negative or positive emotions on these meetings. He answer was that no one can save the emotions for themselves when it comes to their family business, however they can not show these emotions on the workplace.

Another interesting fact that Lora mentioned is that on these meetings they discuss even issues which have nothing to do with the governance of the company. These are issues concerning the personal life of the members of the family, their personal goals, desires and needs.

On the question whether it is necessary or compulsory for a family business to have a family council, Lora explained:

“ I can not say it is compulsory, but in my opinion it is good to have it because thus the family members become close, share information and impressions. It keeps the members updated with information. Also it makes the relationships between the members stronger and it also makes the members feel that they have the support of the family”

5 Discussion

This part of the paper explains how the analyses of the interviews and the results gathered were analyzed.

For the purposes of the research five interviews were conducted in total – two with external to the family members in the board and three with the members of the family council. There were more than 20 open-ended questions as the number increases due the answers of the participants. They started with basic information about the company, the years of working experience within the firm by different participants, different corporate strategies that have been used and different decisions taken by the government bodies.

The author started the coding process by defining the following categories that were planning to be explored:

- strategic decisions
- operational decisions
- family council's decisions
- board of directors' decisions
- management
- advice

These categories were derived from the topics of the interview questions. In order to present more clearly the information the author draw a table, which shows all the six categories with examples/bits of the data that fall into each of these categories. Moreover, the table also presents the number of answers that fall into the same category. Thus, we can easily see the relationship between the answers.

Chart 5-1 Coding of the responses gathered from the interviews

Category	Number of answers that fall into this category	Example quotes
Strategic Decisions	8	“We always offer different/innovative services to our customers that follow their needs and wants and we are always first on the Bulgarian market. And this is one of the roles of the board – to come up with such ideas about new services and to make them become real” “We have a lot of meetings during the last six months to take decisions regarding the brand strategy and company values...”

		<p>“Decisions regarding the level of quality the company offers, the methods and the means used to control the quality are also taken by the board, but they are directed by a private consultant who is external to the company and the family.</p> <p>“Since 1993 till 2008 I was the one and only one taking the decisions regarding the governance of the business. Since 2008 all the decisions are taken by the board of directors”</p> <p>“In regard to the strategic decisions the board has more the role of an advisor, however as it comes to tactical decisions they have the right to take the decisions. But this does not mean that they don’t vote for strategic decisions too.”</p> <p>“...yes I want the company to remain a family business and to be inherited from generation to generation...and yes every member of my family has the right to work in the company, we discuss these issues, but he/she will be hired on a position in relation to’ his/her qualifications and knowledge...”</p> <p>“One future plan concerns the building of new logistics center in the Balkans, equipped with the latest technologies. It will be situated in a very strategic place in the country and will be the largest one in Bulgaria. I cannot say more about this project because it is a company secret”</p> <p>“In order the company to become so successful in the market, because right now it is the leading courier company in Bulgaria, with a turnover of more than 20 millions EUR/year, we needed to define clearly our mission, because it will and should guide all the employees’ actions. Our mission is to provide the highest quality services in the country and to satisfy every customer needs.”</p>
Operational Decisions	2	<p>“...take the decisions every courier to work with Ipad”</p> <p>“Decisions regarding the level of quality the company offers, the methods and the means used to control the quality are also taken by the board, but they are directed by a private consultant who is external to the company and the family.</p>
Family council’s decisions	5	<p>“Of course we have family meetings and they are more informal than formal. My grown-up daughters take part in them...yes of course he (the project manager) also takes part because he is almost a member of the family. We discuss the same issues and topics that we discuss on the formal meetings with board. We never take decision be-</p>

		<p>hind their back because this could harm the company, cause insecurity between the board and the CEO...can have only negative effect on the company”</p> <p>“...yes I want the company to remain a family business and to be inherited from generation to generation...and yes every member of my family has the right to work in the company, we discuss these issues, but he/she will be hired on a position in relation to’ his/her qualifications and knowledge...”</p> <p>“ I can not say it is cumpolsary, but in my opinion it is good to have it because thus the family members become close, share information and impressions. It keeps the members updated with information. Also it makes the relationships between the members stronger and it also makes the members feel that they have the support of the family”</p> <p>“One future plan concerns the building of new logistics center in the Balkans, equipped with the latest technologies. It will be situated in a very strategic place in the country and will be the largest one in Bulgaria. I cannot say more about this project because it is a company secret”</p> <p>“In order the company to become so successful in the market, because right now it is the leading courirer company in Bulgaria, with a turnover of more than 20 millions EUR/year, we needed to define clearly our mission, because it will and should guide all the employees’ actions. Our mission if to provide the highest quality services in the country and to satisfy every customer needs.”</p>
Board of directors’ decisions	8	<p>“We have a lot of meetings during the last six months to take decisions regarding the brand strategy and company values...”</p> <p>“...take the decisions every courier to work with Ipad”</p> <p>“...to reproduce the motivation, the goals of the company and the ambitions of the CEO in front of the middle management and make people work in the best interest of the business”</p> <p>“We always offer different/innovative services to our customers that follow their needs and wants and we are always first on the Bulgarian market. And this is one of the roles of the board – to come up with such ideas about new services and to make them become real”</p> <p>“Decisions regarding the level of quality the company offers, the methods and the means used to control the quality are also taken by the board, but they are directed by a private consultant who is external to the company and the</p>

		<p>family.”</p> <p>“Since 1993 till 2008 I was the one and only one taking the decisions regarding the governance of the business. Since 2008 all the decisions are taken by the board of directors”</p> <p>“In regard to the strategic decisions the board has more the role of an advisor, however as it comes to tactical decisions they have the right to take the decisions. But this does not mean that they don’t vote for strategic decisions too.”</p> <p>“...yes I want the company to remain a family business and to be inherited from generation to generation...and yes every member of my family has the right to work in the company, we discuss these issues, but he/she will be hired on a position in relation to’ his/her qualifications and knowledge...”</p>
Management	1	<p>“...to reproduce the motivation, the goals of the company and the ambitions of the CEO in front of the middle management and make people work in the best interest of the business”</p>
Advice	1	<p>“In regard to the strategic decisions the board has more the role of an advisor, however as it comes to tactical decisions they have the right to take the decisions. But this does not mean that they don’t vote for strategic decisions too.”</p>

It is obvious from the table that most of the answers fall in at least in two categories. The author of the thesis decided to start the analyses of the answers of the interviews with the strategic and operational decisions. Then the writer analyzed the role of the board and the family council in the process of taking these decisions.

The word “strategic” was used in many of the interview questions, because it relates to quality choices, brand choices, growth, expansion, and succession. All these decisions require different strategic choices and they altogether relate to the governance of the company. All of the participants mentioned the word strategic in their responses. Just eight example quotes are posted in the table even though the number of the examples is higher. Four of the answers fall in the category of strategic decision-making and decisions taken by the board of directors. Moreover, they can be connected to the differentiation strategy, brand strategy and quality strategy of the company. These answers show that the board of directors takes strategic decisions concerning the governance of the company. The results concerning the company’s strategies are in correspondence with what the literature say about these decisions. As Key (1993) states business strategies focus on the main strengths of the company and the external environment at the same time”. The case of Ekont also proves this statement. The company focuses

on the quality issues as they are the main strength of the business, while at the same time it pays a great attention to the customer needs, wants and international trends in the field.

Brand strategy is also very important strategic decision, because as Ugglå & Filipsson (2009) explain it represents a promise given by the company to its clients and customers. The quote “We have a lot of meetings during the last six months to take decisions regarding the brand strategy and company values...” falls into two categories. These are decisions taken by the board of directors and strategic decisions. It is also a prove that the board has active role in the formulation of the brand strategy of the company.

According to Novack, Grenoble and Goodbread (1993) quality plays a major role on the company’s successful performance, return on investment and gaining market share. The next quote “Decisions regarding the level of quality the company offers, the methods and the means used to control the quality are also taken by the board, but they are directed by a private consultant who is external to the company and the family” is also an example that the board of directors takes other important decisions concerning the strategy and governance of the company. Ekont Express is a firm that focuses mainly on providing the highest quality of services on the Bulgarian market and the results from the interviews showed that it relies on the board’s decision and judgement in regard to the quality strategies. In addition, the company uses an external consultant, who on the other hand guides the board in order to take more efficient decisions.

Furthermore, the results gathered from the interviews also show that the role of the board of directors in correspondence with the resource-based theory. According to Neville (2010) this perspective relates mainly to the resources, which the board can provide to the company. The owner of the company explained that the board has a positive effect on the company’s performance, because every member of the board has very good knowledge of the services and the process related to their department. Thus the board provides the company with their good knowledge, skills and experience. They on the other hand help the strategic decision making process by taking good informed and measured decisions.

The second example quote “...take the decisions every courier to work with Ipad” fall into two categories again - into “Operational Decisions” and “Decisions taken by the board of directors”. One of the members of the board – Mrs. Lora Arsova, who is the Market Director, did this comment. She was explaining that during one of the meeting they were discussing how to improve the quality, because they are aiming at zero tolerance with the quality of the service. All of the members had different ideas but at the end, they altogether voted for making the process of delivering parcels faster by making the couriers more mobile. This answer shows that the board also takes decisions about the execution of particular strategies, more operational decisions. The introduction of the Ipad in the system of Ekont will guarantee speed, the delivery of the parcel can be traced online right after the physical delivery of the good to the client, will show that the company follows the world trends in the new technologies and last but not least will help improve the quality of the service offered. The implementation of the new strategy is moni-

tored by the board of directors, while the execution is monitored and controlled by the middle level managers.

The board of directors also has influence on the growth strategy of the company. An example is the following quote: “We always offer different/innovative services to our customers that follow their needs and wants and we are always first on the Bulgarian market. And this is one of the roles of the board – to come up with such ideas about new services and to make them become real”. According to Le Bretton-Miller and Miller (2008) growth strategies relate to the ability of the company to catch and realize new opportunities, which for example may relate to the development of new products and services.

In the next category “Family Council’s decisions”, it can be seen that five of the responses are included. Two of these five answers were received from the owner of the company Mr. Nikolay Sabev. He was explaining that the strategic issues discussed with just the family members do not differ from those discussed on the meetings with the board, because this could have a harmful effect on the company performance. Another reason is that this could bring secrets and misunderstandings between him as a CEO and the board. This could also decrease their trust and loyalty. However, the author of the thesis asked questions whether the owner wants the company to remain a family business, to be succeeded from generation to generation and whether he takes into account his children’s desires, wants and goals no matter if they are connected to the goals of the company. He answered that they talked that the company will remain a family business and will not go on the stock market. This answer shows that on the meetings of the family members they still discuss something different from the issues discussed with the board. The succession of the company is also a strategic decision and relates to the future of the business.

The next answer received from the daughter of the owner Lora Sabeva “ I can not say it is compulsory, but in my opinion it is good to have it because thus the family members become close, share information and impressions. It keeps the members updated with information. Also it makes the relationships between the members stronger and it also makes the members feel that they have the support of the family” shows that one of the roles of the family council has nothing to do with the strategic decision making. Its main function is just to gather the members of the family, improve and make their relationships and bonds stronger. This answer was unexpected and added new information to this research project. On the other hand, it also shows that the answer of the owner is in contradiction with the response of his daughter. The one considers that there is nothing different between the issues discussed with the board and the issues discussed with the family members, while the answer of the daughter shows the opposite statement.

An interesting fact is that no one of the members of the family council, who were interviewed mentioned about conflicts between the members. Jaffe (2005) states that usually in family businesses many conflicts could arise between the family members based on issues concerning their positions in the company, payment plan or succession of the firm. However, the results gathered in the case of Ekont Express did not prove the argument of Jaffe (2005).

The next two answers received from the daughters of the owner – Alina and Lora are a prove that the family council also take strategic decisions even without the intervention of the board. “One future plan concerns the building of new logistics center in the Balkans, equipped with the latest technologies. It will be situated in a very strategic place in the country and will be the largest one in Bulgaria. I cannot say more about this project because it is a company secret” , received by Alina, and the next one: “In order the company to become so successful in the market, because right now it is the leading courier company in Bulgaria, with a turnover of more than 20 millions EUR/year, we needed to define clearly our mission, because it will and should guide all the employees’ actions. Our mission is to provide the highest quality services in the country and to satisfy every customer needs.”, received by Lora. These two quotes are examples that the family council take some decisions about the growth strategies of the company, as well as for the mission and vision of the firm. The reason for the first one is that it is concerning a huge financial investment, while for the second one – it represents the core of the company and aims and goals of the owner and his family.

At the same time in the category of “Board of directors’ decisions”, it can be seen that there are included answers from all the other categories – operational decisions, strategic decisions, management and advice. From the answers of the CEO and the members of the board, it becomes obvious that almost every decision concerning the governance of the company, no matter in what aspect is discussed at the meetings of the board. There are of course a couple of exception – issues related to the succession of the business and mission of the company. In addition, these are the only family issues that have nothing to do with the meetings of the board. This is partly in accordance with the frame of reference, because Jaffe (2005) states that one of the responsibilities of the family council is to secure the next generation succession plan. The results gathered from the interviews do not make an allusion to the existence of such plan, although the owner mentioned something about his future goals for leaving the company to the next generation.

Another role ascribed to the members of the board of directors is to manage, motivate and direct the middle level managers of the company. An example of this statement is the example quote in the management category “...to reproduce the motivation, the goals of the company and the ambitions of the CEO in front of the middle management and make people work in the best interest of the business”. The members of the board also have the responsibility to govern the other employees, to control and evaluate their work. In one of the interviews, the director of quality department mentioned that the board has the power to vote and to define employees’ salaries, bonuses and payment plans. They are also responsible for hiring new and qualified people as well as firing them if needed.

The last category advice also refers to the board of directors. According to the owner when he is wondering between two options he always consults with the board and ask for their advice, because they are very qualified and specialized in particular departments. Every one of them can add pros and cons depending on the relevance and influence that this decision can have on his/her department. That is the best way to govern the company, because “more people have more ideas and points of view than one person has” (response gathered from the interview with Nikolay Sabev, CEO).

6 Conclusions

There is a lot of information published in the corporate governance literature about the composition of the board of directors and its role (Du, Deloof & Jorissen, 2011). Depending on the type of the company and the country where it is established, the existence of the board is either compulsory or at will. However, little is known about the role of the family councils on the governance of a family business. Moreover, little attention has been paid off to the family business in Bulgaria.

The choice of a Case Study approach of a research method and the particular case of a Bulgarian family owned company Ekont Express proved to be successful. It allowed the author to fully concentrate on the company and explore the governance structure and strategic decision-making. The writer was able to gather information about the company's work process, the changes in respect to the new strategies and the introduction of new methods of control and monitoring. In addition, the researcher had the chance to conduct interviews with some of the members of the board and some of the members of the family council.

According to the literature, there are two perspectives that explain the role of the board of directors in stand-alone companies (Du, Deloof & Jorissen, 2011). As it is mentioned earlier the first one is the agency theory and the second one is the resource dependency theory. According to the same writers, the agency theory is based on the assumption that the board has the role of a mediator between the shareholders of the company and the top management. The members of the board have the right to hire new employees, evaluate and compensate their work and efforts. In addition, they also have the right to fire the top and middle level managers in the best interest of the company and the shareholders (Du, Deloof & Jorissen, 2011).

The perspective of the resource-based theory explains that the role of the board is to provide top managers with important information at a particular time basis (Du, Deloof & Jorissen, 2011). Their main role is to provide advice to the shareholders or the owner, as well as to the top managers. Another obligation of the board is to provide access to the key resources of the company. It is proved from many researchers that the knowledge, expertise and experience that the board members possess influence positively the company financial performance (Du, Deloof & Jorissen, 2011). These perspectives focus on different aspects of the role of the board of directors in the governance of a company.

Zhang (2010) states that "the board strategic tasks reflect the development, maintenance and monitoring of the firm's core competencies with the purpose of achieving long-term results and survival". In addition, the author explains that taking strategic decisions refers to coping with uncertainty, complexity and conflicts (Zhang, 2010). The board's role is to protect the company from unhealthy short-term managerial plans, which relate only to the current situation and do not focus on the future.

The research also focuses on the role of the family council in the governance of the company and strategic decision-making process.

6.1 Main conclusions

The main purpose of this thesis was to explain the role of the board of directors and the family council in the governance and strategic decision making process. At the end the answers of the question from the purpose section are presented in the next lines.

From one side, the results of the interviews and their analysis show that the role of the board of directors in Ekont Express unify the two perspectives mentioned in the corporate governance literature. The members of the board have the responsibility to hire top managers, evaluate and define their compensation plans. They can also fire them if they consider that the managers do not work in the best interest of the firm. Another responsibility of the board is to create the company brand strategy and company's values. This is also in correspondence with the literature. Another role of the board members in Ekont is to provide the necessary information at time basis to the top management, to direct them and act as a leader.

When it comes to the strategic decisions concerning the company, the board plays an important role in that process. It takes decisions regarding the brand strategies, growth strategies, main business strategies, as well as the price and quality strategies. The board has an active role in the process of decision making by discussing and then voting about particular solutions and suggestions. All the results show that it enhances a good governance system in the company.

On the other side, regarding the interviews with the family members and the owner of the company, it turned out that the family council serves as an instrument that introduces the younger family members to the business. Moreover, it prepares them to take control over the company in the future. This is one strategic issue discussed on the family council's meetings, which differs from the issues discussed with the board members. It relates mainly to the secession of the company from the next generation.

Another strategic issues discussed by the members of the family council of Ekont Express relate to the growth strategies of the company, mainly these concerning huge financial investments. The results show that the family council does not have a great influence of the governance of the company and strategic decision making process.

The third research question the author of the thesis posed relates to the relationship between the family council and the board of directors. The results of the interviews showed that the members of the board are well known with their duties, responsibilities and voting power. The same statement also relates to the family council. In relation to the strategic decision making process and the governance of the business the board has greater influence on these decisions. However, the family council also plays a role in the management of the company, but the ideas and suggestions offered on their meeting are double checked and discussed by the board of directors. The main reason for that is to be taken the most appropriate and effective decision for the situation.

The next research question states: Which role is perceived by the owner to be more important for the governance of the company – the role of the board or the

role of the family council? The answers from the interview with Nikolay Sabev show that he considers the role of the board of directors as more important than that of the family council in regard to the governance of the company, since they have the right to vote and take decisions concerning the governance of the company. One prove of this statements is that when a member of the family council proposes a method of work or new service, they need to be voted and approved by the board.

The fifth research question relates to the situations in which it is especially needed to have a board of directors and family council. Based on the case study of Ekont Express and the answers gathered from the interviews it is needed to have a board of directors when the business is expanding, the number and type of the services and products is growing and when the business has a great number of operating departments and growing number of employees. In these situations the board will be helpful with its mediator and advisory roles. Moreover, the board can influence positively the formulation of different strategies within the company.

The last research question states: In what way does the size and type of the business influence the importance of the council/ board of directors? When the company is big in size it needs a board of directors in order to have a successful governance system. However, in the small and medium sized companies, the owner has the role of a manager, CEO and director. Usually in small companies all the family members work in the firm, thus conflicts between them can arise easily. That is why it is also advisable to have a family council even in the small companies and even it is more informal than formal. However, the results show that the small companies do not need a board of directors.

6.2 Shortcomings

When the author of the thesis started the research, observations of the company work processes and board of directors' meetings were also planned as a strategy. However, due to some company issues and reasons the writer was not allowed to be present at these meetings. So it would have been better if the author was able to gather additional information about the meetings of the board of directors with the help of observations.

In addition, the author had an idea to propose a model for successful governance system in leading company. Unfortunately, it was impossible to gather additional data about the Bulgarian companies, which are competitors of Ekont Express Ltd. If this was done, then the writer would have been able to compare the governannce systems of these companies and their successful performance on the market.

6.3 Future research and practical implications

Due to the time limitation the author of the thesis was not able to investigate more than one case. It would be fascinating to compare a couple of cases in order to make some generalizations. In addition, it would be very interesting to investigate

a family council with formal meetings and the board of directors in public listed companies. Besides it would be also really exciting to investigate the family council in the second, third and fourth generation of heirs.

The implication of this model of governance of a family business could be used by every growing company in Bulgaria. Having a more clear idea of the roles of the board of directors and the family council every owner can use this governance system as a base to develop their own successful governance structure. Moreover, the owners of family business in Bulgaria can use it as a guidelines towards a successful governance model. Obviously these are the people who can benefit most of this research project.

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Appendix I

Interview Questions

1. What is your name? What is your position at Ekont Express? How long have you been working for the company?
2. What are your responsibilities/duties and role as a member of the board of directors? How often do you have meetings and what issues discuss on the meetings?
3. How long have you been member of the board?
4. How do you take decisions on the meetings of the board? Can you provide examples?
5. What was the topic you discussed on the last meeting? Can you provide more details?
6. What is the brand strategy of the company? Who decided that it would look in this way?
7. What strategy do you choose for the services that the company offers?
8. How do you take the decisions in regard to the expansion of the company and opening new offices
9. What are the Ekont's company values? How did you take the decision and how did you formulate that these are the most important values you want people to the company?
10. What was the governance of the company in the beginning?
11. Do you have a family council? Who are the members of the family that take part in it? What are the meetings – formal or informal? Can you provide more information about the issues you discuss into these meetings? How do they differ from the meetings with the board?
12. Does any member of your family have the right to work in the company? Does it matter his qualities, education and knowledge of the business?
13. Do you want the company to remain a family business or you want to go on the stock market?
14. On the family council's meetings, do you discuss issues about who will govern the company after you, about succession, about your children's goals and interests and whether they are in the best interest of the company?
15. What is your wife's influence on the decisions concerning the company?
16. What was the reason to create the board of directors?
17. Do you make long-term plans of the future of the company and for how long period are they?

Appendix

18. Have you taken any decisions concerning the governance of the company without the agreement of the board or just after a meeting of the family council?
19. What type of issues does the family council consider?