AN APPROACH OF SME's FINANCIAL PERFORMANCES FROM AN EUROPEAN PERSPECTIVE

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Abstract: *SMEs form one of the sectors mostly affected by this financial crisis, due to their lack of financial power. Still, a HVI analysis indicates this period as favorable to any SME that manages to identify and to react promptly to market changes.*

Most of the times, managers tend to focus on the technical and practical aspects of the manufacturing process, underestimating the financial management and the real facts related to the operations under their control.

Starting from these thoughts, the hereby article approaches the real need for specific training in the field of financial reports and indicators aiming to draw the attention to the performances that may be achieved by the small and medium size enterprises, performances that mainly depend on the effective financial management, on the good understanding of basic accounting notions and on an adequate decision making process.

Even after 20 years of „capitalism" and democracy, the Romanian SMEs are still at a low level. This is not discouraging, although, having in view the lack of liquidities at global level, the possibility to get a bank loan is limited, and the over-exigency of commercial banks. Thus, the long-term loans designed for SME's and corporations become more and more difficult to get[1].

Despite these, performances can still be achieved, even on the background of a deep crisis. Compared to the big companies from EU and not only, the advantage of SME's is their increased flexibility and their capacity to implement new services and to market new products. In the absence of higher levels of decision and approval, the decision-making process in SME's is easier and thus, more efficient. In this context, SME's may act promptly by applying solutions adjusted to the market conditions. (Ciobanu, 1998, p. 98)

"The small entrepreneurs are the engine of the economy" is a well-known saying, but we are still far from reaching the level of the European Union.

Key words: financial performance, medium and small enterprises, European Union, new perspectives

JEL Classification: G20, G23, H83, L32

[1] www.europa.eu

1. INTRODUCTION

EU has awarded a special attention to small and medium size enterprises seen as the engines of an economy. Thus, the strategies and policies developed by now focused the enterprises, naturally from an European viewpoint.

Once integrated in the European Union, the Romanian SMEs should aim at implementing a structure similar to the community one. To understand how close to or how far from the SMEs in the European Union are the Romanian ones and to see the direction and way of progress in this sector, I shall analyze the progress of SMEs in the European Union. Thus, we shall create the benchmarks necessary to define the progress expected in Romania[2].

The management of an enterprise, regardless its size, involves the selection of options among various possible alternatives that characterize the decision-making process. All the activities run by an enterprise have issues that require the selection of one option – the selection of products /services specific to the business field of the enterprise, the procurement of the necessary resources, their distribution by intended use, setting forth the limits of the activity development level, the selection of markets for these products /services, the establishment of profit value and its subsequent use etc.

The main purpose of a business, regardless its size, is the profit. To achieve these financial performances the entrepreneurs and managers award a special attention to the future, set down financial objectives and budgets.

The financial management of a business means the assessment, planning and control of a company's financial performances.

All companies have a "financial representation" that, eventually, materializes in financial indicators such as: turnover, profitability, liquidity, debts. The "financial representation" of a company varies in form, structure and content, depending on the references selected for reporting and analysis[3].

[2] www.euroactiv.ro
[3] www.deloitte.com

2. FINANCIAL PERFORMANCES FROM AN EUROPEAN PERSPECTIVE

The financial reports required by the *company's external uses* (State institutions, shareholders, banks) use various *standards of financial statements*, regulated by national or international laws.

This is necessary to create a shared framework for the analysis and assessment of the financial results achieved by companies from various business fields and regions in the world.

The information presented in the standardized financial statements (assets, revenues and expenses) is public and it reflects the company's performances in a specific time period according to law.

With regard to the financial reports required by the *company's internal users* (managers and specialists), these are adjusted and customized to the current needs of business management. The financial statements should be "construed" in a form and language that facilitate the access of all users, economists and non-economists, and they should emphasize the information relevant to the business analysis, planning and control (e.g.: sales by each location, by category of products and services, by type of customers).

Management reports are confidential, and the reporting periods are set forth by the management team (daily, weekly, monthly, quarterly, yearly).

The role of specialists in financial management is to develop this financial reporting system necessary to the overall business management.

These reports are not made randomly, but they facilitate the identification of profitable SMEs. For example, such reports drawn in Romania outlined and confirmed some already known facts, i.e. that SMEs form the category with the highest risk level in respect of debts, due to their poor financial structure, low financing possibilities, and the accelerated competitiveness in certain business sectors. Moreover, a large number of SMEs depend on a certain client or supplier[4].

Another major gap between the Romanian SMEs and those from EU is represented by productivity (as added value per employee). If the productivity recorded by the SMEs from EU with

[4] www.euroactiv.ro

less than 50 employees is of EUR 39,000 per employee, this indicator is four times lower in Romania (EUR 9,400 added value per employee)[5].

A strategic business management focuses the long-term development and strengthening with the following major objectives: an increased turnover, the achievement of planned investments and the company promotion in the target market.

These strategic objectives are the grounds for the elaboration of various "action scenarios", followed by the necessary funding and the identification of the optimal financing structure.

The calculation of the necessary funding requires information on the annual investment value, while for the establishment of the financing structure, the strategy on dividends distribution should be known.

The constant aim of the current business management is to maximize the sales and profit on short-term (1 year).

The achievement of maximized sales require the identification of the main commercial coordinates: the range of products and services, target markets, target customers, competitive advantages, the level of price and tariff, the marketing plan.

A maximized profit requires the analysis and optimization of costs incurred by all the company's internal and external activities: procurement, storage, distribution and merchandise, production costs, marketing, advertising and publicity costs, administrative costs. (Onofrei, 2000, p. 105)

The size of the business profit is the result of management actions and decisions of each company department.

The financial performances of the business are influenced by the annual objectives and strategies of the company, namely: commercial credit policies (credits to clients and credits to suppliers), strategies on rebates and fidelity discounts, on storage and cost calculation, amortization and financing policies[6].

All these objectives, policies and management strategies should be understood and harmonized in order to achieve a balanced business development.

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[5] www.deloitte.com
[6] Idem, p. 132

The role of the financial management is to create a management reporting system that provides an efficient business development. This system includes two major elements: economic analysis and the financial diagnosis, the financial plan and the budgets of the company.

These economic analysis reports facilitate the economic assessment of processes, in the view of the relation between the outcomes achieved and the resources used in a pre-established previous period.

These permanent analyses facilitate the identification of "strengths and weaknesses" in the company activity.

For example, for the analysis of the company sales, there can be elaborated periodic reports on sales progress and structure by category of products and services, by distribution channels, by outlets, by category of customers etc[7].

In addition, the analysis of sales effectiveness shall include the assessment of the management strategies that led to these performances, i.e.: the applied rates, tariffs, discounts, payment terms.

The cost analysis implies the elaboration of periodic reports focused on the analysis of the progress and structure of costs by various management requirements: based on their interdependence with sales volume (fixed and variable costs), depending on the nature of expenditure (material, financial costs, expenditure on personnel), on cost generators and allocation (direct and indirect costs)[8].

I should remind you that an economic analysis is complete and accurate if it also presents the context of the business environment where the company runs its activity: fiscal regulations, the evolution of demand in various business fields, the inflation rate and the exchange rate.

The economic and financial indicators that summarize the company's performances are calculated based on these economic analysis reports: indicators of profitability, liquidity, solvency, inventory etc.

These economic and financial indicators facilitate the elaboration of the company financial diagnosis, "the financial health condition" of a business, that helps to the elaboration of future development strategies.[9]

[[7]] www.zf.ro

[[9]] www.europa.eu

Although 45% of the companies admit that EU accession provided them the opportunity to enter other markets, presently, only 1.99% of these companies sell their products /services in other European countries and 8.52% have targeted the EU market for this year.

The percentage of companies that aim at entering the European market is not unusual having in view their management level and their economic and financial capacity.

Thus, most SMEs (77.47%) focus this year only the local and domestic market; 47.13% of them act only on the local market and only 0.88% of SMEs state their intent to access other markets outside Europe. Romanian companies are mainly targeted on the local market due to the opportunities to be created by the companies subsequent to their application to European funds.

The external funds or direct foreign investments generate new jobs, salaries, and thus, purchase power. These reasons are sufficient to the small local entrepreneurs to put stake on the domestic market and to postpone their entrance on external markets.

Also, 6.5% of SMEs consider this year to be difficult. Probably, the companies that stated the absence of performances this year shall also be the bankrupted ones recorded during the same period.[10] With regard to the difficult situation faced by the Romanian business environment, the owners indicate the bureaucracy as the main problem, despite the fact that the number of owners who argue its efficiency decreases each year. At the time being, two of five SMEs face major bureaucratic difficulties, while tax related issues hold the second position in the top of difficulties. Human resources represent another major problem for the companies, and 35% of them state they have difficult situations in this regard.

SMEs present a high risk level, having in view that approx. 70% of the debts to the bank belong to SMEs, stated Aurel Saramet, the President of the National Guarantee Fund for SMEs Loans (FNGCIMM)[11].

The SME sector still represents a high risk for banks, and this is an explanation for the low percentage of small and medium companies with bank loans, as the FNGCIMM president stated.

On the other hand, the domestic SMEs are somehow prudent with regard to the application for loans, and over 70% of the companies use the self funding, and this is a raising trend. According to the White Book of SMEs, besides the companies who apply for a bank loan, almost 26% of the total number of SMEs use the lease services, 5.5% of the companies received grants, 4% applied for

[10] www.deloitte.com
[11] www.zf.ro

loans from specialized financial institutions, 1.4% used factoring services for funding, and under 1% of enterprises accessed the National Guarantee Fund for SMEs Loans. (Ciobanu, 1998, p.111)

During this economic crisis, the management of financial performances helps the companies to rapidly overrun the crisis, by strengthening the competitiveness administration for new customers and for new markets. This is the conclusion we can reach to, after the facts presented so far. Romania is still one of the countries with a low innovation level, but it has great opportunities to recover rapidly the gap to the European average. “The Romanian enterprises can be themselves benchmarks for the European champions of growth, if they use effectively the tools they have”.

One of the most important challenges Romania had to face after the European Union accession was to professionally improve the financial resources management. This is more important, since the resources available are bigger, following the pronounced economic growth and the access to the grant funding resources provided by the European Union. On the other hand, a rapid integration of Romania to the common European currency area raised the need to improve the operation of the entire Romanian financial system, in order to comply with all the requirements.

“Considering the results achieved in the absorption of European funds (quite low, so far), and the low outcomes in the reach of financial stability targets, we should obviously apply urgent measures to improve the use of public funds – both of Romanian budget and those provided by the EU. Romania faces a period of deep changes in the field of financial management, mainly generated by its position of EU recently entered country.

”If the transformation process is successful, the country may also benefit from the opportunities provided by its EU membership.”[12] By admitting these lacks, the officials state that the no. 1 priority for the development of financial performance in the following three years is to raise the capacity to provide more relevant and updated financial information to support the decision-making process.

3. CONCLUSIONS

According to the study, the organizations need a more complex financial scheme that would support the increasing salary costs, in order to balance the needs of elderly people compared to young generations, to facilitate an increased focusing on the outcomes and transparency.

[12] www.deloitte.com

67% of the respondents consider the financial management as a stimulating factor in the organization changes, while 52% consider that the financial department is the most important factor that allows the organization to focus more on values[13].

"The Government financial experts should provide strategic support, in order to coordinate the procurement programs, policies and decisions," stated Greg Pellegrino.

There is still an optimistic perspective. Beside those named "Financial Masters" by Deloitte specialists, another 27% have reported significant progress of their financial capacity: on the one hand, these 27% comply with the law, they publicly report their program performances and they balance the capacities, the costs and the level of services in order to fulfill their financial obligations.[14] On the other hand, they still have to work on building their capacity to generate greater value and to help the governments to make better strategy selections, and to improve the processes and performances.

"The Government leaders may improve the operation of programs, by strengthening the financial functions within their organizations."

"There is evidence on the progress made and we found models throughout the world that may be successfully replicated. There is a huge difference, but there are also governments that show the way to financial performances".

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[13] www.europa.eu
[14] www.zf.ro