

THE IMPORTANCE OF FINANCIAL CONSULTING IN THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EUROPEAN UNION

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Abstract: *During much of the past decade, SMEs have seen an impressive growth. Since the onset of the financial crisis, this trend seems to have been interrupted, even though there are indications that show that, at least in the early stages of the crisis, Small and Medium-Sized Enterprises in the European Union have proven to be comparatively resilient. Under these circumstances, the financial advisory may be a key to the future development of small and medium-sized enterprises in the European Union.*

Key words: *Small and Medium Enterprises, Small Business Act, the European Union, Entrepreneur, Financial Advisory.*

1. Introduction

Following the daily news, it is easy to get the impression that the European economy is dominated by large, multinational enterprises. Their multi-billion Euro takeovers, global expansion plans or -more recently- risks of mega bankruptcies dominate the headlines.

What is usually lost is that more than 99% of all European businesses are, in fact, small and business enterprises (SMEs). They provide two out of three of the private sector jobs and contribute to more than half of the total value-added created by businesses in the EU. Moreover, SMEs are the true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and research & development. What is even

more intriguing is that nine out of ten SMEs are actually micro enterprises with less than 10 employees. Hence, the mainstays of Europe's economy are micro firms, each providing work for two persons, in average.

Small and medium-sized enterprises (SMEs) play a decisive role in the competitiveness and dynamics of the European economy. To help them realise their growth potential, the EU is working towards promoting entrepreneurship and creating a friendlier business environment for small businesses.

2. Delimitation of Concepts

On 6 May 2003, the European Commission adopted Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation

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96/280/EC as from 1 January 2005. The revision takes considers the economic developments since 1996 and the lessons drawn from the application of the definition. In particular, it raises the financial ceilings to take into account price and productivity increases since 1996 and introduces a typology of enterprises (difference between the three categories:

autonomous, partner and linked) and a calculation method for the thresholds, which gives a realistic picture of their economic strength. It ensures that enterprises which are part of a larger grouping and could therefore benefit from a stronger economic backing than genuine SMEs, do not benefit from SME support schemes.

Denomination of the table

Table 1

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the Recommendation, which are summarized in Table 1. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

In financial terminology, the term Financial Advisor or Financial Adviser refers to an individual skilled in financial planning. Such a professional will often assist their client in allocating risk according to the asset classes that will be appropriate for their unique situation.

For example, the first step a Financial Advisor will generally take when attempting to assist a new client might involve reviewing their client's overall financial situation. This broad review would include such things as: their current and future cash needs, how much they might need to borrow, what assets are available to them, what costs they will need to cover, their tax situation, and their overall investment goals. At this point, the Financial Advisor should be able to help their client plan such things as: how to balance their investment choices

optimally, what level of risk would be appropriate for them and when taking capital gains would make sense given their personal situation. [5]

A financial advisor or planner is a professional who is in the business of advising clients and helping them manage their financial lives. There are many types of financial advisors, and some of them deal with comprehensive planning while others focus on a specialty, such as investments or insurance. Some of them have professional certifications, while others only hold the appropriate securities or insurance licenses. Financial advisors can be stockbrokers, financial planners, accountants, insurance agents or tax preparers.

European funds for small business owners are a growing niche. The managers of enterprises have begun to realize that they can get help from the European Union to build their small business. Without that start-up money, many businesses would fail the first year because of under capitalization.

The Internet is the best source for help with European grants. The most useful sources for help with funds for small

businesses are the government agencies. Some local communities provide both grants and help for grants to small businesses. Although a number of grants are for non-profit organizations, lending institutions and local communities, there is also information for small, high-tech businesses.

Once the SME has found the European programmes, the next step is to carefully review all the requirements. Reading the fine print is a necessity to understand what the process will require in order to be considered for a grant. The requirements vary, so it is important to pay attention to what it is that they need. Different grants will require different paperwork so it will be a long and time consuming process but worth it in the long run.

Small business loans are usually acquired when a company has been in business and so has a track record which can be measured by whoever it applies for the loan to. The way to give a SME the best chance to get a loan is to have solid records of the business available to those one is seeking a loan from. That, more than anything, is the most important part in it all. Collateral can be a secondary part of the process, but it is not so important if the enterprise does not have great records and proven performance in the first place.

3. Types of Financial Advisory

Nowadays, there has been much controversy and debate about the regulation of financial advisors. But there still has not been a resolution to the issue. The types of financial advisory provided by financial advisory enterprises are:

- Analytic & Forensic Technology assists clients and their legal counsel in collecting, preserving and analyzing large and disparate data to support or refute the facts and allegations of commercial investigations and complex litigation. It combines forensic

accounting and investigative skills with advanced computer labs and cutting-edge technology to offer innovative solutions to the clients' complex legal problems.

- Anti-Fraud Consulting takes steps to deter, detect and prevent the risk of corporate fraud.
- Anti-Money Laundering Consulting has assisted clients with anti-money laundering issues. It studied the myriad ways money launderers work – smuggling, counterfeiting, corruption, third-party fraud or theft/diversion by insiders – and it helps clients implement detection and compliance programs.
- Business Intelligence Services consists of highly trained investigators and intelligence specialists with extensive experience in due diligence, litigation support, fraud and other investigations.
- Business Valuation performs valuations of business entities, intellectual property, intangible assets, common and preferred stock and other securities along with partnership interests, private debt instruments, options, warrants, and other derivative products. These services are provided to assist clients with mergers, acquisitions and dispositions; taxation planning and compliance; financial reporting; bankruptcy and reorganization; litigation and dispute resolution; and strategic planning.
- Capital Projects Consulting provides specialized resources to assist in clients' efforts to improve the delivery of capital projects and help meet their program objectives.
- Corporate Development. Organizations need to be nimble in anticipating growth opportunities and competitive disruption, leveraging scarce resources and diversifying risk. Flexibility is critical as companies will need to be

able to adapt their strategies in real time to avoid being left behind.

- Sales & Divestitures. Massive consolidation engulfs many industries, as evidenced by the continued high level of merger and acquisition activity. At the same time, many companies are carving out, spinning off, or otherwise shedding non-core business units and functions to focus on core competency areas. These trends offer opportunities for companies of all sizes:
 - Larger companies can create financial and competitive advantages by carving out or spinning off selected portions of their businesses, while reinforcing remaining core areas through targeted acquisitions.
 - Mid-size companies, both publicly and privately held, may find willing buyers of their businesses if they have the right products or unique value proposition.
- Fairness Opinion. As investors and regulatory scrutiny increase on companies and their transactions, board members are well advised to use due care in executing their fiduciary duties and mitigating real or perceived conflicts of interest. One way boards can demonstrate the fulfilment of their duties, when considering a transaction, is by seeking fairness opinion services from a trusted and independent advisor.

Fairness opinions are typically received by boards in connection with the following events and related transactions: Related-party transactions/special committee formation; Going-private transactions; Minority buyouts/squeeze outs; Tender offers; Sale or merger transactions without an auction; Transactions with no investment banker or advisor (Acquisition/merger, Divestiture, Financing); Financing transactions that may dilute current investors (Private investment in public equities (PIPES),

Down round financings, Exchanges of debt and equity); Board members wanting an independent fairness opinion (Second opinions on large iconic transactions, Boards not wanting the fairness opinion on transactions provided by the deal advisor, Real or perceived advisor conflicts of interest, Stapled financing provided by the deal advisor); Opinion required by a bond indenture or other financing document.

- Reorganization Services provides in-depth business and financial advisory services to companies, their creditors, their equity holders, the legal community, bank syndicates and other interested parties in both in-court and out-of-court reorganizations.
- Tangible Asset Valuation solves need independent and well-supported consulting related to fixed assets. It provides various services related to fixed assets to assist clients with compliance reporting, specialty tax transactions, and strategic business purposes.
- Tax. The most important attributes of a tax advisory firm are service responsiveness, the ability to implement recommendations, a reputation for quality and how deeply it understands client's business.

There are limited legal regulations of the financial industry. Only financial advisors who are licensed by a state or professional associations may do specific things like recommending and selling insurance policies, and providing tax consulting.

4. Presentation of the financial advisory domain

On the market of financial advisory services in Romania, there are four important companies. They are called the Big 4 because there are only four. The global advisory giants, Pricewaterhouse-Coopers, KPMG, Deloitte and Ernst&Young, each operates on the

Romanian market through several firms, a total of 15, covering the main lines of business.

In Romania, the mergers and acquisitions market shows a promising trend for the year 2011, on premises set by the 2010 year-end. According to a recent ranking created by Deal watch, ISI Emerging Markets, KPMG in Romania took first place as number of finalized M&A transactions and second place as volume of M&A transactions in 2010. [6]

PricewaterhouseCoopers has been present on the Romanian market since 1991 and has developed a broad range of services which it continues to expand. With its in-depth knowledge of Romania's business environment, PwC provides professional services to international and Romanian enterprises. Overseen by eighteen partners and employing over 650 specialists and support staff, PricewaterhouseCoopers operates in Romania and Moldova from a network of five offices in Bucharest, Timisoara, Cluj-Napoca, Constanța and Chișinău. [7]

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The Ernst & Young business units, almost all of which are purposely not covering single countries, are grouped into geographic areas across the Americas; Europe, Middle East, India and Africa; Asia-Pacific; and Japan. Each business unit's leadership team works directly with their Area and global leaders to ensure flawless execution. This structure is streamlined - it allows the company to make decisions quickly, and ensures that it executes the planning strategy and provides high-quality service all over the world. Since 2007, Ernst & Young has been servicing Audit Framework Contracts for the European Community. An Audit Framework Contract is an agreement with an audit firm that sets out terms and conditions under which specific audits can be launched. It is a way for the European Community to rationalize and harmonize relationships with professional services firms. Ernst & Young currently manages five Audit Framework Contracts and has been working closely with the European Community to improve the quality of audits, guidance and training — the three pillars of Audit Framework Contracts. [4]

5. Conclusions

With the onset of the financial and economic crisis in 2008, there is evidence that the above cited positive developments have – at least – temporarily come to a halt. While 2008 already showed a deceleration, preliminary estimations point at a stagnating development as regards, e.g. the number of SMEs in 2009. Also, the estimates for EU-27 SMEs' production in 2009 hint at a decline by 5.5 % as compared to 2008. In 2009, this happened mostly in large and medium-sized enterprises, while for micro and small enterprises this decline is estimated to be less pronounced and, hence, presumed to be associated with relatively fewer jobs. In 2010, even though production growth is expected to gradually pick up again, the lagged adjustment of the workforce to the reduced level of the actual production is predicted to cause a relatively large decline in the employment in micro and small enterprises. Over 2009 and 2010, the EU-27 SMEs are estimated to shed a total of 3.25 million jobs. [1]

Evidence points at an insufficient market demand as the prime obstacle faced by SMEs, followed by difficulties in accessing finance. Under these circumstances, the financial advisory may be a key to the future development of the

small and medium-sized enterprises in the European Union.

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