Supporting SMEs in view of Their Development and Consolidation through Small and Medium-Sized Practices

Carmen SIRBU[1]

Ecaterina NECSULESCU[2]

Abstract: SMEs now have a significant importance for the majority of developed and developing economies. Statistics from almost every country show that SMEs prevail in each and every economy. A developed SMEs sector means growth, innovation and last but not least, jobs. SMEs represent the majority of economic entities as well as the majority of jobs from the private sector and the GDP. Unfortunately, the majority of SMEs will have to continue to endure the costs of the economic crises, generating negative effects from a social and economic point of view, engaging similarly to the snowball effect, in greater vulnerabilities. The scope of this study is to highlight the role of the small and medium-sized practices in offering consulting in business for SMEs, in order to provide development and consolidation for this sector.

Key Words: consulting, small and medium enterprises, small and medium practices, professional accountant

1. SME Sector's Evolution and Tendencies in Romania

The sector of SME plays a very important role in a modern economy, proving to be the most active sector of economy. The vital contribution of SMEs in the economic growth is a unanimously acknowledged reality. The sector of SMEs is considered to be a domain of strategic interest. An essential part of the European Union strategy, and therefore our country's, is to maintain prosperity and qualitative employers through the release of the entire SMEs potential.

In Romania, the majority of newly created enterprises are small or medium (SME). In this manner, the sector has absorbed the most part of the available workforce and contributed, in the same time, to the formation of a new generation of employers and employees.

The positive effects generated by the SMEs Sector are various, the most commonly known being:

- Improving competitively
- The creation of opportunities for development and the adjustment of technology, according to a real necessity
- Replacing those niches in the market which are not profitable for large enterprises and capitalizing them intensively and efficiently
- Settling in local economies through the usage of local resources (financial, material, human resources, information)

Though their reduced sized and large number , SMEs underline the atomic character of the market, thus diminishing the power to control of large enterprises. In this manner, the capacity of SMEs to stimulate competition undermines the

[1] Associate Professor, Phd., Danubius University, Romania, carmensirbu@univ-danubius.ro
[2] Lecturer Phd., Danubius University, Romania, necsulescu.ecaterina@univ-danubius.ro

monopolistic positions of the large enterprises, reducing their possibility to raise the prices. Through their ability to fulfill local needs by having detailed information concerning local markets, SMEs act more efficiently than larger enterprises situated in or outside the local market.

According to the statistical situations from Romania, between 2005-2008 there is a growth in the total number of enterprises. Due to the economic crises, in 2009 the number of enterprises has easily decreased. As can be observed in ***table no. 1,*** SMEs hold the largest part of the total number of enterprises, in an easy growth. In 2009, ***99.7% of the total number of enterprises was SME and only 0.3% were large enterprises.*** Agricultural, industry, trade, services, financial and insurance enterprises were taken into consideration in the total number of enterprises.

Table no. 1 The Total Number of Enterprises in Romania

Current No.	Specification	2005	2006	2007	2008	2009
	Total no. of enterprises of which:	450666	480910	520228	555128	541836
1.	Large Enterprises	1975	1927	1929	1922	1651
2.	SME	448691	478983	518299	553206	540385
3.	%	99,55%	99,59%	99,62%	99,65%	99,73%

Source: Statistic Directory, 2010

Tabel nr. 2 The Structure of Enterprises According to Domains

Enterprises	2005	2006	2007	2008	2009
Industry, Constructions, Trade, other services	433030	461812	499857	534225	519441
Agricultural	12510	13347	14221	13602	15112
Financial and Insurance	5126	5751	6150	7001	7283
Total	450666	480910	520228	555128	541836

Source: Statistic Directory, 2010

In the period 2005-2008, the number of enterprises from industry, constructions, trade and services have grown easily, decreasing in 2009. The number of agricultural enterprises has grown between 2005-2007, decreased in 2008 and grew again in 2009. The financial and insurance enterprises have grown easily in the entire considered period

From the first category of enterprises, respectively the ones in industry, constructions, trade and services, in 2009, ***the commercial enterprises represented the largest part (40.5%),*** see table no. 3. As far as industry is concerned, the largest part of enterprises was in the manufacturing industry.

Table no. 3 The number of enterprises in industry, constructions, trade and services

Sector	2008	2009
Extracting Industry	1083	1234
Manufacturing Industry	57305	54652
Power, Heat and Gas Industry	506	609
Water Distribution, Sanitation, Waste	2366	2358
Constructions	59389	60135
Trade	214137	197611
Transportation and Storage	34489	35064
Hotels and Restaurants	23653	26170
Information and Telecommunication	20049	19638
Real Estate	14767	15107
Professional, Scientific and Technical activities	59181	60415
Administrative and Support Activities	19480	18205
Education	2681	2979
Other services	25439	25264
Total	534525	519441

Source: Statistic Directory, 2010

The essential contribution of SMEs for economic and social development is argued in the “Carta Albă a IMM-urilor din Romania 2010” as follows:

- Generates the largest part of each country’s GDP
- They are the only ones that, in the last years, offer jobs for the majority of the active population
- SMEs represent one of the major sources of income to the state budget
- Generate in a large proportion the technical innovations applicable in economy.
- Realize products and services at lower prices than larger enterprises

A *SWOT Analysis of Romanian Entrepreneurship* is made by Fundatia CADI Eleutheria in **Romanian Entrepreneurship – Collection of success stories** (Fundatia CADI Eleutheria, 2011). According to them we have:

I. Strengths

1) Because of the low-level of service market development, in Romania there are a lot of young people with business ideas.
2) Flexibility is the main characteristic of Romanian entrepreneurship.
3) Customer loyalty is higher at SMEs level, comparatively with bigger enterprises.
4) Entrepreneurship means freedom and independence and young people are more attracted by these qualities than working in a corporatist structure

II. Weaknesses

1) Romanian companies have a reduced capital level.
2) Entrepreneurs have a reduced level of management studies.
3) The lack of financial resources is the Achilles heel of Romanian companies.
4) The legislative system does not encourage business environment.
5) The rhythm and the subjective way in which the juridical system works in Romania.
6) It is very common that the life of a Romanian company is strongly dependent on single person – the entrepreneur.
7) Low level of technical equipment characterized Romanian SMEs, as a consequence of financial resources scarcity.
8) Increased vulnerability of small companies determines a low level of stability.
9) Low level of investment in training and education.

III. Opportunities

1) Lack of efficiency of different sector of economic activity allows SMEs development.
2) For small firms, characterized by flexibility, there are untapped business niches.
3) There is a higher potential of external benchmarking in the case of small business.

IV. Threats

1) The frequencies in which legislation is changing.
2) The high level of hypermarket competition.
3) Globalization and the external competition.

2. The Impact of the Economic Crises over the SME Sector in Romania

The global economic crises has a strong effect on Romania as well, considering the fact that it does not have a developed market economy, but rather an economy based on consumption and credit, strongly influencing the evolution of the real and financial sector in Romania. The SME sector, the most dynamic in the Romanian economy, is the first one hit in the economic crises. Romania's economy has had, as a direction, a similar evolution with the other countries from Eastern and Central Europe. The economic contraction was severe (7.1%), while the fiscal deficit grew considerably (7.4% of the GDP). In Romania, the 600.000 SMEs represent 99.6% of the total number of enterprises and they bring almost 80% of the GDP and provide for approximately 60% of the total employees (HODOROGEL, 2011, p. 121).

As far as ***the influence of the crises over the SME demography*** is concerned, the evolution of the SMEs between 2007-2009, presented in table no. 4, outlines a series of particular aspects, captured also in the analyzing period:

The in and out from the market process from the SME sector is a natural one, which flows from its characteristics to take advantage of new opportunities and situations in the market, as well as characteristics of adaptation and innovation, technological development, qualitative transformation and continuous orientation to the needs and demand of the clients. Even if, generally speaking, the mobility of the SME sector is higher and the medium duration of life is shorter in relation to larger enterprises, the magnitude and the rhythm of changes which aroused in 2009 have determined a series of particular aspects as far as ***the demography of the SME sector*** is concerned, considering both the aspect of registration of new companies and the aspect of their exit from the market, marked by temporary suspension of activity and deletion from the Trade Register.

Table no. 4 The Evolution of SME Registration in the period 2007-2009

Period	2007	2008		Total an	2009		Total an
		Sem I	Sem II		Sem I	Sem II	
Registrations	142.073	76.460	64.182	140.642	60.979	55.043	116.022
Deletions	20.401	6.495	11.181	17.676	12.037	31.578	43.615
Suspensions	12.012	7.194	4.825	12.019	71.250	62.112	133.362

Source: Oficiul Naţional al Registrului Comerţului – Sinteze statistice

The data presented in the above table lead to the conclusion that, in the crises-year 2009, the establishment of new SMEs, although at a lower rate, continued, while the exits from the market have grown substantially and abruptly through deletion and especially through suspension[3] of activity.

International studies, like the „Doing Business Report" (which deals with the „level of ease in doing business), handled by the World Bank, underline in the case of Romania costs and administrative procedures higher in the case of market exit than in the case of market entrance, therefore the procedure of deletion from the Trade Registry from one's own initiative is avoided, owners preferring the procedure of suspension of activity, perceived as less bureaucratic and cheaper. In this manner, the number of suspensions was higher in the first semester, 71.250 SMEs, compared to 62.112 in the second semester, while the number of deletions almost triples in the second semester, reaching the number of 31.578 SMEs compared to 12.037 in the first part of 2009.

Accordingly, being that the procedure of deletion is expensive and hard and the entrepreneurs were forced to take rapid measures of adapting to the situation of crises and especially to the new fiscal context, most of them preferred the procedure of suspension of activity.

If we make reference to the dynamics of deletions, the number of SMEs deleted from the Trade Registry has grown twice as much compared to 2007 due to the fact that in 2009, 43.600 enterprises were deleted[4] compared to around 17.600 in 2008 and 20.000 in 2007.

Nevertheless, on the negative background of the demographic evolution of SMEs, we must also underline an aspect with positive connotations. The decision of exit from the economic system can be associated with a cleansing phenomenon, respectively with the retention in the economic milieu of the more active companies and the ones more vigorous in the fight with the effects of the crisis. This finding is supported by the fact that the main category of SME that used the solution of suspension is represented by the enterprises with no activity, referred to in statistical tracks as „dormant enterprises" or inactive enterprises which in 2009 did not bring in a balance sheet (over 80% of the deleted firms and almost 1/3 of the ones suspended), as well as the enterprises with an income of less than 10.000 lei (44% of the firms which suspended their activity).

In the same time, the data synthesized in table no. 4 concerning registrations, which marks the entrances in the economic system, shows that in 2009 the process of establishment of new enterprises did not stop, moreover it continued with the registration of about 116.000 SMEs. This process continued, but with a lower dynamic than in previous years, being situated at the level of 81.6 – 82.4% compared to the number of registrations in 2007, respectively 2008.

As far as ***the influence of the crises on activity fields*** is concerned, the data presented by the INS in „Romania in cifre", edited in 2010, shows the repercussions of the crisis on the SMEs from various fields of activity. The most affected enterprises come from fields that were, up to recent times, flourishing: the

[3] According to art. 237 alin. (2) from Legea 31/1990, republished, the duration of inactivity cannot exceed 3 years

[4] The condition imposed for the deletion from the Trade Registry are regulated by Legea 31/1990 modified and is concluded either as a consequence of the establishment of the procedure of insolvency and bankrupcy, or through the own initiative of the investors, shareholders, associates of the enterprise

real-estate field and therefore the field of constructions, building materials and other similar fields. Affected also are the auto sector (builders, dealers, raw materials suppliers - for this sector), metal industry, chemical industry, textile industry (I would say industry in general).

The liquidity crisis manifests in almost all segments and both large companies and SMEs will suffer consequences.

Summing up, these evolutions underline the following changes:

- A 60% abrupt decrease of the number of SME from the field of real-estate mediation services in the first semester of 2009 compared to 2008
- 40% recoil of the number of enterprises in constructions compared to 2008
- 20% decrease of the number of SMEs from the manufacturing industry, as well as the ones dealing with administrative and support services
- 10% decrease of the number of active SMEs from the sector of wholesale trade and retail compared to the one in 2008.

In the same time, there are fields in which the complicated situation of the first semester of 2009 has brought a significant growth of the number of active SMEs, respectively 4.2 times higher. In this manner, in the sector of water distribution, sanitation, waste disposal and remedy activities, followed by the sphere of professional, scientific and technical activities, the number of SMEs has grown with approximately 50% in 2009 compared to the number of SMEs existing at the end of December 2008. Also, a growth of 12.6% was recorded in the sector of transportation and storage, according to the same source.

Even if in 2009 there was no national opinion poll organized by the competent public institutions, ***entrepreneurs' perceptions concerning the impact of the crisis*** were investigated through the many opinion investigations organized by private structures or under the umbrella of regional projects.

Therefore, in table no. 5 we can find synthesized the main conclusions of these investigations, with concern to the difficulties perceived by the entrepreneurs.

Table no. 5 Entrepreneurs' Perception with regard to the impact of the crisis

Perceived obstacles: • 88.8% excessive bureaucracy • 86.7% excessive fiscality • 73.3% access to financing • 71.6% stable political framework • 71.5% the growth of the public support for investment • 51.3% of the enterprises included in the investigation underline the evolution of the legislative framework • 32.3% of the respondents point out the insufficient predictability of the legislative framework • 31.7% of the participants perceive corruption as a factor of major negative influence Conclusions of International Economic Institute of Wien (WIIW), 2010

The investigations' conclusions from 2009 underline disturbing factors related to the exterior milieu (the financing offer, legislative instability, etc.) in which the companies have to perform their activities and factors related to the overall economic environment, thus giving rise to further vulnerabilities in the SME sector.

Unfortunately, the majority of SMEs will continue to endure the costs of the crisis, generating negative effects from a social and economic point of view, giving rise, similarly to the snowball principle, to greater vulnerabilities, mainly due to a number of weak points, such as:

- They do not have the necessary resources to overcome the recession period, due to a limited financial and human resources background;
  - The dependency of the firm, usually decisive, on only one person, the entrepreneur;
  - Lower technical level, compared to larger firms
  - The lack of diversity of their economic activity

Nevertheless, due to their capacity to adapt to the fluctuations of the economic environment and to reorientate the activity, we consider that the SME sector will recover fairly soon.

The role of the small and medium practices in the development and consolidation of SMEs

SMEs' representatives have identified major difficulties with which they confront themselves in the crisis period (Nicolescu O., pp. 34):

- The difficulty in ensuring the necessary financing, the liquidities and the blocking of credit
- The significant decrease of products and services demand at a national and international level, reflected in the reduction of exports and sales in the internal market.
- The growth of fiscality
- The rise of prices for raw materials, energy and food
- Large variations of the exchange rate and inflation
- Difficult judicial procedures, financial blocking generated by delayed payments and high costs with regard to the solving of trade litigations
- The absorption of European funds in a small proportion

Although some progress has been registered on behalf of SMEs in the European Union, in the last couple of years, there has been gaps in fields that target research, innovation, attracting sources of financing, environment protection, the level of work productivity or confront themselves with structural difficulties, like poor management, low technical level, workforce market rigidity at a national level (Petrescu, 2009, pp. 73).

Specialists confirm a new tendency in the time of crisis: SMEs are much more inclined to use the services of different consultants, precisely because it is a moment in time favorable to changes, restructuring and short time fast solutions, which are usually hard to implement without external support.

Due to the fact that their internal resources are limited, owners and executives of SMEs use extensively in their activity, external sources of consultancy and support services. The necessity that SMEs should have some competences and resources as far as consultancy and external support is concerned is the main approach for their survival and development. Insufficient resources and continuous change in the environment in which SMEs achieve their activities have underlined the ***role of the SMP as the main business consultants***

IFAC has defined SMPs as „accountant practices mainly used by SMEs, external sources are used to supplement technical internal resources and include a limited number of professional personnel. What a SME consists of differs from country to country." (IFAC, 2010).

The International Federation of Accountants - IFAC, the national organism of the accounting profession, understands their importance and offers support through member organisms in order to offer better services to SMEs' clients.

For this purpose the Committee for Small and Medium Practices IFAC was created, now formed of 18 members worldwide, with a vast experience in the sector of SME and SMP.

The Committee offers practical support to SMPs, including guidance and web instruments. The Committee supports SMPs in the handling of practices, in order to preserve the relevance towards their clients and maximizing profit. By accessing sites provided by IFAC, SMPs can make us of:

- Electronic news concerning SMPs – an electronic correspondence published 3-4 times per year, discussing relevant initiatives for SMPs
- Relevant publications – the section Publications and Resources, which approaches subjects such as the financial reporting in micro entities and computer management
- Information related to conferences; links to sites of interest
- Resources which could help SMPs and SMEs to deal with problems generated by the financial crises.
- Discussions Forum in which the small practitioners and others are invited to express their opinion regarding relevant subject for SMPs and SMEs

If in an international scheme we can distinguish concerns of the main professional organisms on the subject to support SMEs, these concerns represent also one of the main objectives of CECCAR. CECCAR has a committee for SMPs, whose main interest is the identification of SMEs' needs and establishing directions and concrete operational strategies for SMPs.

As far as supporting SMEs is concerned, especially in the crisis period, professional accountants have the well established role in protecting such enterprises. Evidently, professional accountants are „ the most popular source of consultancy and external support for SMEs". „Professional accountants can be considered competent consultants, worthy of trust" (IFAC, The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises, 2008).

In the existing literature it is assumed that these accountants, providing services **are part of SMPs and SMPs offer the main part of these support and consultancy services.**

The main services a professional accountant must provide to enterprises are (Sirbu C., Necsulescu E., pp. 107):

- Book keeping;
- Diagnostic analysis service;
- Consultancy for the obtaining of financing;
- Consultancy for the implementing of European projects;
- Consultancy in the fiscal domain;
- Consultancy for business restructuring.

In order to understand the role of Small and Medium Practices (SMPs) in supplying business consultancy to SMEs, it is important to establish the general context in which this important role takes place. SMEs activate in different fields and are themselves of a very diverse nature (comprising microenterprises, medium enterprises). Also the problems they deal with are diverse.

The potential beneficiaries of SMPs, of the business consultancy services, are characterizes by a diverse demands and an heterogeneous behavior towards professional accountants and the services they offer. The majority of them require service as a result of the legal obligations concerning the publishing of the accounting information. The inadequate use of the accounting information leaves its mark on the relationship between SME-SMP. As follows, the policies and practices that consider the needs of SMEs have to fully take into account this diversity.

The economic contraction is mirrored very well in the SME budgets. Companies were forced to reduce their funds, to delay projects under the pressure of consumption decrease and the problems of market liquidities. Money has become much more expensive than in the first part of last year and SMEs have become much more careful and orientated towards the restructuring of their business.

In these conditions, we ask ourselves: „Which are the chances business consultancy has to aspire to the low budgets of these companies?”

Nevertheless, we ca all observe that SME management has become more interested in analyzing the way in which added value is created in the framework of their own business. Instead of perceiving business processes as a black box in which resources enter and profits come out, the management tries to follow the logic „understand – measure – optimize – transform”. Also, the management is becoming more realistic as far as recovering investment is concerned. Instead of expecting to recover the investment in a short term, the majority have reset their expectations to 2-3 years, an approach which is much more realistic and healthier for Romanian SMEs. Therefore, consulting services will be very much demanded in the recession period.

The companies’ needs to restructure their activities, to control costs and to make efficient their activities are a reality. Consultancy, the star of western professions, regardless of its area of expertise, has gain terrain in Romania as well. The crisis can be a very appropriate period for business consultancy, even if the sector of professional services has been affected by economic problems as well.

The realities of an economy situated in full crisis shows us that in the same time SMEs present difficulties, small and medium practices have to develop as an area, as content and as efficiency, in order to be able to provide the necessary elements needed for decision making to be able to reflect exactly on their patrimonial situation and their financial activities results. The development of small and medium practices was and continues to be pushed by the growing demands of SMEs, the problems with which they face in a period of crisis.

In the current conditions, the sphere and the functions of SMP suffer successive modifications, imposed on one side by the growing necessities of information at the level of enterprises, when the lack of allocated resources for the development of SMEs is in a clear difficulty and on the other side by the evolution of procedures. This is why, in the current context, the effects of the crisis have a decisive impact in the diversification of the field of impact of SMP and in the extension of the sphere of responsibility of the professional accountant.

3. Conclusions and Suggestions

SMP are the living proof that there are accessible solutions for SMEs, sometimes unexplored by them, even if the solutions are in their „backyard".

The moment has come to be responsible, to think of the future that we want to built, the role of the professional accountant being necessary beyond the elaboration of a financial balance. At the level of SMEs there must be a practical vision with regard to accounting and supporting services.

The speed of offering consultancy is essential for many SMEs and therefore, this attribute is sometimes more important than the proof of qualification or previous competency, and one of the main reasons for which SMEs should use the services of an accountant is their known capacity to act promptly to demands.

The useful information provided by SMPs, relevant to the business framework in general and to the SMEs in particular, is a challenge and depends on one hand on the diversity of the range of work demanded by the SME and on the other hand on the offering of services integrated by the SME.

That is why we consider to have entered in a different stage of business consultancy offered by the SMP, as one of the conditions necessary to overcome the crisis of the SME.

In conclusion, it can be said that SMP, professional accountants, have to define a marketing strategy which can allow the continuous change of mentalities of the beneficiaries, the ones using the services, business consultancy. Therefore, the type, nature and future of **the role of SMPs in offering business consultancy services to SMEs,** represents still, an issue opened to debate.

References

Petrescu, M., 2009. Rolul si importanta IMM-urilor în viziunea Comisiei Europene. Initiativa Small Business Act: o prioritate pentru IMM-uri, Revista de finante publice si contabilitate, 20(7-8), pp.73-78.

Vasilescu, L., Kjosev, S., 2009. Noua Lege a întreprinderilor mici în Europa – reglementări, principii si instrumente privind finantarea IMM-urilor, Revista de finante publice si contabilitate, 20(2), pp.52-62

European Commission, Enterprise and Industry, 2010. DGENTR – Annual Report 2010_100511.indd., European SMEs under pressure, Annual report on EU small and medium – sized enterprises 2009. [Online] Disponibil pe <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm>

Franco, M., and Haase, H., 2010, Failure factors in small and medium-sized enterprises: qualitative study from an attributional perspective, International Entrepreneurship and Management Journal, 6, 503–521, DOI: 10.1007/s11365-009-0124-5

Hodorogel R., Criza economică globală. Provocări pentru IMM-urile din România, Economie teoretică şi aplicată, Volumul XVIII (2011), No. 4(557), pp. 113-124

Nicolescu, O. (2010). *Carta Albă a IMM-urilor din România*, Bucureşti

Sirbu C., Necsulescu E., Professional Accountants as Consultants for Business, EuroEconomica, Vol 30, No 5 (2011)

IFAC, Competent and Versatile: How Professional Accountants in Business Drive Sustainable Success, 2011

CEE, Directiva 2006/123/CE privind serviciile de pe piata interna, Bruxelles, 2006

IFAC, The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises, 2008

Fundatia CADI Eleutheria. (2011). Antreprenoriatul in Romania. Culegere de povesti de succes. Bucuresti: Fundatia CADI Eleutheria.