PERFORMANCE INDICATORS FOR SMEs ACCESING EU FUNDS

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ABSTRACT

Being the best supporters of national economies Small and Medium Sized Enterprises are actively searching alternative sources of finance for sustaining their goals and their performances. European Union is sustaining the SMEs access to finance by direct funding: grants from the European Commission and indirect funding: financial intermediaries in the SMEs origin country. Considering the importance of SMEs for national and European economy we will analyze the relationship between the EU funding and performance of SMEs that applied for and received non-refundable EU funds.

Keywords: *business performance, SMEs, EU funds.*

1. INTRODUCTION

Being small is not always equivalent with being unimportant, especially when we talk about European companies. The SMEs are an important generator of employment and growth and was recognized as the backbone to any economy (Jamil, Mohamed, 2011). European Commission (EC) is sustaining the small businesses through its regional policy: helping them realize their growth potential, their importance in regional and global economy and creating a friendlier business environment. More than 20 million companies in European Union are SMEs and they play an important role in the dynamics of the national and regional economy. The EC had designed special rules for these companies, facilitate their access to funding, help SMEs to get most out of the EU's Single Market, create an entrepreneurial environment, and adapt public policy tools to SMEs' needs.

In the present paper we investigate how SMEs are sustained at national and European level. Using a quantitative research method we investigate what are the main important performance indicators for those SMEs that accessed European funds. For developing this empirical study we focus on the SMEs from the V West Region that apply for and implement projects for accessed EU funds.

The paper is structured in five parts: after introduction we present the European assistance scheme for SMEs, in the next paragraph we review the literature regarding the performance and performance measurement system for SMEs, afterwards we emphasize, based on a quantitative research, the performance indicators for those SMEs that accessed European funds, the paper ends with the conclusion.

2. EUROPEAN FUNDING OPPORTUNITIES FOR SMEs

The European Commission define SME as: „the category of micro, small and medium-sized enterprises (SMEs) … made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro" (EC, 2005). SMEs representing more than 98% of all enterprises, out of which over 92% are microenterprises' with fewer than ten employees and accounted over 67% of total employment and over 58% of gross value added of the European union economy (Ecorys, 2012).

Having regarded the above data it is obvious that SMEs are "the backbone" of the European economy and EC should take care of small companies. Commission includes SMEs in its regional policy and developed an assistance scheme consisting of grants and programmes managed at national or regional level for sustaining their activities, competitiveness, growth and development. Direct and indirect funding opportunities are available in different forms, such as: grants, loans and guarantees, sometimes for SMEs.

There are four pillars in the European Union SMEs assistance scheme: structural funds, financial instruments, thematic funding opportunities and support for the internationalization of SMEs, for those that wants to access markets outside the EU.

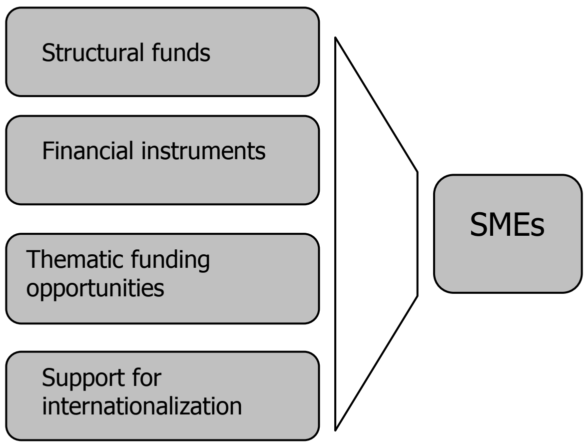

Figure 1 Pillars of European assistance scheme for SMEs

The Structural Funds allocated by the European Commission for the member countries should help to reduce disparities in the development of regions, and to promote economic and social cohesion within the European Union. Member States co-finance the regional projects. EU structural funds are: European Regional Development Fund (ERDF), European Social Fund

(ESF) and European Cohesion Fund (ECF). Among these European Regional Development Fund is the most popular funding instrument for SMEs. In order to increase the competitiveness of SMEs, the ERDF co-finances activities in a broad range of areas: entrepreneurship, innovation and competitiveness of SME; improving the regional and local environment for SMEs; interregional and cross-border co-operation of SMEs and investment in human resources (along with funding from the European Social Fund). The beneficiaries of structural funds receive a direct contribution to finance their projects on different thematic programmes, but as many other EU funding sources, ERDF programmes are managed by national and regional authorities not directly by the Commission (EC, 2012).

SMEs could apply directly through sustainable and value added projects for thematic funding. Thematic funding, such as environment, research, education are implemented by various Departments of the European Commission: Life+, Competitiveness and Innovation Framework Programme, The Seventh Framework Programme for Research and Technological Development, EUREKA - A Network for market oriented R&D, Education and training, Culture and media.

For structural funds and thematic funding co-funding is the general rule: the support of the European Union cover only a part of the project costs, the other part is being covered by member states and project's beneficiaries.

The European Investment Fund (EIF) manages most of the financial instruments that are available for SMEs. But EIF not interact directly with companies, it works via national financial intermediaries, such as: banks, credit institutions or investment funds. The role of these instruments is to increase the credit volume available for SMEs and to encourage the intermediaries to develop their SMEs lending capacity.

Support for the internationalization of SMEs consists of assistance to intermediary organizations and/or public authorities in order to help SMEs to access markets outside the EU. EC had developed for this purpose: the instrument of pre-accession assistance (IPA), the European neighborhood policy, European Bank for Reconstruction and Development programmes for SME finance facility and non financial support, European Investment Bank loans for SMEs in Eastern neighborhood countries and Mediterranean partner countries, cooperation programmes with Latin America and Asia countries.

European Union established the general framework for managing the Community funds and each member state choose its own system. In Romania, the payment and management authorities are situated within the structure of some distinct institutions, but the Finance Ministry is the payment authority for every programme (Nanu, Buziernescu, Spulbar, 2008). Among the management authorities for the structural funds for SMEs are: Industry Ministry, Regional Development and Public Administration Ministry.

SMEs play in the national and regional environment a key role, the structural funds finance the increase of competitiveness and productivity of Romanian companies', in compliance with the principle of sustainable development, and reducing the disparities compared to the average productivity of EU. The size of every company contribution to the development of the region is influenced by its past, present and future performance. The structural funds could be accessed only by those companies that reach the performance criteria. And companies' performance indicators should have higher levels after the absorption of the unreimbursement funds. Performing like this every company will contribute to the development of the regional economical environment and to diminish the disparities between the Community regions.

3. WHAT MEANS PERFORMANCE FOR SMEs?

All businesses are created bearing in mind at list one goal: the profit, but most of them had more than one strategic goal, being it financial or not. Performance represents the way an organization target its goals from a financial or a non-financial perspective. The attention of the companies' managers had been focus firstly to financial performance, but in the last decades, they had to reorient to their stakeholder needs and different non-financial values that had been considered important for companies performances. The non-financial measures start to coexist together with the financial ones in the companies' performance measurement systems. Jamil and Mohamed (2011) summarized in their research the most popular and widely used performance measurement models, such as: performance measurement matrix (Keegan *et al.*, 1989), performance pyramid system (Lynch and Cross, 1991), performance prism (Neely, *et al.*, 2002), Balanced Scorecard (Kaplan and Norton, 1992, 1996), performance measurement system for service industries (Fitzgerald *et al.*, 1991), integrated performance measurement system (Bititci *et al.*, 1997), organizational performance measurement (Chennell *et al.*, 2000), integrated performance measurement for small companies (Laitinen, 2002) and focus on the process of assessing effectiveness of the companies performance measurement system (Van Aken et al., 2005).

Performance is seen different by large compared with small businesses. Large companies are using complex systems and measurement instruments for performance, but the small ones, due to different factors, more often, do not measure it, or they use a limited number of key performance indicators. But, it is very crucial that entrepreneurs understand and monitor their company's performance (Hvolby, Thorstenson, 2001). Garengo, Biazzo and Bititci (2005) reviewed the research regarding the specific characteristics of SMEs and they made the following list of the factors they considered to be obstacles for defining a performance measurement system for these companies: lack of financial and human resources, limited managerial capacity and capital resources, a reactive approach in administrating the enterprise's activities, tacit knowledge and little attention given to the formalization of processes, misconception of performance measurement.

Even though, these barriers exist, Laitinen (2002) had developed an integrated performance system for small companies based on the idea of activity-based costing (ABC). His proposal takes into consideration both external and internal factors. The external factors are financial performance and competitiveness and the internal factors are: costs, production factors, activities, products, and revenues. Based on a questionnaires research, the study also emphasis, that small companies consider for performance measurement, as well important, elements such as: the employee motivation (production factors dimension), customer satisfaction (products), product profitability (revenues), company profitability, liquidity, and capital structure (financial performance). Tatichi *et al*. (2008) observed that small companies use financial measurement tools for measuring performance, such as return on investments (ROI), return on equity (ROE), and return on capital employed (ROCE), which are basically used by large firms, but the tendency is to focus on performance from a non-financial perspective.

Cocca and Alberti (2010) developed a framework that SMEs can use to assess their performance measurement system in order to identify the main weaknesses and take corrective measures. Perrera and Baker (2007) examine the use of financial and non-financial performance measures in small and medium size manufacturing enterprises in Australia. The authors observed that sample companies use more often financial than non-financial measures for performance, and also those enterprises where managers are different from owner make greater use of formal measurement systems than owner-managed enterprises. As company size increase, its tendency is to use more the non-financial measures.

4. PERFORMANCE INDICATORS FOR SMEs THAT ACCESSED EU FUNDS

A challenge in performance measurement is the decision regarding what to measure. The performance measurement should focus on most important areas of activities, of a project or an enterprise. Across the European Union SMEs play an important role and if we are watching them at a macro level, their performance is measured with three main indicators: the number of enterprises, their output via their gross value added (GVA) and the number of employees on their payroll. Gross Value Added (GVA) includes depreciation, rewards to labour, capital and entrepreneurial risk, GVA remains when the intermediate costs are deducted from the sales or turnover. These three indicators reveal a mixed picture of European SMEs (Ecorys, 2012).

But if we are watching a single economic entity the performance indicators are quite different. The priority is to identify quantifiable factors. These factors should be linked to the drivers of success in the entity and or in its projects. When an entity wants to access EU funds it should elaborate and submit a project proposal, within performance measurement represents a necessary toolkit for developing the proposal. A set of performance indicators are also necessary for a less subjective selection and approval of EU funding projects and to demonstrate that selected projects will insure the best funds allocation.

Performance indicators used in project selection and approval have to reflect technical and economical efficiency of the project. They consists of static indicators calculated without taking the time factor into consideration and dynamic indicators calculated in cost – benefit analysis which are used for determine the efficiency of long terms investment projects.

Observing the EU assistance scheme presented in the second paragraph we will focus our attention on structural funds available for Romania that are oriented to small and medium sized enterprises. In this regards we performed a quantitative research grounded on questionnaire-based inquiry. The questionnaires were disseminated to enterprises located in the West Region of Romania that apply for and access European funds. Twenty-two out of 40 questionnaires distributed were returned.

Compared with Management Authority, projects beneficiaries have different interest, when accessing EU funds through projects. For projects beneficiaries performance indicators should quantify: the new products or services introduced on markets, the number of new jobs created, the production surfaces constructed, rehabilitated or improved and equipped.

Based on the opinions about the performance indicators of the owners-managers of these enterprises we find out what are the most popular performance indicators for them. We emphasis the answers of the surveyed companies in figure 2.

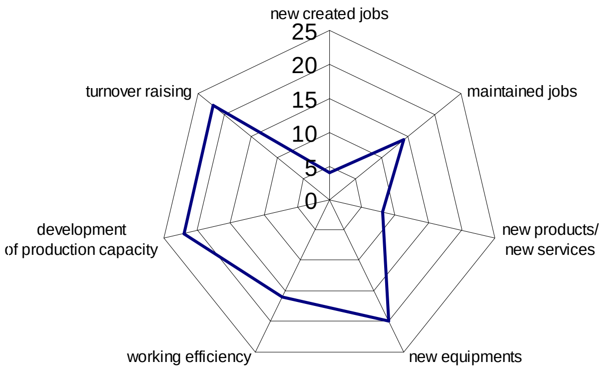

Figure 2 Performance indicators for SMEs which accessed Structural Funds in Romania's V West Development Region

All the respondents considered that accessing EU funds their company's performance increase in terms of: development of production capacity and turnover and acquiring new equipments. Less than 40% of the respondents considered that European money help them in promoting new products and services.

There were enumerated in the questionnaire, performance indicators that take in consideration the human resources. All these indicators that referred to the number of working places created or maintain during and after project implementation, as well as working efficiency, are considered less important by SMEs managers. They motivate their answers by the financial and economical restrictions generated by the economical crisis. These restrictions affect SMEs that proposed to create new job by their projects. At macro level direct foreign investments decreasing, slowing of capital movements, cash protection had a negative impact on new job creation. Even though the European Community programmes for increasing of economic competitiveness and reducing disparities in regional development are not financing direct operations for employment and social inclusion they represent important instruments for generated new working places and in the actual environment of unemployment increasing are factors that contribute to counterbalance the situation. Most of the interviewed companies had difficulties in creating new jobs. That's the reason why, over 80% of the respondents, didn't considered this indicator in the performance list. Even though during the project implementation companies hire employees, due to the additional funds infusion, for project sustainable development: maintaining the job is a challenge. Number of maintained jobs is considered a performance indicator by more than 60% of the respondents, while 72% of them appreciate working efficiency to be on the performance indicators list while accessing EU funds.

5. CONCLUSIONS

Performance measurement system is a due for every company, but not many SMEs have one because of different obstacles, such as limited material, financial and human resources. There is a challenge for every entrepreneur in the decision regarding what to measure. Analyzing the answer of the respondents of the Romanian SMEs from V West Region that accessed EU funds we found out that development of production capacity, turnover and acquiring new equipments are the most used indicators for measuring the company performance. The answers of the managers are connected with the goals of their implemented projects. Most of them had accessed the community funds for developing their production capacity and buying new equipments, creation of new working place being a secondary indicator, only.

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