

Iulian Boldea, Dumitru-Mircea Buda (Editors)  
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## THE FINANCIAL INSTITUTIONS PERSPECTIVE ON THE ENTERPRISE

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*Abstract: The objective of the research is to determine a fair value of the enterprise at a certain moment. Searching finance is an important activity in the life of any enterprise from its birth to its end. So the successful financing of its activity and/ or projects can make the difference between success and difficulty. The enterprise success is in the hands of the entrepreneurs and/or managers and stakeholders who should take the right decisions and actions in planning and controlling, business relations with customers and suppliers, human resources, family and life, finance and money management.*

*The intended contribution of the research is to determine how an enterprise can maximize its value and potential from a financial institution view so it gets finance from the specialized institutions, according a special attention to the business plan.*

*The most important results and conclusions refer to the highly innovative small and medium-sized businesses (SMEs) from the entire European Union (EU) that attract European funding for Disruptive Innovation and new business models and for originality and feasibility; these enterprises stimulate the innovation potential of SMEs, accelerate market introduction of information and communications technology (ICT) and support innovative SMEs. If the business generates revenues and creates jobs, it is a step closer to getting finance.*

*Keywords: Enterprise Value, Finance, European, Success, Revenue.*

### **1. INTRODUCTION**

The enterprise value (E.V.) raises a lot of analysis and thought, and many works address the issue of maximizing the enterprise value. Systems for increasing the company value (Warrillow, 2016) are

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designed to help the managers and entrepreneurs after looking at the company financials, customers, managers and industry, to name just a few.

Similarly, there are free tools that offer a Second Chance to entrepreneurs in bad times - to the benefit of all (European Commission, 2016). As good advice is usually hard to get, it is important to go to reliable dedicated sources, such as the E.C. Constant efforts to improve company performance can prevent problems or can help find solutions in due time.

The objectives of my work are:

- understanding of the foundations of the enterprise value in order to help the entrepreneurs/owners maximize it;
- understanding the financial institutions requirements on financing enterprises in order to be able to submit interesting proposals and obtain funding;
- Understanding the importance of the business plan that can help entrepreneurs and managers make the company viable and attractive for investors.

## **Background**

- All the activities of the enterprise are equally important for the financial institutions and investors in general: marketing, the financial activity, operational and human resources. Similar perspectives on the activity of the enterprise (market, financial activity, operational activity, human resources) are used in business valuation (Ion, 2016).
- The European Commission (E.C.) offers help to enterprises after carefully analyzing its main activities:
  1. Planning and controlling,
  2. Business relations: Customers and suppliers;
  3. Human resources, family and life;
  4. Finance and money management;
  5. Getting advice and support(EUROPEAN COMMISSION, 2011).

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- the business plan (B.P) – a reference document for any enterprise looking for finance – offers details regarding the company summary, management, products/services description, market analysis, and the Financial Plan and should be a collection of specific sub-plans: finance, human resources, management, marketing, operations, etc. (European Commission, 2012).
- Other authors identify four simple success factors of an enterprise: the people, the opportunity, the context in which the venture will operate, and the risks (Sahlman, 1997). These are good points of

	<b>Key drivers of success</b>	<b>Questions</b>
1	The people starting and running the venture <sup>1</sup>	What do they know? Whom do they know? How well are they known?
2	The opportunity	Is the market for the venture's product or service large or rapidly growing (or both)? Is the industry structurally attractive? What it will sell and to whom? The business can grow and how fast, what its economics are, who and what stand in the way of success?
3	the context in which the venture will operate <sup>2</sup>	How the management will respond when that context inevitably changes?
4	the risks the new venture faces	What magnitude of reward they can expect and when? (realistically); What can go wrong and right, and how the entrepreneurial team can respond?

**Table 1. Success factors for enterprises**

*Source:* adapted from William A. Sahlman (1997)

<sup>1</sup>including outside parties: lawyers, accountants, and suppliers

<sup>2</sup>the regulatory environment, interest rates, demographic trends, inflation, and the like – that inevitably change but cannot be controlled

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These simple factors are essential for any enterprise and offer a very good picture for any of the interested parties; it also offers a good starting point in the enterprise analysis and in outlining an initial business plan.

### **Valuable Enterprises**

Highly innovative European SMEs attract funding for Disruptive Innovation by encompassing an innovative concept, product/ service that creates new markets by applying new sets of rules, values and models which ultimately disrupt and/or overtake existing markets; these enterprises displace earlier technologies and alliances, stimulate the innovation potential of SMEs, accelerate market introduction of information and communications technology (ICT) or support innovative SMEs. (European Commission, 2015) as described in Fig.1

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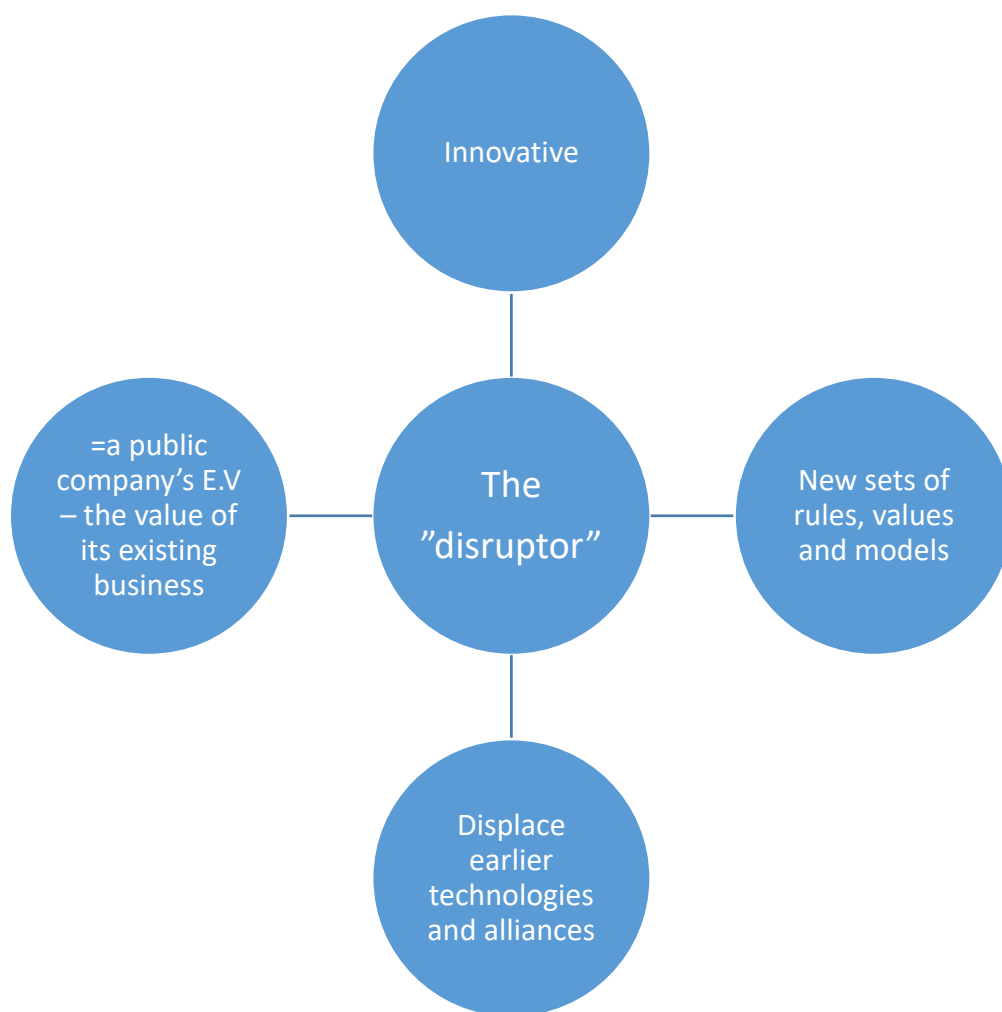


Fig.1 Disruptive Innovation

Source: adapted from (European Commission, 2015) and (Gregersen, 2015)

The no.1 global “disruptor” is Tesla<sup>3</sup> according to a well-known top (Forbes, 2016). High-end disruptors produce innovations that are advanced, making them difficult to imitate rapidly; they outperform existing products on critical attributes on their debut, sell for a premium price rather than a discount and they target incumbents’ most profitable customers, going after the most discriminating and least price-sensitive buyers before spreading to the mainstream. Unlike classic disruptive innovations - such as

<sup>3</sup>Tesla Motors, Inc. engages in the designing, development, manufacturing and selling of electric vehicles and electric power train components(Forbes, 2016).

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steel mini-mills, personal computers or cheap Japanese cars, Tesla never pursued the classic route of going after low-end, price-sensitive customers first, with cheaper, inferior technology, nonconsumption, or customers who don't currently drive cars. When the competitors didn't react fast enough, the high-end disruptors took over their market. Other examples are:

- Apple's iPod - outplayed the Sony Walkman;
- Starbucks' high-end coffee drinks. (Gregersen, 2015)

The EU values the fast-growing, innovative SMEs for promising, close-to market ideas, bearing high disruptive potential.

### **EU funds**

*"I know just how tough running a business can be. It is all too easy to get the basics wrong, or simply to fail to get the basics done." (Lord Sugar)*

The EU pays a special attention to the SMEs - the backbone of the economy and for their contribution to growth. SMEs represent 99% of all businesses in the EU (European Commission) and are classified by the staff number and turnover:

<b>Company category</b>	<b>Staff headcount</b>	<b>Turnover</b>	or	<b>Balance sheet total</b>
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 1. The SMEs classification

Source: (European Commission, 2016)

The Open and Disruptive Innovation (ODI) scheme from the EU helps fast-growing, innovative SMEs that show promising, close-to market ideas focusing on ICT (European Commission, 2015). In the first phase - Idea to concept, the European Union provides funding and carry out a feasibility study to verify the viability of the proposal; the SME drafts a business proposal.

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The EU offers small businesses funding through grants, loans and guarantees in many areas of interest, such as:

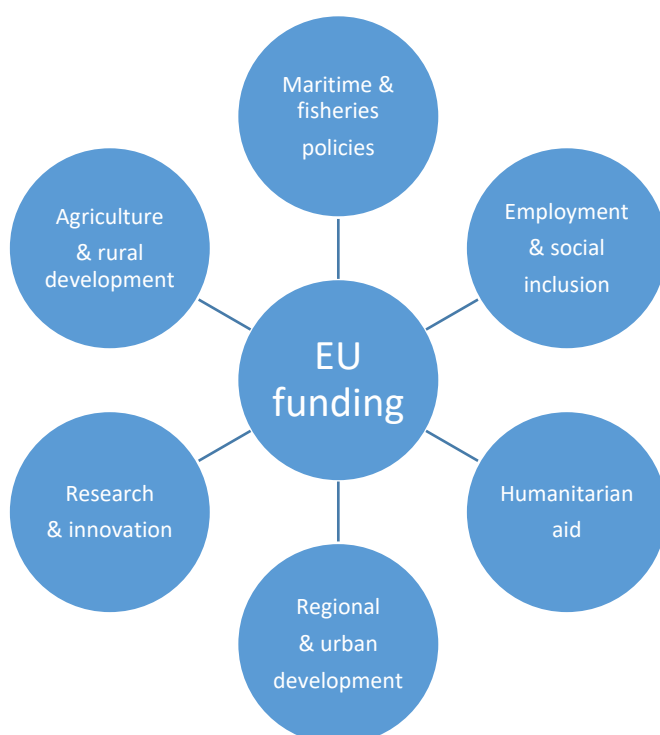


Fig.2 EU Funding

Source: adapted from (European Union, 2016)

An important reference document is the business plan (B.P) that is an essential management tool for any business. The main topics of the BP that should interest the present entrepreneurs and the would-be founders are summarized below in table 2:

Executive Summary	2 Market Analysis
Business Summary	2.1 Demand point of view
- Company Summary	2.2 Supply point of view
- Management Summary	2.3 Legal framework
- Products and Services	3. SWOT Analysis
Market Analysis Summary	Strategy and Implementation Summary
1 Industry background	1 Evaluating the value of your supply

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2 Setting the objectives	2 Sales forecast
3 Elaborating a strategy – marketing mix	3 Cashflow statements
3.1 Product Policy	4 Profits and losses forecast
3.2 Price Policy	5 Break-even analysis
3.3 Place Policy	6 Seasonality
3.4 Promotion and Exploitation Policy	7 Scenarios
4. Segmentation and positioning strategies	8 Risk analysis
Financial Plan Summary	9 Exit Strategy
1 Assumptions	



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### Table 2 The business plan outline

Source: adapted from (European Commission, 2012)

The B.P. states the business goals, argues why and how they are attainable; it is also a tool for monitoring the business performance and to stay on track. (European Commission, 2012).

The break-even point shows the level of sales when the business begins to make profit, when the cash flow turns positive, such as:

- In manufacturing, the yield on a production process;
- in magazine publishing, the anticipated renewal rate;
- In software, the impact of using various distribution channels. (Sahlman)

In the EU, valuable companies that comply with the EU SME definition meet supplementary criteria such as:

- Are based in an innovation hub,
- received grants or venture capital funding, or innovation-related tax benefits, or
- Won an innovation prize in the last 2 years (Executive Agency for SMEs, 2016).
- Contribute 30% of the budget for the execution of the SME instrument action.
- They base their SME status on forecast financial statements, which are justified and aligned with the proposal financial forecast.<sup>1</sup> The Commission will assess an organisation's financial viability by checking:
  1. it has sufficient liquidity - is able to cover its short-term commitments;
  2. is financially autonomous;
  3. is solvent - capable of covering its medium and long-term commitments;
  4. is profitable - generating profits, or at least with self-financing capacity. (European Commission, n.d.).

The cash flow forecast (or budget) projects business cash in order to:

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<sup>1</sup>The Commission checks the financial capacity of a project coordinator when the requested EU funding for the action is equal or superior to EUR 500,000.

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- see potential cash flow gaps, periods when cash outflows exceed cash inflows when combined with cash reserves;
- avoid expensive, uncontrolled overdrafts or failure to meet crucial payments such as wages. These might include: lowering investments in accounts receivable or inventory, increasing or advancing receipts, or looking to outside sources of cash, such as a short-term loan, to fill the cash flow gaps. (CIMA)

The cash flow budget involves:

1. a sales forecast
2. anticipated cash inflows (a realistic assumption of payments being made)
3. anticipated cash outflows (payments you'll need to make, plus operating expenses such as rents, taxes, wages and utility bills falling due)
4. a cash flow bottom line (highlighting potential surpluses which could be re-invested or deposited; and deficits, which must be covered with loans or shareholder capital if cash inflows cannot be accelerated). <sup>2</sup>

### **International Finance Corporation**

Other financial institutions, such as the International Finance Corporation (IFC) supports:

- gender finance<sup>3</sup> for women-owned and -managed companies;
- banks' long-term hedging needs<sup>4</sup>;
- leasing finance<sup>5</sup> for SMEs,
- climate-related projects;

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<sup>2</sup>CIMA recommends the direct method for cash flow forecasting, where you report cash inflows and cash outflows directly from the operating activities. This prevents you from having to calculate variances from one financial statement to another and to re-classify items.

<sup>3</sup>with Garanti Bank

<sup>4</sup>IFC converted a €20 million subordinated bond of Banca Transilvania into equity, thus supporting this third-largest bank to improve its capital structure.

<sup>5</sup>Garanti Leasing Romania

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- the company's growth plans<sup>6</sup> to expand farms and processing facilities.  
(WORLD BANK GROUP, 2016)

### **European Bank for Reconstruction and Development (EBRD)**

In Romania, the EBRD helps SMEs grow to become catalysts for the economy and region by choosing the best project, then supporting its successful implementation, such as:

- a new website,
- a quality management system,
- a marketing strategy or
- a completely new governance structure. (EBRD)

### **CONCLUSIONS**

Many SMEs struggle for survival or for funding their activities.

When applying for a larger loan, the cash flow budget for several years is required:

- For most business needs, a six-month cash flow budget is probably right.
- At a bare minimum, all businesses should be able to make an accurate cash forecast for 13 weeks ahead - long enough to spot potential problems and capture quarterly costs, but short enough to be realistic on sales and debt collections. This ought to be a rolling forecast, re-calculated weekly or even daily, and is particularly useful when the business is under stress or during a credit crunch. (CIMA)

The Financial Accounts offer crucial insight into a company's financial health and help avoid credit risk. (Graydon, 2016)

The cash flow is the life blood of all businesses and the primary indicator of business health; it is the most pressing concern of most small and medium-sized enterprises (SMEs), although even finance directors of the largest organizations emphasize the importance of cash. (CIMA)

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<sup>6</sup>Smithfield

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When the enterprise aims to obtain financial aid the lessons learned can be summarized below (EASME, 2016):

1. the enterprise's proposal should focus on the project and on the business opportunity;
2. the company description should state why the company will succeed (and not the competitor);
3. provide competing solutions;
4. the enterprise should develop a product that does not exist on the market;
5. the manager should show he/ she thought about the commercialization;

Many issues are still in debate and need to be addressed with solutions and funds, as stated at the latest conference in the field (Forbes, 2016):

- the reasons Romania is among the last European countries by the active SMEs/population;
- the SMEs contribution to a sustainable economic model;
- how the SMEs overcome the financial difficulties;
- how innovative the Romanian SMEs can be?

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