

Economic and Risk Analyses for SMEs Internationalization Projects. A Preliminary Insight on the Rationale of Business Consulting Firms

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Abstract. *The present study is meant to be a first step towards the investigation of two current issues: the organization's demand for highly professional services and the business consulting firms' response as a challenge for the ethic imperatives. The main question raised is whether the national business consulting firms are liable to provide the economic and risk analyses required by the ambitious internationalization projects of small and medium enterprises (SMEs), and if not, what should be the firms' ethical approach. In this respect, preliminary conclusions were made after testing the deliverables of several business consulting firms which were contracted to elaborate intricate economic and risk analyses of an internationalization project developed by a medium enterprise. The proven level of expertise of the contracted firms did not confirm their claims and assurances that they were fit for the job. This is why the rationale of today's business consulting firms should be taken into account for further consideration while the exigency for increased savvy should become a priority.*

Keywords: *economic analysis, sensitivity and risk analysis, SMEs, internationalization, business consultancy, business ethics*

Introduction

Nowadays, the transnationalism of big corporations is often seen as a key point of globalization, and still, during the past years, a paradigm shift occurred as the small and medium enterprises (SMEs) have become more and more

constrained to meet the challenges of an unprecedented dynamic globalizing economy. The dichotomy between globalization and the internationalization of businesses is no longer seen as a static delimitation, but as coherent dynamic processes within a holistic framework. From a conceptual approach, both globalization and internationalization stand for multidimensional constructs embedded in multiple shapes at the organizational and business levels.

SMEs are becoming a common figure when discussing international relationships, the imperative for international action being based on survival or progress. The versatile business contexts call for adaptive measures in order to maintain competitiveness – decreasing costs or increasing markets (Cannon & Perreault, 1999, p. 452). The global marketplace preserves its unique function for the emergence and growth of international business relationships as it challenges different organizations to act in the transnational arena.

Although of great importance, the internationalization process is constrained by the poor economic and risk knowledge of the SMEs' managers who do not possess the required qualifications to perform pertinent analyses in this respect and have to resort to business consultants. This is why the present paper addresses the "expert's solution" to the internationalization endeavour of a Romanian medium enterprise under the pressure of preserving its competitiveness. Simultaneously, the emphasis is laid on the business ethics imperatives of the consultancy industry in Romania as the firms' demands for professional and niche services increases while the consultants' area of expertise is getting narrower.

SMEs and the imperative of staying competitive

Managers can no longer be limited to the current problems of organization and to the knowledge requirements of doing business locally. The manager is more and more constrained to keep pace with the worldwide innovations in his field of interest, with the market trends and even with development tendencies of the global competitors. Thus, Hampton and Rowell (2013) contend that the classic models of the business internationalization process are liable to be challenged by the contemporary international context.

A new paradigm on international businesses is open to the process of organizational change which ensures that business people become aware of the environment dynamics and act accordingly. It is obvious that modern enterprises

confront with dramatic changes and the innovation flows may influence or even determine the progress of the business environment. Ocloo et al. (2014, p.2) underline that “it is widely recognized that Small and Medium Scale Enterprises (SMEs) form the backbone of the private sector at all levels of developing countries”, a fact which requires the researchers’ consistent attention. In this sense, the management model of small and medium organizations has to consistently evolve as the rapid logic of both local and global markets have mainly potentiated the pressure forces of competitive management (Rubaeva, 2010).

Along with the evolution of the business environment should come the evolution of the business model approached by modern managers. At this level, the ability and the art of managing and adapting to organizational change is no longer a challenge, but a menacing imperative for the business survival. SMEs are at the crossroad of external forces and of internal shifts. This is why the proactive attitude and the harmonization with the global rhythm of businesses are decisive for creating competitive advantage for themselves.

Studying the differences in choices between SMEs and large multinationals or transnationals, Hutchinson and Quintas (2008), deem that the superior resources of the latter facilitate the development of executives through well specialized programs and training. This is not the case in what SMEs are concerned as they are based on limited learning resources.

Still, the business internationalization is one of the main projects which define the growth and the development of the organization. The international business development has to be seen as a condition for the organization progress independent of its field of interest or size. In this respect, the global economy has consistently encouraged the internationalization of economic relations through cross-border cooperation – decrease of custom tariffs, the increase of operational and financial flows, the reduction of the cost of transport, the numerous and rapid communication channels, the international vocation of the global citizens etc. Going international is a condition of existence and adaptive exigency for businesses in a global settlement. In order to have better economic results, to become more competitive, to adapt wisely to the conditions of the market, to be proactive and dynamic in an active organizational environment, the imperative is to approach new markets, new targets and new business networks (Danciu, 2012).

As the internationalization of business is a strategic organizational project, the management is attributed a crucial role in handling the drivers of the foreign

markets of cross-cultural interactions, of cross-border challenges, a process which requires high managerial skills and competencies and the awareness that professional business analyses should be performed.

The business consultancy industry – between the profit rationality and the ethic rationality

Nowadays, the economic responsibility of business stands for a consistent challenge and pressure due to global competitiveness. The dynamics of the globalized and interconnected businesses and organizations is complex and high-speed, spreading into capital, trade, technology and information markets. Still, when fulfilling their economic responsibilities, businesses should consider simultaneously ethical responsibilities. These responsibilities consist of practices, behaviours, activities, policies which are not codified into laws, but are expected (in a positive sense) or prohibited (in a negative sense) by societal members. Also, ethical responsibilities cover a series of standards or expectations of behavior that reveal a constructive interest for what clients, employees, shareholders, the community, and other publics perceive as right or fair (Crane & Matten, 2007).

The consultancy industry poses various aspects to be discussed in what concerns the ethical issues. Consultancy is at the same time a business, an intellectual product and a far-driven service. As consultancy unfolds at the interaction between the consultant and the client, two sets of ethical principles and standards meet each other.

The forces which drive consulting as a business can be summed up as follows: profit making, strategy and subjectivity. Firstly, profit making refers to the need of turnover and to turnover continuity as a prerequisite of a consulting firm's survival. Therefore, consultancy firms function according to their financial and economic logic which trigger a certain pressure on the application of entirely ethical ways of acting. For example, the imperative of profit making may relativize the ethical threshold when a consulting firm assumes a specific job without having a clear competence in that field, when it recommends solutions that are not necessary at a certain point, when it decides to leave a client for a stronger competitor etc.

Secondly, a consulting firm is focused on creating and maintaining an image of a competent expert in order to preserve the client's loyalty. Moreover,

with a view to achieve the desired reputation and varied portfolio of clients, the organization may accept new clients when it is fully engaged or when it has not a sufficient experience, promising more than what can actually be accomplished.

Thirdly, due to the fact that consulting is a „personal job”, some ethical limits may be cut when consultants get emotionally involved or overestimate their capabilities and their knowledge, when they offer the same classic solutions to different problems or within different contexts.

These three directions of investigating the ethical basics of consultancy industry can be integrated in three major interest categories – as Vallini (2007) stressed out, the consulting firm interests can be seen as lucrative, strategic or motivational and the only way to administer the ethical risks consists in the decisive settlement of ethical basics which should be treated with respect during the collaboration with different clients.

Although the profit-making, the strategy and the subjectivity of consultancy are daily pressures for the consultancy industry, there can be underlined several principles of action in order to maintain a proper ethical organizational conduct. On the one hand, a consulting firm should accept a job only if it has the required knowledge and experience to fulfill its mission. Also, the contents of the suggestions should not be directly conditioned by remuneration or other interests and should bring to light all the identifiable risks for the client. On the other hand, the consulting firm's actions or recommendations should not undermine a third party, should not be contextualized to relative ethical coordinates, but to an overall exigency of ethical behaviour. In other words, the ethical behaviour of the consulting firm should not be reduced to the relationship with a certain client, but, on the contrary, it should be treated in an integral way.

The internationalization project of SMEs and the exigency for pertinent economic analysis

Like any other major project, the strategic endeavour of SMEs to venture into new markets and into new business networks should be treated with the appropriate consideration. This is why many managers who lack economic and financial competencies are determined to resort to experts from the business consulting industry, liable to deliver a professional economic analysis for their organizational internationalization projects.

The economic analysis of projects aims at providing a better management of resources and to facilitate positive outcomes for an investment and for any other type of business decision (McAfee & Johnson, 2006). Moreover, the analysis is meant to offer the decision makers the answer for a rational allocation of resources in order to obtain a certain outcome. All the resources used in or for a project (both inputs and outputs) are analyzed according to an opportunity cost which provides an estimation of the extent and value of the project (Economics and Development Resource Center, 1997, p. 5). The considered variables refer to the forecasting demand, to the selection of least-cost alternatives, to the calculation of the economic internal rate of return, affordability etc. At this level, the following figure shows the main components taken into consideration both by directly and indirectly productive projects from the economic analysis standpoint.

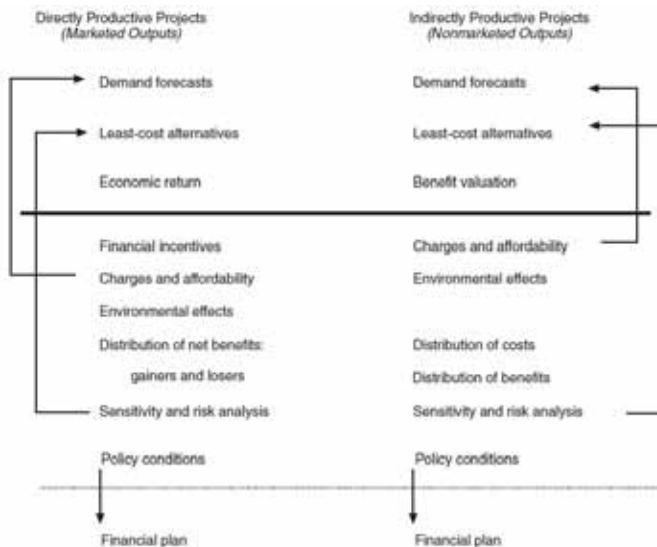


Figure 1. The scope of economic analysis (Economics and Development Resource Center, 1997, p.7)

As far as projects are concerned, the economic analysis resembles the financial one because both of them aim at an accurate profit assessment of a business decision. “For a project to be economically viable, it must be financially sustainable, as well as economically efficient” (Economics and Development Resource Center, 1997, p.8). In other words, the financial and economic analyses should be treated as two sides of the same coin because they are simultaneously approached in monetary terms, though they consider costs and benefits from different angles.

Both financial and economic analyses should be performed by the consulting firms which assume services like evaluation of the business project feasibility and viability. At this level, their scope would be the answer to myriad of questions which address the project purpose and design and provides pertinent grounds for a strategic decision. Also, the economic analysis fostered by strategic projects should lay emphasis on the main issues that define the specificity of the analyzed project in terms of economic viability and cost effectiveness. For example, several key questions should be addressed when appraising the economic opportunity for transposing a project into practice (Figure 2).

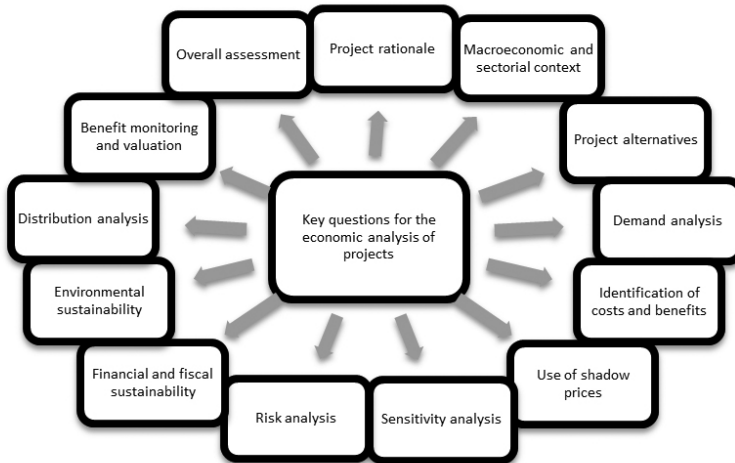


Figure 2. Key issues for the economic analysis of projects

As shown in the previous figure sensitivity and risk analysis are key components of the economic analysis. Whenever the project outcomes rely on several main variables with a medium or high degree of uncertainty, these analyses should be conducted, especially when a major project seems liable to return substantial advantages, but the risk extent is quite large. Sensitivity analysis is “a very pragmatic way to estimate project risk” (Keat & Young, 2003, p.623) and should be treated as a mandatory condition in all the projects with quantified benefits and costs. Furthermore, sensitivity analysis should be used simultaneously to the project financial analysis in order to identify the proper measures to mitigate the impact of uncertainty and to reconfigure the basic structure of the project for assuring its sustainability (Saltelli et al., 2008). The main issues to be addressed are: 1. the selection of the variables to

which the project decision may be sensitive; 2. the assessment of the extent to which the value of the variables may differ from the base case; 3. the calculation of the effect of different values on the project results by re-quantifying the project net present value (NPV) and the economic internal rate of return (EIRR); 4. the interpretation of the results and the elaboration of mitigating actions (Economics and Development Resource Center, 1997, p.150).

Along with the sensitive analysis, the quantitative risk analysis is meant to estimate “the probability that the project NPV will fall below zero although the project EIRR will fall below the opportunity cost of capital (Economics and Development Resource Center, 1997, p.156). At this level, the risk analysis takes into consideration combinations of different values for the main variables and assesses their probability of occurrence (OECD, 2013). The elements of the risk analysis rely on the results of the sensitivity tests and provide important information about high risk probabilities and poor results, two key factors for the project decision-making process (Millossovich & Tsanakas, 2014, pp.2-3).

Premises for a pilot study: an insight on the Romanian business consulting industry

A simple radiography of the extent of the consultancy industry in Romania brings to our attention that the number of business consulting firms exceeds any expectation in this respect – over 31,000 firms and over 13,000 employees activate in this organizational sector. This fact places the consulting firms in the top three domains of activity, after the commerce and construction industries. Moreover, it proves that one out of twenty firms provides business consulting to other organizations (Matei, 2013). Still, as the rapport between the number of firms and the number of employees shows, many business consulting firms (registered as such at the National Trade Register Office) have no employees although they appear as active. One possible explanation for this situation relies on the fact that there are many firm sole owners who try to supply the aforementioned services themselves as they have certain knowledge in this field.

The high number of consulting firms in Romania poses the question of their level of expertise and of their employees’ technical, economic and financial competencies. This issue is also mentioned by the President of AMCOR (the

Romanian Management Consultancies Association)¹, who deems that the demand for consulting services is determined by a number of factors, the economic situation of the markets and the level of customer education being important elements. AMCOR has conducted a research for the period 2011-2012, involving almost 100 respondents from the consulting firms' management in Romania. The results proved that in 2012 compared with 2011, the survey participants (51%) reported a level of income stagnation or reduction in turnover in 2012 compared to 2011 due to economic and political instability which resulted in lower budgets for consulting (Caian, 2012).

The most frequent demand in the recent years is related to the preparation of projects to receive funding from the European Union (with transfer to project management in the implementation phase), which led to the creation of highly specialized suppliers for this component. Without criticizing a typical phenomenon of adaptation of supply to demand, it should be pointed out that in many situations, this specialization has led to products that were trying to adapt better to the evaluation criteria without taking into account the actual feasibility of projects. The immediate result consists in low professionalism services and in the lack of expertise in other fields of business economics (Caian, 2012).

Still, a surface investigation of the national consulting firms' scope and focus presentations (available on their websites) reveals the fact that the majority of them include a wide range of economic analyses among the services they provide. In this respect, the appendix concentrates the main ten services assumed by thirty of the largest national business consulting firms.

Procedure

The present study intends to explore the consultants' response to a specific demand of a medium enterprise which had an internationalization project, but whose management did not possess the required competencies to properly assess the economic and risk implications of the undertaking. The firm activates in the metallurgical industry – steel pipes commerce - and has a twenty-year experience on the national market. The recent competitive drivers of the global market made the management understand that staying local may become a menace for the firm development and even survival. This is why, as a first step

¹ Member of the European Federation of Management Consultancies Associations, FEACO Brussels, and the International Council of Management Consulting Institutes, ICMCI.

towards going international, the management considered a solid economic analysis of the project as a useful tool to carry forward.

In the first phase, between October 12 and October 20, 2013, in order to economically substantiate its internationalization project, the firm's management collected information about the most important national business consulting firms in terms of size and turnover. The information was gathered from the Romanian companies database (<http://www.listafirme.ro>). Thirty firms were selected for further consideration.

In the second phase, inquiries were sent to twelve top business consulting firms with a view to contract one of them for the economic analysis elaboration. The inquiry underlined that a sensitivity and risk analysis were considered of great importance, as a previous exploratory research showed its pragmatic value in assessing the risks incurred by the project. Each of the contacted firms received a full description of the organization and was invited to send its offer. Some of them (three out of twelve) asked for other technical details while the rest of them answered within three - four days, ensuring the management that they can provide a "full-service analysis". Based on the professionalism criteria, two business consulting firms were selected and contracted to deliver a complex economic analysis of the internationalization project. After signing the contract, the firms were supplied with further financial data and documents of the organization. The economic reports were returned within two weeks from the moment the entire documentation was put at the disposal of the consulting firms.

In the third phase, the economic analyses were read. As the reports were very shallow and their conclusions were out of the context, two more firms were contacted and the cycle was reiterated. The results were very similar with the previous ones. As a consequence, a local subsidiary of a well-known international consulting company was contracted to elaborate the analysis. After receiving the final analysis, comparative evaluations were made in terms of the complexity and feasibility of the reports. Also, it is worth mentioning that similar fees were paid to the selected firms.

Discussion

Although it was not meant as an experimental trial initially, the firm's internationalization endeavor can be deemed as a first step towards a pilot study on two main research problems.

The first one refers to the distinction between the alleged and the real level and scope of the expertise affirmed by the Romanian business consulting firms. As specified in the procedure section, four of the top national business consulting firms were contracted for delivering a pertinent economic analysis for the organization's project of internationalization, but the returned reports were superficial and contained short recommendations which were not well-grounded in the objective data of the undertaking. Moreover, although sensitivity and risk analyses were pointed out to be considered in the economic analysis, none of the consultants addressed these issues. This situation appeared in spite of the fact that previous discussions regarding were carried out and the consultants guaranteed their inclusion in the analysis algorithm. As an example, the following table illustrates the differences between the key points of the economic analysis of a project and the actual received reports.

Table 1. A comparative view on the expected and the provided services

No.	Key points in the economic analysis	Issues approached by the national business consulting firms' reports	Issues approached by the local subsidiary of the international business consulting company's report
1.	Project rationale		X
2.	Macroeconomic and sectoral context		
3.	Project alternatives	X	X
4.	Demand Analysis	X	X
5.	Identification of costs and benefits	X	X
6.	Use of shadow prices		X
7.	Sensitivity analysis		
8.	Risk analysis		X
9.	Financial and fiscal sustainability	X	X
10.	Environmental sustainability		X
11.	Distribution analysis		
12.	Benefit monitoring and valuation		X
13.	Overall assessment		

As shown in the table above, the reports provided by the national business consulting firms were widely incomplete and did not include two main divisions of the economic analysis – sensitivity and risk analysis, although they were explicitly required. Moreover, after the reports were received, additional information on the two components was requested by the organization's management. All the national consultants answered that the sensitivity and risk analysis was comprised within the reports, either in the costs and benefits

section, or in the project alternatives, a fact which proved to be unreal. Unlike the contracted national business consulting firms, the local subsidiary of the international business consulting company included in its report a highly professional risk analysis and mentioned that for the sensitivity analysis an extra-charge would be applied (as they would have to resort to their foreign colleagues' expertise).

The second research problem refers to the ethical approach of the business consulting firms towards SMEs' demands for professional and effective services and products. With a view to create professional social images, many firms from the consultancy industry provide brushy descriptions of their services, assuring their clients of their proficiency and expertise. Furthermore, even in the course of the preliminary discussions before the agreement settlement, the firms gave an explicit assurance that they had a high level of expertise in all the sectors of the economic analysis, a fact which was infirmed by the actual outcomes. The claim of being widely specialized was not supported whatsoever by the firms' deliverables and consequently the dialectic between the profit and the ethic logic of consultants remains may be questioned.

In this light, building "organizations of integrity" in a very dynamic and competitive business arena can be regarded as a utopian way of approaching reality. Still, starting from the premise that ethics is first of all an expression of self-respect, it can be assumed as a behavioral value and landmark for the businessman acting in a social system. In order to preserve an outward ethical behaviour the inward ethical behaviour has to be coherent and consistent with the objective ethical standards, settled beyond contexts and subjective factors.

Conclusions and limits of the study

The purpose of the present paper is to highlight several directions and prerequisites for the future research on business ethics, on the imperative for business consultants and firms to achieve greater savvy and literacy in their field of interest, on the mental shift of SMEs managers who have become aware of their organizational need for professional services. Unfortunately, although claimed, but not proven, the economic analysis proficiency of the approached business consulting firms is liable to discourage such endeavours.

Also, the present work strives to point out a growing tendency of the profit rationality to outweigh the ethical rationality. Individuals, groups, firms, and

even societies find it very difficult to assume their limited knowledge and acumen, especially when financial rewards are at stake. The economic egoistic behaviour is frequently a counterpart to ethics within a firm. This type of behaviour is the source of value and of economic efficiency for the firm and for all its entities. Even the business consulting firms are prone to satisfy and deliver the proper answer to the increasing interests of their stakeholders and the challenge of harmonizing interests can be approached only when a firm is really efficient. Still, the value creation-distribution should have an objective logic and should be applied by considering the satisfaction of the entire social and economic system.

All in all, each of these research directions may become fruitful if larger samples and appropriate methods are used. Moreover, studying the aforementioned variables in other research contexts would provide relevant data about the openness and awareness of SMEs managers to contract experts for assessing their projects, about the business consulting firms' response, about the importance of complex economic and risk analyses in the equation of the firm's strategic planning.

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