DEFINITINING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

Keywords

Performance,
Financial performance,
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Abstract

The position of small and medium businesses in stimulating global economic progress has interested researchers in recent decades. Small and medium businesses account for the transition to a market economy playing an important part in innovation, income generation and dynamism in economy and employment. Depending on the approaches and purposes of the enterprises performance and its indicators have been variously classified. Furthermore, performance measurement systems are important tools as they provide enterprises with the necessary information to design, control and achieve their goals. The objective of this paper is to collect and analyse a set of performance definitions, indicators and measurement systems. The literature review is based on the research gathered from databases such as Emerald Insight, Elsevier and Google Scholar. The research papers cover the years from 1991 to 2018. The findings on the definitions of performance, its indicators and measurement system will be employed in the next stages of the research process.
INTRODUCTION
A thriving small and medium entrepreneurship sector is made up of providers of a prosperous and strong economy. Small and medium enterprises (SMEs) have a significant weight in the growth of the economy of a country. SMEs contribute to economic progress in numerous ways: by providing job opportunities for rural and urban areas, supporting required sustainability and innovation, supplying products and services in the economy as a whole. A large number of people rely on the small and medium enterprises and most of the current larger enterprises have started as SMEs. There are several characteristics that differentiate SMEs from large size enterprises and are related to their uncertain nature, innovation and evolution (Harrison, 2011).

The level of development in each country has also an impact on the small and medium entrepreneurship sector. The difference among contributions in terms of economic results and the employment rate in SMEs in low and high-income countries is noteworthy. SMEs in high-income countries account for more than 51 percent of GDP and 57 percent of employment, while in low-income countries, this figure slightly rises above 20 percent of both GDP and employment rate. However, leading providers of economic dynamism are the unregistered microenterprises that comprise the “informal sector” which has a greater share (Davis, 2012). Performance in this regard (on the macro level) is the factor that defines the contribution level of SMEs to the economy. Consequently, this phenomenon is another point that requires more attention to the performance of SMEs on the micro level as well.

METHODOLOGY
The literature review looked into the databases of Elsevier, Emerald Insight and Google Scholar from 1991 to 2018. The research utilized the following terms: “performance”, “financial performance”, “non-financial performance”, “small and medium enterprise performance”, “performance measurement systems”, “EFQM model”. Following the systematic review 49 articles were selected which matched the objectives of the research.

Apart from the general review on performance and its indicators other sectors such as manufacturing, services, healthcare, hospitality, construction sector have been covered and measures have included financial, process, market and service performance. Finally, measurement models such as the Malcolm Baldrige model, the Balanced Scorecard model or the EFQM model have been examined and explained. The subsequent structure of the paper comprises literature review, results and conclusion.

LITERATURE REVIEW
Classification of SMEs
An enterprise is defined as any legal entity possessing the right to economic activity and to conduct business on its own, for example to enter contracts, own property, sustain liabilities and open bank accounts. Enterprises are classified in different categories according to their size based on criteria such as the number of employees and annual turnover. Small and medium-sized enterprises (SMEs) employ fewer than 250 people and their annual turnover does not exceed EUR 50 million. SMEs are further subdivided into micro enterprises with fewer than 10 employees and an annual turnover and/or annual balance sheet total less than EUR 2 million and small enterprises with 10 to 49 employees and an annual turnover and/or annual balance sheet total not exceeding EUR 10 million. This indicator is measured as the number of employees in manufacturing (European Commission, 2009).

Performance
In general terms, performance is a prominent achievement in one specific field of activity. The idea of performance defines how a person or groups reach a final conclusion to accomplish a goal. Referring to Yucesoy and Barabási (2016), performance represents the totality of objectively measurable achievements in a certain domain of activity. The term "performance" is applied in several areas: economic, financial, technical, sporting or social performance. Etymologically, the word “performance” is derived from the Latin "performare" which means to accomplish an activity that has been ordered. Its current meaning origins from the English word "to perform" which means to implement something that requires a certain ability or skill. The term "performance" is often used to evaluate the work finished by an enterprise and to measure competitiveness.

In literature there is not a common perception of the concept ‘performance’ and particularly of business performance. The definitions of this concept may be abstract or general, less defined, or clearly defined (Achim, 2010). Business performance defines the extent to which the target task of the business was accomplished in comparison to the final output at the end of a business period (Yıldız et al., 2014). Business performance can be described depending on the
success level of the firms in fulfilling their objectives. On the enterprise level performance is a multi-dimensional concept which consists of integration of marketing, overall management, accounting, economics, sociology and psychology (Kennerley and Neely, 2002). Fielden et al. (2003) consider that performance is evaluated according to the achievement of organizational goals throughout its evolution in terms of the effectiveness of its human resources, supplier performance, product and services quality customer and markets and other financial factors. Measuring the performance of the firm is an important activity that underpins the strength of any business. The performance of the company is usually evaluated from different points of view. In literature financial and non-financial measures are the most mentioned ones. In order to make efficient strategic decisions for enterprises and ensure long-term success both of these measures are used at the same time. In order to accomplish organizational goals, the performance measurement system is the tool to provide the enterprise with the necessary information to plan and direct its processes. There are several performance measurement systems and a wide range of financial and non-financial factors (Maisel and Cokins, 2013; Al-Hakim and Lu, 2017).

In terms of financial success, performance measures can be based on return on profits, investment, turnover or number of customers (Wood, 2006). Performance has usually been measured from a financial perspective. The most frequent measures that are applied are efficiency, growth and profit. This approach is considered relatively subjective due to its short-term nature and in compliance with the strategy (Reijonen and Komppula, 2007). Non-financial indicators are better index of forthcoming economic performance than accounting measures and they are useful in appraising and encouraging managerial performance. (Anning-Dorson, 2018; Reijonen and Komppula, 2007, Al-Ansari et al., 2013). The performance of the firms can be evaluated from the view point of the reviewer, no matter if this is a customer's or shareholder's view point (Ruiz-Carrillo and Fernández-Ortiz, 2005). Along with this approach each industry has its own set of definitions for performance.

a. Performance in the Service Sector. IT services firms. In this sector performance metrics have two directions: quality related and business related. Web services firms consider the speed of the delivering a service as a quality of the performance factor. These factors are defined as response time and throughput. The business related factor is the execution cost that occurs while the requester pays a fee for using the services (Maheswari and Karpagam, 2018). Network service providing enterprises have their own field specific definition for key performance indicators. According to Popoola et al. (2018) these indicators are call setup success rate, stand-alone dedicated channel congestion, drop call rate, traffic channel congestion.

Delivery of industrial services firms. In the delivery of industrial services performance is classified according to classification criteria such as service and performance dimensions and kinds of delivery. These dimensions provide an assistance to determine which types of performance meters are suitable for each characteristic of the service delivery. Meier et al. (2013) mention the following performance measures which are used in service delivery: First time fix rate, operating time, process stability, on time delivery, mean time to problem solution, costs, revenue, mean time between failure, mean down time, travel time proportion, resource utilization, rescheduling quota, reactivity, acceptance rate.

Service franchise firms. Service franchise firms also compare their level of performance against other competitors using groups of financial indicators consisting of revenue, net profit, year-over-year increases in net income, and number of franchise contracts. Nevertheless, non-financial performance measures such as customer satisfaction, employee satisfaction, and franchisee’s satisfaction are the indicators that provide a comprehensive understanding of performance (Lee et al., 2015). Wilden et al. (2018) also have a similar approach to measure the performance of services. Generally, he focuses on two measures, customer satisfaction which triggers customer loyalty and financial performance which is analysed according to the results of profitability, sales growth, growth in market share, ROCE, position in the market and market share figures.

b. Healthcare sector. Healthcare sector has its own way of performance appraisal. The main issue in this sector is the perception of the customers towards the quality of service provided. Thus, performance is measured according to the indicators that focus on this aspect. Mohebifar et al. (2016) opted for indicators such as reliability, tangibility, assurance, empathy and responsiveness.

c. Construction Sector. Horta and Camanho (2014) in their research claim that traditional performance measurement approach mostly focuses on financial indicators such as profitability, financial autonomy, liquidity and productivity restrict the evaluation effectiveness of
performance. They propose that enterprises in the construction sector become more complex as the application of non-financial indicators including internal business processes, customer satisfaction, and innovation and learning are of great importance.

d. Manufacturing Sector. Despite their relatively subjective feature, operational performance metrics such as cost, quality, reliability, flexibility and speed are applied when comparing the performance of enterprises against other rival firms (González-Benito, 2005). These metrics are considered to be more frequently mentioned in the literature for manufacturing enterprise performance. (Flynn et al., 1995). Amrina and Vlisi (2015) place key performance measures in three categories: economic, environmental and social. Furthermore, each category comprises several sub-indicators. For the economic category these indicators are: inventory cost, labour cost, material cost, product delivery; the environmental category includes raw material substitution, air emission, energy consumption, fuel consumption, material consumption, noise pollution, non-product output, Water utilization and land utilization; the social category comprises accident rate, employee involvement, labour relationship, gender equity, occupational health and safety, training and education. In another branch of manufacturing industry producing craft-based products performance is assessed along two main dimensions too. The financial dimensions were ROE, ROI, ROS, profitability, while the non-financial dimensions consist of autonomy, ability to balance work and family, employee’s growth, customer satisfaction, sales growth, market share, job satisfaction (Ab Rahman and Ramli, 2014).

e. Hospitality sector. Initially, while doing research on performance, common measures such as for instance, profit, costs and market share appear mostly in every sector of the economy. (Avci et al., 2011). Conversely, several researchers have suggested that especially in the service sector the approach to performance should not be one-sided (Brignall et al., 1991; Kaplan and Norton, 1995). Additionally, as the performance of enterprises in hospitality sector is mainly based on human capital and customer satisfaction, the utilization of these factors brings more efficient outcomes (Avci et al., 2011), i.e. non-financial indicators such as the internal business process efficiency, employee satisfaction, innovation and customer satisfaction. By integrating these indicators firms can concentrate on long-term goals and have the insight of “big picture”. (Kaplan et al., 1996; van Veen-Dirks and Wijn, 2002). Morrison and Teixeira (2004) suggest that the most important performance indicators are annual revenue, guest satisfaction, bedroom occupancy rate and break-even point.

Models for Business Performance
a. Business Performance Measurement System. Several researchers advise measuring business performance by the business performance measurement system, which is an imperative instrument for various research fields, especially in business and social science studies (Zulkifli and Perera, 2011). This system examines and inspects every factor that influences a firm’s business performance. The main purpose of the system is to concentrate on studying the organization’s functions at high and low levels of activity which can also be applied effectively to assess the performance of SMEs.

b. Malcolm Baldrige Model. While the concept of self-assessment and continuous improvement was gaining prominence among the organizations in the late 1980s, U.S. Commerce department established the Malcolm National Quality Award. This award motivated the organizations to control the quality of their operations, processes and improve their benchmarking activities. Through the guidance of Malcolm Baldrige model enterprises can identify their weaknesses and strengths, from several perspectives at the same time: leadership, operations, strategic planning and labour force criteria (Sozuer, 2011).

c. Balanced Scorecard model. The balanced Scorecard model was proposed by Kaplan and Norton in the beginning of the 90s. This model assists the companies to follow their strategy and vision with a framework consisting of four main standpoints. One branch of the model consists of financial factors which focus on short-term results. The other three perspectives are customer satisfaction, internal business process and learning and growth assembled together to allow enterprises to achieve competitive advantage and become innovative (Wongrassamee et al., 2003). Maisel and Cokins (2013) defines the four perspectives as follows: financial performance depends on satisfying customers as a result of the effective business process, which in turn requires organizational capabilities, competencies and technology infrastructure.

d. European Foundation for Quality Management Model. Following the trend of continuous improvement and quality management concept, European Foundation for Quality Management is the next award that was proposed in early 1990s. The main idea behind this model is that results and processes are connected with each other systematically. The system delivers a holistic view, a combination of strategy,
leadership, human capital, proficient employment of resources, and processes and results that are clearly defined (Sozuer, 2011). EFQM model is an optional tool that serves as a guide for the companies and grants the companies with the award that are successful in implementing the guidelines to achieve business excellence (Kapiki, 2012). Rather than guaranteeing maximum profit and low cost, business excellence is a rather multifaceted methodology considering economic, technologic and social sides of the performance (EFQM Leading Excellence, 2012). Notwithstanding the type of the chosen model to examine the business excellence, business innovation, human capital, leadership, vision and strategy, customer satisfaction business ethics, sustainability and economic outcome are aspects to be taken into account (Ghicajanu et al., 2015). EFQM Model identifies the factors under two groups: enablers consisting of five criteria: leadership, policy and strategy, people, partnerships and resources, processes; and results of four criteria: people satisfaction, customer satisfaction, impact on society and key performance results (Kapiki, 2012).

Leadership – Lado and Wilson (1994) define leadership as “managerial capability”.

Policy and Strategy – EFQM model intends to validate the business strategy as an instrument of combination and management of all business competencies.

People – this section focuses on the capability of the organizations in managing human capital, their knowledge, training and learning facilities.

Partnerships and Resources – resources comprise the core of the enterprise facilities and assets, while partnership is evaluated according to how enterprises establish and preserve their relations with alliances out of the enterprise.

Processes – planning, supervision and development of the processes are investigated according to their compliance with policies and strategy.

Customer Results – This criterion determines the image of the firms in the customers’ perception. Thus, it measures the satisfaction, loyalty and quality level of the services offered by the enterprises.

People Results – In terms of gaining sustainability and competitive advantage, human capital is the core trigger of the organizations. Therefore, it is crucial to measure and boost employees' level of satisfaction, involvement in the activities and motivation.

Society Results – are referred as the social responsibility of the organizations towards the society. This criterion examines to what extent the performance of the enterprises contributes to social welfare, either negatively or positively.

Key Performance Results – Key performance results are analysed based on the gathered data that covers financial and non-financial aspects (Ruiz-Carrill and Fernández-Ortiz, 2005:).

RESULTS

Performance is a comprehensive and debatable notion as it has various implications in different contexts (Carter, 1991). Figure 1 shows the occurrence of financial indicators measuring performance in the examined literature. Profitability and sales growth are the most extensively used indicators by more than twenty authors. There are indicators such as effectiveness, cash flow, liquidity, sales margin, growth, ROE, pre-tax profit growth, total gross profit, gross profit per room, stock performance, CAPEX, leverage, autonomy which were mentioned only once.

Figure 2 presents the occurrence of non-financial indicators measuring performance. According to the figures customer satisfaction is the leading indicator to define performance and employee satisfaction followed by quality of products and services.

It appears that there is not an exact fixed definition for non-financial indicators. Compared to economic factors non-economic factors have a wider range of diverse definitions. Depending on the sector of the industry each enterprise has its own specific characterization of performance.

The performance concept is flexible, relying on the approach and purpose of the observers. Some researchers have different perspectives even for the indicators which use the same term. The following table (Table 1) contains the list of indicators that have been interpreted in both dimensions.

CONCLUSION

This study is a first step of a PhD research focusing on the impact of internal business environment factors in business performance of SMEs in Azerbaijan. Understanding the state of the art of SME’s performance will help the research as follows.

Based on the literature review performance will be defined for enterprises as the achievement level of organizational goals. It means that in the research of a business performance the goal of the SME’s will be analysed as a first step.

In their book Maisel and Cokins (2013) state that data show better performance among companies that employ performance metrics more frequently, and poorer performance for those that never or rarely leverage metrics to improve performance.
The goal of performance indicators is to drive improved results. Supported by the literature in the field we can say that between the years 2004-2018 both financial and non-financial indicators were in focus for measuring performance. Based on these results the next question of the further research will be what kind of indicators SME’s in Azerbaijan use to measure performance. Apart from analysing the selected performance indicators the focus will be on employee and customer satisfaction indicators and the interaction with the human capital as a driver of performance. In this study, performance definitions and indicators were examined thoroughly from different aspects depending on the sector of industry and measurement models. Amrina and Vilsi (2015) divide non-financial factors in manufacturing indicators into three classes: economic, environmental and social. This approach complies with the ideology of Economy for the Common Good, which promotes the economic system that is based on the values that support common good. The Common Good Balance Sheet (Economy for the Common Good. 2018, December 12), an economic model for the future, brings an ethical and sustainable economy. The Common Good Balance Sheet is a holistic tool, which can be used to optimize economic resilience as well. The research will raise another question as to how receptive SMEs are about common goods when measuring their performance.

Finally, EFQM Excellence Model will be considered as the main framework as it is one of the newest and inclusive tool that offers a complete view of the organization; it allows the managers to determine which methods and how many tools can be applied to measure performance.

Biographical sketch

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### Annexes

Table 1. *Indicators with Two Dimensions*

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<th>Indicators</th>
<th>Authors which defined them as financial indicators</th>
<th>Authors which defined them as non-financial indicators</th>
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*Source: Created by author based on the reviewed literatures*

Figure 1. Occurrence of financial indicators measuring performance

*Source: Created by author based on the reviewed literatures*
Figure 2. Occurrence of non-financial indicators measuring performance

Source: Created by author based on the reviewed literatures