

# THE “EFFECTIVE SME” IN A MULTIDIMENSIONAL APPROACH

Review  
Article

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## Abstract

*For many years, efficiency was primarily reduced to the financial dimension. The study of this type of efficiency aimed to edge the profitability and market share expected by the owners to ensure the sustainability of the company. The following paper aims to define SME efficiency in a wider and more relevant approach. A few years ago, the exclusive importance of the financial dimension shifted, and a multidimensional, multi-aspect efficiency came to the fore, which also affects social and environmental dimensions. Other actors appeared, and the concept of efficiency was reconsidered. Today, the sustainability of companies no longer depends only on their financial aspects, but also on their behavior towards the actors concerned. Therefore, the responsibility of enterprises extends not only to the owners but also to many other actors, such as employees, customers, suppliers, government, etc. In this context, the concept of “global efficiency” appears.*

## INTRODUCTION

After the change of regime in the 90s, small and medium-sized enterprises played a prominent role in the operation of the Hungarian economy. Several international and domestic research have sought and are currently seeking the study and development of this sector. However, as they were 20 years ago, despite their economic weight, their performance and efficiency lag behind large companies, which affects the country's performance and the population's standard of living.

For many years both the European Union and the domestic government have recognized the importance of this sector and have developed a special strategy for strengthening them by introducing several measures. Their main objective is to increase the competitiveness of SMEs and to catch up from their disadvantage, especially by helping their financing. However, the question arises: is external help sufficient, or SMEs should search for an internal solution to improve their efficiency? What are the key factors that affect their efficiency?

IT and technology development made a significant impact in the world that has radically changed the way businesses operate. These incredible changes are extremely recent, affecting economies for 10-20 years. Thus, an efficient company 20-30 years ago is no longer considered effective, as new operations, expectations and challenges have appeared.

This study aims to define the key factors and a new approach to the "effective SME", taking into consideration the specificities of our modern world.

### DEFINITIONS OF EFFICIENCY AT THE ENTERPRISE LEVEL

In international literature, "efficiency" is often found under the word "performance". The word performance is largely based on the concepts of efficiency and effectiveness, and most of the time focuses only on the financial dimension.

According to Neely, Gregory, and Platts (1995), effectiveness means meeting corporate goals, while efficiency means the economy of resource use related to achieving goals. Effectiveness and efficiency can also be interpreted as the external and internal dimensions of performance. Later, Bouquin (2004), further developed this concept. In Figure 1, the interpretation of the French economist can be seen.

According to Bouquin (2004) performance contains three dimensions: economy, effectiveness, and efficiency. Economy (*économie*) is based on the purchase of resources at the lowest possible price. Efficiency (*efficience*) is when we can produce a

maximum product or quantity of service with a certain amount of resources. Finally, effectiveness (*efficacité*) is the measure of how well the objectives have been achieved.

However, the most accepted interpretation of efficiency in economics: efficiency is the ratio of useful output to total input. In formula: Efficiency = Output/ Input.

That is, where a business can produce the best results possible with less effort possible. (Kökényesi and Andriska, 2002)

According to the above-mentioned analysis, there are two important components for corporate efficiency. On the one hand, achieving the maximum value or improvement of the output and input quotient, and on the other hand, the degree to which the objectives are achieved. It was Szűts (1983) who highlighted these two aspects of efficiency, where the goal is understood as a qualitative achievement and the value of the profit-and-expenditure relationship as a quantitative component. In his opinion, "*we are talking about an effective activity only when the target has been achieved and this has been achieved with a certain economy*" (Szűts, 1983, p.228.).

### UNDERSTANDING OF EFFICIENCY ON A GLOBAL SCALE

The Pareto efficiency principle is related to the economic efficiency applied in economics, according to which "*in economic terms, the economy produces efficiently if it is not possible to increase the well-being of no one else without putting someone else in a worse position*" (Nábrádi and Pető, 2009, p.3). Economic efficiency means an economic state in which all resources are optimally allocated among individuals to best serve them while minimizing waste and loss of efficiency.

According to Solt (1996), if we focus on an actor in the economy, efficiency can be easily understood at that level, since the best result achieved with limited resources can be considered effective. However, it is no longer so simple at the community or social level since limited resources must be optimally allocated to all actors in society.

In economy literature, economies of scale determine how a company can be efficient. With economic calculations, including the cost minimization calculation, the bigger a company is, the more efficiently it can minimize its costs. Furthermore, by being "big", it also means power, which gives the possibility to dominate suppliers and work with especially favorable prices. However, if we observe the impact of multinational enterprises on a global level, it does not appear to be a positive operation in the long term, since the negative consequences of this operation, which

lead to a disturbance in the balance, can already be felt. Thus, we can ask the question, what is real efficiency? What is efficiency from a broader perspective, where all the actors of the economy are considered, and a global balance can be reached?

### **CHANGES IN THE WORLD**

The development of info-communications in the last 10-20 years has transformed the operation of our world into a revolutionary one.

It is almost possible to say that there is no longer distance between economic operators. Whereas in the past, many connections were impossible or cumbersome due to distance, today the world is connected, and distance is not an obstacle anymore. However, the explosive increase of relations between the world's economic operators also gives a kind of vulnerability because each actor depends on the other, and one actor significantly affects the other. The perfect proof of this is the events of the last two or three years, which proved the vulnerability of nowadays world.

Therefore, in our modern age, the efficiency of an enterprise can only be interpreted according to its place and role in this whole system. Whereas in the past the study of efficiency mainly covered the financial dimensions, because economic and social actors were characterized by simpler relationships, today its impact on society, the legal environment, and other environmental factors cannot be ignored. Hence, to examine the real and complete efficiency and competitiveness of enterprises, it is necessary to observe several aspects in a complex way.

Since every SME is part of the economy, how can economic efficiency be achieved at the corporate level?

### **BALANCE IN ECONOMY**

To reach a state of balance in the economy is an extremely complex task, as it should ideally affect all actors and a state of equilibrium should be reached for all actors: small or large companies; local and foreign businesses, states, municipalities, employers, employees, households, children, etc. The basic condition for this is that each actor is aware of his value, his role, and importance, as well as the role of the other actors. Mutual respect and acceptance are important. It is also the main point that everyone is aware of their place in their state of balance. Of course, it is not enough to be aware of them, but everyone should actively do their part while respecting them.

Balance is also when we don't go beyond the limits because it always involves balance disorder. When a worker goes beyond his responsibilities, he performs the task of someone else, which has the

consequence that he does not perform his own as it should, thereby shaking the state of equilibrium. In a state of balance, boundaries and powers are very clear, everything has its place and respect, and one side or part is not favored over the other. Yet balance is not a rigid, but a dynamic, constantly changing state. Because balance is life, and rigidity sooner or later means death.

But from the point of view of a business, what is the exact task, role, and boundary, with which it can move forward in balance? It should be considered very important because a business can achieve the greatest efficiency by achieving the above-mentioned balance.

### **„GLOBAL EFFICIENCY“**

In the French literature, the concept of "global efficiency", also known as "multidimensional efficiency", appeared (Berland and Dohou, 2007; Issor, 2017), which involves a holistic understanding of efficiency in a synthetic approach. It examines multidimensional coherence and causal models that connect different factors. The essence of this approach is that it examines the impact on efficiency not only in terms of the financial aspect but also of the responsibilities related to a company including non-financial aspects as well.

### **NON-FINANCIAL ASPECTS**

The analysis of non-financial aspects becomes a very important target to take into consideration the efficiency in a complex way. It can be based on the level of product quality, the degree of customer satisfaction, employee motivation, or the degree of innovation that the company demonstrates and that directly affects its profitability. This goes beyond the interests of shareholders – which is the target of financial performance – to integrate those of other parties who interact with the company, including customers and staff (Guennoun & Chtrourou, 2016).

It is capital to take into consideration the stakeholders' interests to achieve the most efficient work because the perception of performance changes from the point of view of managers, employees, customers, etc. Performance for a manager may be the profitability or competitiveness of his company; for an employee, it may be the work climate; and for a client, the quality of the services rendered (Saulquin & Schier, 2007). However, it would be wrong to say that financial performance has given way to non-financial performance; the conception of performance is not transformed but broadened to accommodate a greater variety of practices (Giraud – Saulpic– Naulleau– Delmond & Bescos, 2005).

## PYRAMID OF RESPONSIBILITIES

In this approach, it is therefore important to clarify exactly what are the responsibilities that belong to businesses, which, on the one hand, affect the efficiency of their activities and, on the other hand, also affect the efficiency of the economic and social level and that at a global level.

In previous studies, Mercier (2004) and Carroll (1991) have illustrated the responsibilities of businesses in a pyramid figure, where the pyramid is based on economic responsibilities, then based on legal, ethical, and ultimately philanthropic responsibilities.

These responsibilities are illustrated in Figure 2, where, despite the multidimensional approach, economic responsibility, is still the fund and the most important responsibility of a business.

By economic responsibility, the author means that a company is an organization whose purpose is to produce goods and services that meet the needs and desires of society and sell them profitably, ensuring the enterprise's survival and investors' interests. The state, through the law, determines the legal framework within which the enterprise must operate. Therefore, it is an important responsibility of enterprises to comply with these rules (legal responsibility). Ethical responsibility means compliance with rules that are not written down in law but appear as an expectation at the social level and its main purpose is to respect the rights of different actors. Finally, in fourth place is philanthropic responsibility, which is aimed at promoting people's circumstances, abilities, and opportunities.

Savoie and Morin (1994) complement the multidimensional aspect of organizational efficiency with the value and importance of the members of the organization (and their interactions).

That said, each responsibility defines a dimension, which plays an essential role in improving the performance of companies, in other words, the dimensions of performance can be compensated to achieve the objective of sustainability of the company.

The analysis of small and medium-sized enterprises according to this approach seems to be a priority since understanding the real problems and achieving an 'effective and competitive enterprise'.

## CONCLUSIONS

The multidimensional efficiency theory developed by French researchers in the study of the literature opens revolutionary avenues for research into the effectiveness of SMEs. I consider it an essential way to understand the modern economy and its

actors because a much broader examination of their effectiveness is necessary than we have done before. In addition to the financial dimension, other important dimensions, and the relationships between them are also examined. This new method, full of possibilities, therefore, brings us closer to our understanding of our modern world, as due to technological innovations and globalization, the focus on efficiency at the global level becomes a fundamental issue. At the same time, this method requires complex and multifaceted analyses, and accurate knowledge, which can be implemented thoroughly and in-depth.

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**LIST OF FIGURES**

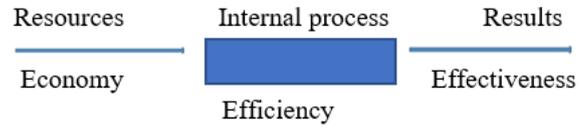


Figure 1:  
**Three dimensions of performance**  
*Source: own editing based on Bouquin (2004)*



Figure 2:  
**Global responsibilities of enterprises**  
*Source: Own editing based on Mercier (2004) and Carroll (1991)*