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Performance measurement of small scale enterprises: Review of theoretical and empirical literature

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Abstract
There is no single over reaching model to measure the performance of small scale enterprises perhaps due to multi-dimensional aspects of performance. Consequently, performance can be measured using various tools depending up on the objectives that firm pursue. More specifically, hybrid measures (financial and non-financial measures) of performance is widely recommended tools by most scholars to incorporate its multi-dimensional aspect and to overcome a pitfalls of single measure of performance.

Keywords: performance, measurement, small enterprises, etc.

1. Introduction
In empirical literature of small business economics, various authors suggested that the performance of small business enterprise has been measured using various performance indicators. Therefore, in this extensive empirical literature review, we try to address the questions of what is performance and how performance of small scale enterprise is measured. A comprehensive measure of performance indicators suggested by different authors has been clearly discussed for more understanding purpose.

2. What is small scale enterprise performance?
In small business economic literature, an approach to define and measure small firm performance remains controversial among the scholars, arguably due to the fact that, small firm performance measures are multi-dimensional (Wilcox and Bourne, 2003; Tzelepis and Skuras, 2004; Wood, 2006; Simpson *et al*., 2012) [26, 14, 16, 27].

However, Sandberg (2003) [25], attempt to define small business performance as ability of small business to contribute for jobs and wealth creation through business start –up, survival and growth.

Scholars also try to describe business performance in terms, how organizational objectives are well achieved (Jarvis *et al*., 2000; Wood, 2006) [36, 16]. Business performance is assessed by measuring the success or failure of an organization in achieving its goals and can therefore be defined in a number of ways. Thus, Wood (2006) [16] and Chittithaworn *et al*., (2011) [10] argued that Performance of the firm can be described as the firm's ability to create acceptable outcomes and actions. Similarly, Komppula, (2004) [33], described performance firms from the dimension how the firm is successful and use the performance and success interchangeably. Moreover, it is also evident that Small firm performance termed to be the firm's success in the market, which may have different outcomes (Alasadi, 2007; Chittithaworn *et al*., 2011 and Emmanuel, 2013) [34, 2].

Alasadi (2007) [34], on his study, critical analysis and modeling of small business performance, confirms that growth of small firms synonymous with success. Similarly, Wiklund and Shepherd (2005) [24] and Blackburn *et al*. (2013) [35] noted that firm growth as proxy measure of small firm performance.

Moreover, performance of the firm can be described as the firm's ability to create acceptable outcomes and actions (Wood, 2006 and Chittithaworn *et al*., 2011) [16, 10]. Similarly, Komppula (2004) [33], described performance firms from the dimension how the firm is successful and uses the performance and success interchangeably. Moreover, it is also evident that Small firm performance termed to be the firm's success in the market, which may have different outcomes (Alasadi, 2007; Chittithaworn *et al*., 2011 and Emmanuel, 2013) [34, 10, 2].

Gill and Biger (2012) [3], on their study of barriers of small firm growth evidenced that growth of small firm is measured (Increase in sales over the last three years, Improvement in overall performance over the last three years and Increase in market share over the last three years), which supports the idea that performance, growth and success are alternatively used in measuring firm performance. Furthermore, Alasadi (2007) [34], on his study, critical analysis and modeling of small business performance, confirms that growth of small firms synonymous with success. This is due to the fact that as a firm grows unemployment rate reduced and increases number of products and services offered to the society. Some studies considered growth as proxy of small firm performance (Wiklund and Shepherd, 2005; Blackburn *et al.* 2013) [24, 35].

To sum up, looking at various literature of small firm performance, it can be perhaps justifiable to deduce that performance of small firm is synonymous to success and growth. Thus, performance, success and growth of the firm are assumed to be synonyms due to the fact they would be measured using similar indicators, such as survival, profit; return on investment, sales growth, number of employed, happiness, reputation, and so on. Consequently, performance, success and growth of small firm can be used interchangeably.

3. How the performance of small scale enterprise is measured?

Despite the various measure of performance suggested by different authors, Cho and Lee (2005) [17] emphasized on the importance performance measurement, using proposition described as “What gets measured gets done and you cannot manage what you cannot measure”.

Performance of small firms is multidimensional its nature and should be measured with diverse parameter (Du Rietz and Henrekson, 2000; Wiklund and Shepherd, 2005; Alasadi, 2007; Rosli, 2011 and Blackburn *et al.*, 2013) [4, 24, 34, 29, 35] are to mentioned but few. this due to the fact that, there is no single over reaching measure of small firm performance because small firms may pursued multiple objectives, perhaps, performance measurement vary according to the objectives pursued (Simpson *et al.*, 2012) [27]

There is no or little consensus on how to measure performance of small firm, which best suited for particular business organization (Richard *et al.*, 2009; Jamil and Mohamed, 2012 and Simpson *et al.*, 2012) [32, 27]. Moreover, the institutional effect may drive the selection and use of specific performance measures (verbeeten and boons, 2009) [18]. Thus, Performances are variously measured and the perspective are tied together and consistently monitored from the organization’s context.

Approaches which best suits to measure small business performance, conceivably lucks universality. However, the selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process (Murphy *et al.*, 1996) [19]. Gomes *et al.* (2006) [7], claims the performance measurement is an elusive and multifaceted construct as the change brought new realities in the market place.

In views of various scholars, the use different approaches of performance measurement is suggested likely due it help to take the advantage of various approaches and minimizes shortcomings of single of measure performance of small firm.

3.1 Financial and non-financial performance measures of small firm

Financial and non-financial measures of performance includes but not limited to: profitability, total assets, return on investment (ROI), sales volume, employment size, capital employed, market share, customer satisfaction, productivity, turnover, delivery time, employees turnover and other.

In literature we failed to find, which measure is best suit in order to measure the performance of small firms. There is no empirical evidence that suggested financial measure is preferred over non-financial measures and vice versa. Most studies suggested the use of hybrid measures of performance. However, Carter and Jones-Evan (2000) [8] and Gebreeyesus (2007) [30] attempted to provide some theoretical justification, that assumed to use growth rate in sales(increase in sales), increase in capital assets and profits as more precise and potential offer more objective measurement as compared to other measures of performance of firm. however, in practice they reported these measures tends to be susceptible, problematic and not credible as firms hesitate report the true value of their sales and profit in fear for high tax burden from the government and the factors that influence one growth measure (for instance, increase in profits) may not necessarily influence another (for example, increase in employment), moreover, firms may unable to accurately report their sales and profit as they do not keep records and fixed assets could also not indicate proper measures of performance, as it could have possibility to be affected by inflationary conditions of the country hence this may leads to measurement errors and resulted incorrect inferences from the study.

Chong (2008) [20] argued that business organization could measure their performance using hybrid approach combining both financial (profit before tax and turnover) and non-financial measures (customer satisfaction, delivery time, waiting time and employees turnover). Forsman (2008) [22], also suggested use of financial and non –financial measures including the following: Sales growth Market share, Cost reduction, Operating profit ratio, Quality and productivity and Return on investment in order to incorporate multi-dimensional aspects of firm performance.

Wiklund and Shepherd (2005) [24], used financial measure of performance such as gross margin - the ratios of gross profit to sales were used as proxy performance and qualitative financial measures profit and cash flow compared with competitors on five points on five point scale. In addition to quantitative and qualitative measures of financial performance, Wiklund and Shepherd (2005) [24], used non-financial measures of performance in their study of small firm performance such as growth as indicator of firm performance that were measured as change/growth in sales and employment as proxy of performance.

Emmanuel *et al.* (2013) [2], has been used more diverse measure of performance such as: Survival, Sales volume, growth, profit margin, capital employed, numbers of employees.

Du Rietz and Henrekson (2000), has been used four performance indicators (profit, sales, number of employees and order or commission) while testing female underperformance in small firms using Swedish data. In addition to the financial measure of profit and turnover, Alasadi (2007) [34], considered owner/manager satisfaction as measure of small firm performance.

According to Blackburn *et al.* (2013) [35], small firm performance should be measures in terms of employment, turnover and profitability growth. Wood (2006) [16], measure small firm performance by return on investment, profits, turnover or number of customers.

March and Sutton (1997), argues that business firms are compared in terms of profit, sales, market share, productivity, debt ratios and stock prices. Richard *et al.* (2009) [32] focused on accounting measures of firm performance such as return on asset, return on equity, return on investment, return on capital employed and sales growth and considered these key organizational performance measures.

Moreover, wide range of literature argues that Financial and non-financial measures is used to measure the performance of firms (Perera and Baker, 2007; Chong, 2008, Richard *et al*. 2009) [39, 20, 32]. Growth as a measure of performance may be more accurate and accessible than accounting measures of financial performance (Wiklund and Shepherd, 2005) [24]. Some scholars argues, SMEs should place a greater reliance on financial measures of performance, although with increase in size there is a tendency to make more use of non-financial measures (Perera and Baker, 2007) [39].

Despite the various approaches performance measurements used in single study, there are scholars who ignoring multi-dimensional aspects and hybrid measure of performance and confined to single measures of performance. See for instance, Immayxai and Tekahashi (2010) [38] and Woldie *et al*., (2008) [5] considered only single measure such as turnover or sales as proxy measure of firm performance, Tefera *et al.* (2013) [21] used only growth in employees since startup as objective measure of small firm performance assuming other measures would result a measurement errors. Dawkins *et al.*, (2007) [31] also used only profit as the measure of firm performance.

Hybrid (financial and non-financial) measures were suggested better indicators of firm performance as it is strong enough to capture various performance approaches than single approach (Simpson *et al.*, 2012) [27] and Blackburn *et al.*, (2013) [35].

Contrary to Simpson *et al.*, (2012) [27] and Blackburn *et al.*, (2013) [35], there are scholars that revealed single measure reliable indicators business performance depending on objectives of the firm. According to Brown *et al*., (2005) [6]; Xheneti and Bartlett, (2012) [28] basic objective of the firm is to maximize profit, as the result, the performance of the firm should be largely measured based on profit.

Turnover as the better measure of small firm performance in comparison to employment size, but turnover data often lacks detail, due to the difficulties that would be experienced while collecting accurate financial data at all level of individual firms (Jarvis *et al.*, 2000) [36].

Merely relying on single measure of small firm performance will leads to wrong inferences, presumably due to the fact that, the relationship between a given independent variable and performance is likely to depend on the particular performance measure used (Murphy *et al*., 1996) [19].

Thus, Delmaretal (2003), proposed that depending on the research purpose, it is therefore, possible to select the most suitable variable to our studies. Moreover, Fadaunsi (2012), convincingly argues, most academic researchers and policy planners appears to be focused on those two measures performance: employment growth (increase in numbers employees), which addresses job concerns and sales growth (increase in sales), which addresses taxations concerns.

In conclusion, multi-dimensional approaches that includes hybrid measures (financial and non-financial measures) of firm performance has been widely used and suggested by various authors in single study to overcome shortcoming of single measure of small firm performance.

4. Dynamics of firm performance measures

The traditional performance measurement has been derived from traditional accounting measure and had been widely used as the measure firm performance Prior 1980s (Wilcox and Bourne, 2003) [26]. Gomes *et al.*, (2006) [7] noted the traditional accounting measures performance had been characterized by a cost accounting orientation which emphasized selective financial indicators such as profit and return on investment. However, the accounting measures of performance have been criticized and assumed to be inappropriate for modern organizations as its basis merely quantitative approaches to organizational performance measures (Wilcox and Bourne 2003) [26]. Arguably, these approaches received considerable criticism due to it stressing merely on financial indicator of performance. Similarly, Verbeeten and Boons (2009) [18] criticized focusing merely on financial indicator of performance as financial indicators only may leads, historically and backward looking information and causes short-run orientation and causes management frustration and resistant and result incongruent with organizational strategic priorities.

Moreover, Gomes *et al.*, (2006) [7] and Forsman (2008) [22] argued, merely reliance on traditionally measures of business performance which have been derived from the financial data alone, is under serious challenge and firms should use integrated approach both financial and non –financial measure so that the result might more convincing and reliable.

As revealed by Verbeeten and Boons (2009) [18] and Otley (2002) [11], non –financial measures of performance of the firm includes, customer measures, employee measures, quality measures, innovation and development of human capital measures.

Otley (2002) [11] noted that the financial measure of performance unavoidable at senior level in organization. However for the effective running of the organization, the financial measure alone is arguably insufficient). As cited in Kotey *et al.*, (2008) [37], the government is primarily interested in job creation, innovation and increased productivity, consequently, enterprise performance should be measured in terms of respondents to meet these and other business goals and assesses the extent to which the objective were meet by the firm I,e, respondents satisfaction with achievement of these goals (kotey, 1999).

Small Firms may pursue various goals. Perhaps there is situation when particular measure of performance is more desirable if it is priorities are more important. For instance, Accounting performance measures (return on capital employed) more intensively used if the financial performance priorities of the firm become more important (verbeeten and boons, 2009) [18]. But, measuring the business performance solely by financial indictor will not capture the complex range of objective (Jarvis *et al.* 2000) [36]

With objectives of overcoming the pitfall of traditional accounting measures, development of multidimensional framework (financial and non-financial) measure of performance has been more pronounced in recent times (Wilcox and Bourne, 2003) [26]. Consequently, over the past decades, a great deal of attention has been paid to development and use of non-financial measures (otley, 2002) [11].

Moreover, by recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small business have been adopted a hybrid approach of using both the financial and non-financial measures as in (Wilcox and Bourne, 2003; Chong, 2008) [26, 20]. This is likely due to Perceive financial performance is positively related to the use of non-financial performance measures (Verbeeten and Boons, 2009) [18].

5. Gaps and directions for the future reviews

First, the performance measures of small scale enterprises reviewed in this section are not exhaustive measures and indicators of the small firm performance. Second, our reviewed literatures are not segregated literatures review in their chronological order and are not organized time frame. Third, our review were not the specifically present the numbers of articles reviewed and key journals in various disciplines are not searched in organized way rather the journals are arbitrary searched.

Therefore, the future review on small scale enterprise performance must considered aforementioned shortcoming, so that wide ranges performance indicators will comparatively well understood.

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