Relationship Between Drivers of Performance in Smaller Firms

[1]S. Sorooshian, [2]Z. Norzima, [3]I. Yusof and [2]Y. Rosnah

[1]Department of Industrial Engineering, Science and Research Branch,
Islamic Azad University, Kerman, Iran
[2]Department of Mechanical and Manufacturing Engineering, University Putra Malaysia
[3]Department of Manufacturing Engineering, University Malaysia Pahang

Abstract: This study builds a structural model for a generic theory of business success in the SME-context, based on literature from the areas of strategic management and small business management, as well as performance measurement and on empirical evidence from experts. The paper starts by discussing the importance of SME performance study and end the writing with a conceptual model on relationship between strategic management drivers and performance of smaller firms. The prediction ability of this SME performance study is also discussed here as this research result.

Key words: Small firms · Performance · Strategy formulation activities · Strategy administration activities · Structural modeling · Empirical research

INTRODUCTION

The small and medium sized enterprises otherwise known as SMEs have been identified as the backbone of the global economy; according to Wheelen *et al.* [1] these enterprises, account for more than half of the total employment and over 80 percent of employment growth in the past decade. The increase in growth rate of the SMEs in early 2000s have been attributed to many reasons some of which are; the increasing trend in outsourcing by large firms to small firms, the relative stability of the global economy in the 1990s which also encouraged entrepreneurial activity and the emergence of new economies around the world whose ability to be competitive and become knowledge- based is dependent on the success of their small and medium enterprises [2].

The importance of small businesses to the overall economy in terms of job creation and economic growth has therefore increased the awareness on topics relating to strategic growth of small businesses amongst researchers. As important as the SMEs are to the economy, research has shown that these enterprises are vulnerable to different shock which may affect their performances and existence. For example, Metts [3] found that 95 percent of bankruptcies were filed by companies with 50 or fewer employees; this percentage indicates a staggering increase in the number of small firms that filed for bankruptcy.

Although, the secret of firm performance has long fascinated a lot of researchers, most studies have focused on large companies while neglecting the small companies. Therefore, there is a need for an increase in studies on SMEs performance in order to improve their competitiveness. The need for the SMEs to remain competitive and to produce the high quality products and services is important not only at the national level, but also at the global level where the SMEs are often the suppliers for the larger companies. On the other hand, the changes in the large companies may cause significant repercussion in the SMEs [2]. To achieve a high performance level, it has become imperative for small firms to gain competitive advantage [4]. This often results into adoption of new philosophies such as concurrent engineering, lean production and many others such as just-in-time (JIT), total quality management (TQM), benchmarking, business process reengineering (BPR) in manufacturing and service sectors [5]. The main driver behind those philosophies was the optimization of an organization's performance within its market and also rethinking of performance management systems through effective performance measurement as well as gaining competitive advantage [4].

Measuring firm performance has been and remains, a major challenge for researchers [6]. It has also been claimed that there are no secrets for SME's success [7-8], because if there were, every firm would find out what they

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Corresponding Author: S. Sorooshian, Department of Industrial Engineering, Science and Research Branch,
Islamic Azad University, Kerman, Iran.

are and they would not be secrets anymore. However, from experience while some firms succeed some fail. This study focuses on finding the secret of SMEs success and factors affecting SME's performance.

Problem Statement and Objectives: Research reveals that small companies are responsible for a high promotion of innovations in products and services, job creation and employment [1] still a lot of small businesses still fail every year.

The propensity for small business failure in the early years is well documented in literatures [9]. it is also further estimated that at a given point in time, approximately 40 percent of not failed businesses are experiencing neither growth nor decline [10]. This increase in lack of performance and its associated risk of imminent failure has reawakened interest in the issue of performance modeling. Non performance or stagnation of growth of business has a serious implication for employees and the government. Specifically, when businesses fail to perform, there is possibility that some employees will be relieved of their jobs; taxes accrued to the government will also be lost because the companies will not be able to pay tax. Therefore, knowing whether the firm is likely to perform is of paramount importance not only to the business owners but also to the employees and the government. The knowledge gained from this, may be the first step in failure predictions. The likelihood of firms' existence and performance depends on the role of managers [11]; This view was also supported by Temtamy [12] who reported that the ability of auditors to signal the probability of bankruptcy is a valuable tool for firms' survival.

One of the major economic issues in middle- east countries is non-oil exports and its increased share in middle-east economic development plans. Though, great priority have been given to small and medium industries [13]. However, evidence from Iran has shown the inability of government to successfully offer the necessary support for SMEs due to limited resources. Recognizing the importance of the SMEs, two major kinds of supports were planned by the government for Iranian SMEs. These are: educational training for entrepreneurs and managers of SMEs and financial support through long and short term loans given to start ups SMEs as well as drafting of SME development plans. These were done in a view to reduce failure of small businesses. Despite these supports from the government, it is unfortunate that the rate of failure and non performance of Iranian SMEs is alarming [13]. This shows that the supports provided by the

Government have not yielded a good result. Since the government resource in supporting SMEs is limited, Government needs to provide answer to the following questions.

- What are the CSFs that should be mentioned in Entrepreneurs trainings?
- What are the critical points that should be mentioned while trying to offer both financial and non financial support for entrepreneurs and SMEs?
- How do we reduce the risk of SME supports?
- What criteria should we set when comparing effectiveness of entrepreneurs?
- How is performance of SMEs predicted?
- How is SMEs performance measured?

It is imperative to provide answers to these questions considering the limited resources of the government and the need to have a productive support. Also, technical questions that needed to be answered include.

- What are the critical characteristics affecting performances of SMEs (a dynamic multiple-dimension performance predictor system)?
- What are the critical characteristics of a dynamic multiple-dimension performance measurement system?
- What is the generalized structured model on performance of smaller enterprises?
- What are the mediation effects?
- What is the hierarchical rank of the concepts affecting SME performance?

Answers to the above questions, will require an understanding of SMEs performance using comprehensive performance measurement. Performance measurement process determines how successful organizations or individuals have been attaining their objectives and strategies. In this process the outputs of organizational strategies and operational strategies are measured in quantifiable form to monitor the qualitative signs of an organization [4]. Considering the high failure rate of SMEs, it is also important for SMEs advisors to understand and be able to predict how the SMEs will performance especially in chaotic business environment. The main objective of this paper is to alarm the need of attention to business performance in the SME context and to identify factors affecting the small business performance and its entrepreneur's success. The specific objective of the main research was:

- To develop a structured model on performance of smaller enterprises.

MATERIALS AND METHODS

Our analysis involves two stages which are; specifying the causal relationship between the variables and the underlying theoretical constructs, this was with qualitative research tools such as observations and literature review, while the second stage of this study involves qualitative testing the conceptual model that reflect the relationships between these theoretical constructs to develop a structured model on performance of smaller enterprises. This test provides construct validity of the conceptual model trough series of interviews with experts. We selected 11 experts from academic aria and 20 experts from entrepreneurs of the Iranian small and medium scale industries. However, we collected the quantitative data using interview-based methodology This approach is important when causal relationships among the underlying theoretical constructs need to be examined [14]. These procedures will enable us to achieve objective of this study respectively.

RESULT AND CONCLUSION

On the basis of the literature review, several deficiencies in this research area were found. The research problem was approached by studying configurations of successful SMEs, trying to capture the phenomenon more holistically than previous research has done. The study's goal setting had a pragmatic emphasis, because of the lack and fragmented nature of previous research.

Previous research into firm success and failure does not provide a comprehensive explanation for SME performance [15]. It seems that very many variables are associated with firm success and failure. Whiten this rationale, the study efforts to develop a strategic management-based performance analysis system for Iranian SMEs. Most previous studies have focused on large companies and those investigating small firms often concentrate on new ventures [15].

Despite the fact that, performance analysis has numerous benefits to the companies, Halachmi [16] asserted that sometimes the cost of introducing and implementing performance measurement exceeded the potential benefits of it. Isik [5] experienced similar results and was revealed that the use of complicated performance analysis has created negative effects due to the considerable consumption of time, investments and the commitment of people. Hence, considering the needs of the industry and the potential benefits, a performance measurement model including two major exogenous, namely Strategy formulation activities (SFA) and strategy administration activities (SAA) were determined through series of qualitative researches contains literature review and series of interviews, to analysis the "company performance" in a productive way. Each exogenous may have their constituent latent and observed variables.
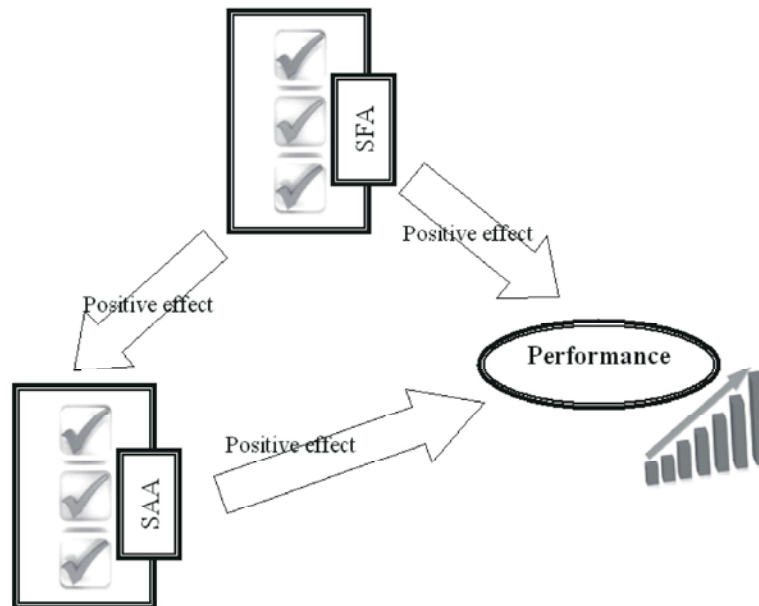

Fig. 1: Specified model

Figure 1 shows he major findings of the research were in line with the specified conceptual model. And validity of the structured model was verified by qualitative tests. The model has the ability to subjectively predict performance of SMEs base on its two main construct; SAA and SFA. The analysis of the current study structurally formulates the considerable impact of "SFA" on "SAA" and also the indirect impact on "company performance".

Although nascent and acting entrepreneurs, organizations fostering SME development, financiers, public policy makers and other stakeholders of SMEs can learn from the results, suggestion was derived from this study. Survey approaches using data collection which presented only static view of variables; the approach limits the ability to reveal the dynamic nature of the relationship between the variables; case study should be applicable as one of potential approach for future researchers. A case study research approach provides the potential for an investigation of the processes involved in the strategic management relationship and organizational performance. Also researches interested in empirical research can confirm the model by using statistical techniques such as structural equation modeling.

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