SMALL & MEDIUM ENTERPRISES:
ITS COMPETITIVENESS AND “BUYER- SUPPLIER RELATIONSHIP”

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ABSTRACT

SMEs are considered as engine for economic growth all over the world. After the globalization of market, SMEs have got many opportunities to work in integration with large-scale organizations. They cannot exploit these opportunities and sustain their competitiveness if they focus only on certain aspects of their functioning and work in isolation. In fast-growth industries in emerging markets, developing enduring manufacturer– supplier relationships is a critical element of a manufacturer’s ability to gain competitive advantage. Supplier is an important partner in any organization, and hence, maintaining relationship is important for an organization who is an industrial buyer. The purpose of this paper is to review the literature on the competitiveness of SMEs and buyer-supplier relationship practices in small and medium scale enterprises (SMEs) and outlines the key insights. This paper explores buyer and supplier relationships from the perspective of Small and Medium Enterprises (SMEs).Questionnaire data from 78 SMEs located in different industrial areas of North Gujarat Region were collected. Responses were taken through Likert scale, and results were analyzed by performing Principal Component Analysis. The factor analysis outcomes help managers better understand the supplier selection process from an economic perspective, and improve competitiveness by helping them to make appropriate decisions. This paper sets out an alternative rationale for exploring what SMEs ‘do’ in terms of building a buyer-supplier model.
KEYWORDS: Small and Medium Enterprise, Buyer-Supplier Relationship, Competitiveness.

INTRODUCTION

In fast-growth industries in emerging markets, developing enduring manufacturer–supplier relationships is a critical element of a manufacturer’s ability to gain competitive advantage. A partnership-style relationship is now considered the most preferred style of relationship between manufacturers and suppliers as it promotes the sharing of knowledge, which is considered a source of competitive advantage (Szwejczewski et al., 2005; Dyer and Hatch, 2004). In the challenging environment, the capacity of a firm to maintain reliable and continuously improving business and manufacturing processes appears to be a key condition for ensuring its sustainability in the long run (Denis and Bourgault, 2003). Rise in global competition has compelled the firms to increase performance standards in many dimensions such as quality, cost, productivity, product introduction time and smooth flowing operations. Different pressures on SMEs are conformance to quality, i.e. low-defect rates, product features or attributes, competitive price and performance (Corbett and Campbell-Hunt, 2002). Capacity of a firm to maintain reliable and continuously improving business and manufacturing processes to meet above challenges appears to be a key condition for ensuring its competitiveness in the long run. Major constraints on SMEs in meeting the challenges of competitiveness are: like inadequate technologies as well as other resources (Gunasekaran et al., 2001), Excessive cost of product development projects (Chorda et al., 2002), Lack of effective selling techniques and market research, Unable to meet the demand for multiple technological competencies (Muscatello et al., 2003; Narula, 2004). Singh, Garg, Deshmukh (2008), observed that all over the world, SMEs are considered as major source for economic growth. SMEs have not given due attention for developing their effective strategies in the past. SMEs are also not following any comprehensive framework for developing their strategies and quantifying their competitiveness. For continuous improvement and change, SMEs have to benchmark themselves with the best in industry. This study will try to synthesize different issues related with the competitiveness and buyer-supplier relationship prevailing in SMEs through review of literature to identify the directions for future research on competitiveness and BSR strategy development in SMEs.

This paper is organized as follows: Section 2 summarizes key articles in the context of competitiveness of SMEs as well as on the buyer supplier relationships strategy development in SMEs. The section also contains the list of the key factors responsible for successful buyer supplier relationship. In Section 3, include the objective of the research and research methodology i.e. Factor Analysis to identify the factors responsible for buyer-supplier relationship. Finally, in Section 4 shows the results and conclusions of this study are provided.
LITERATURE REVIEW ON COMPETITIVENESS AND BSR

COMPETITIVENESS

Dunning (1995), Competitiveness is about benchmarking economic performance. Performance may be variously defined, as indeed may be the benchmark for comparison. From the perspective of the business enterprise, performance is usually taken to mean its productivity, profitability, market share, or rate of growth of sales; its benchmark of comparison is the performance of its major competitors and, more particularly, those perceived to utilize "best practice" techniques and strategies. Benchmarking the performance of firms is a worthwhile exercise wherever it is expected that the knowledge so gained may help improve that performance. Competitiveness should not be regarded as an end in itself. Momaya et al. (2001) define competitiveness is the ability to design, produce and market products or service superior to those offered by competitors in view of the price and non-price factors. Nambirajan T. and Prabhu M., 2010 - Competitiveness is a multidimensional concept. Competitiveness means firms' ability to match the standards of the leaders in its industry on various benchmarks and critical success factors. Competitiveness describes the capability of SSIs to produce income/output and to maintain employment levels in domestic and international competition. Consequently, in the absence of competitiveness, SSIs may face the crisis of sickness or closure. The study focused on factors that determine the competitiveness of small scale industries in Union Territory of Pondicherry. Factors such as production volume, market size and finance availed through loans from banks and financial institutions, infrastructures which include roads and telecommunication facility and liberal trade regime are considered. Porter (1985), a sustainable competitive advantage creates barriers for competitors and makes imitation difficult. Errin (2004), in order to compete with their competitors, firms have to develop competitive competencies. Core competencies enable the organization to envision the markets that do not yet exist. The two most important ingredients to enhance the competitiveness of SMEs are access to finance and to the new technologies. Without access to new technologies, SMEs in developing countries will continue to use outdated modes of production and will not be able to meet international quality requirements. (UNCTAD, 2005). Small and medium enterprises are considered backbone of economic growth in all countries. They contribute in providing job opportunities, act as supplier of goods and services to large organizations. SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology (Rahman, 2001). Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets. Owing to global competition, technological advances and changing needs of consumers, competitive paradigms are continuously changing. These changes are driving firms to compete, simultaneously along different dimensions such as design and development of product, manufacturing, distribution, communication and marketing (Singh, Garg, Deshmukh, 2008).
BUYER-SUPPLIER RELATIONSHIP (BSR)

Recent developments in the practice of purchasing have been the subject of academic and practitioner debate, some of which has focused on changes to the nature of the relationship between the buyers and sellers. Relationships during the 1970s and 1980s were described as adversarial and “arms length”, characterised mainly by a strong focus on price and the continual threat of resourcing. During the 1990s this approach appears to have been superseded by more collaborative relationships, characterised largely by mutual gain and trust between the trading parties (Lamming, 1993). A partnership-style relationship is now considered the most preferred style of relationship between manufacturers and suppliers as it promotes the sharing of knowledge, which is considered a source of competitive advantage (Szwejczewski et al., 2005; Dyer and Hatch, 2004). This style is prevalent in the case of many developed countries, such as the USA, UK, and Germany (e.g. Martin et al., 1995; Bensaou, 1999; Szwejczewski et al., 2005). However, this style cannot be immediately and fully adopted in emerging markets, as most local suppliers are small and medium enterprises (SMEs), which mainly produce less complicated parts and need technical and financial support from large manufacturers to improve their infrastructure and production capability. Relationships between buyer and suppliers have also been underlined with themes such as partnership management, outsourcing, strategic alliances, supply chain co-operation and collaboration (O’Toole, 2002). By treating suppliers as allies and sharing strategic information with them, advocates of collaborative relationships claim that firms can achieve better lead times and quality, increase operating flexibility, and establish long-term cost reductions, all of which could help these firms enhance their competitiveness (Janda et al., 2002). Mukherji and Francis (2008), the buying organizations willing to improve the efficiency and effectiveness of their manufacturing and procurement activities to cope with the highly competitive environment. When faced with revenue and cost concerns that are compounded by shortening product life cycles, changes in process and product technology, and evolving business practices, firms are looking for new ways to address business problems. Managers and researchers, in the interest of determining how to develop more effective inter-firm relationships, have enlarged the focus from formal contracts to more behavioral and relational approaches. Managers believe that these latter approaches can create more flexible, responsive partnerships thereby improving a firm’s performance.

Das and Handfield (1997) mention buyer-supplier partnering as one of the emerging themes in the purchasing field following their review of dissertations in the field of purchasing management. In moving towards the partner relationship paradigm, developing suppliers’ capabilities and manufacturer–supplier trust become critical issues. One feature of the industrial sectors in developing countries is that inter-enterprise relationships tend to be quite weak. Although supply relationships exist, they are not usually very stable or long-term. Customer enterprises typically buy from the supplier offering the lowest price and, as soon as it raises its price or poses any quality or delivery problems, they switch to another supplier. Buying-selling relationships typically break down for one of the following two reasons: (a) poor understanding by the supplier of the customer’s requirements; (b) inability of the supplier to meet the customer’s needs. Dobler and Burt (1990), traditional buyer-supplier relationships can be good relationships so long as each party treats each other with respect and courtesy and maintains ethical levels of disclosure. Those businesses that are not necessarily profit driven, for example,
owner-managers who are motivated by independence or lifestyle objectives, may choose to avoid fully collaborative and integrated relationships.

The principal attributes of adversarial and collaborative relationships can be described across five key dimensions, as identified by Spiers (1997).

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<tr>
<th>Behaviour</th>
<th>Adversarial Relationship</th>
<th>Collaborative Relationship</th>
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<tr>
<td></td>
<td>Individual gain seeking, Transitory defensive, Aggressive</td>
<td>Mutual Respect, Committed, Open/Sharing Trust, Focised on group gains</td>
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<tr>
<td>Attitudes</td>
<td>Retain Expertise, Centrised Authority, Power overt and active, Buyer knows best, problem driven, Homogenous suppliers</td>
<td>People Involvement, Devolved Authority, Power covert, Differentiated suppliers, Proactively Innovative</td>
</tr>
<tr>
<td>Measurement</td>
<td>Unidirectional, One-dimensional, Limited and infrequent feedback</td>
<td>Multidimensional-total acquisition cost, Relationship Positioning, Measure process, Self Regulation</td>
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<tr>
<td>Processes</td>
<td>Buyer Specs, Static System</td>
<td>Shared design, Open into exchange, Supplier investment-people-process</td>
</tr>
<tr>
<td>Time</td>
<td>Limited Life, Frequent resourcing, low switching cost</td>
<td>Extended guaranteed life, Single sourcing, High switching cost</td>
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Source: Spiers (1997)

According to Bensaou (1999), Japanese and US firms alike balance a portfolio of different types of relationships rather than rely on only one type. Using the transaction cost approach, Bensaou separates the relationship types based on the specific investments made by each partner to the relationship. Bensaou notes that these relationship types differ along contextual factors such as the characteristics of the product exchanged, the level of competition in the upstream market, and the capabilities of the suppliers available in the marketplace. No one type of relationship is inherently superior to the others; successful relationships are the ones that have achieved a match between the contextual variables and their management variables, which can be classified as information sharing practices, characteristics of the boundary spanners’ jobs, and the social climate within the relationship. The pillars of buyer-supplier integration are cooperation, collaboration, information sharing, trust, partnerships, shared technology, and a fundamental shift away from managing individual functional processes, to managing integrated chains of processes (Akkermans et al., 1999). The integration of logistics with other functional areas will help companies to realize the full potential of its value-added activities and hence, to gain a significant competitive advantage (Gunasekaran and Ngai, 2003). It will also lead to a reduction in operational costs and an improvement in customer services (Richardson, 1995). Research has reported the shift from adversarial to collaborative relationships in buyer–supplier relationships and much work (Hines, 1994; Holmlund and Kock, 1996; Schmitz et al., 1995) is published in the last few years. But this has mainly considered the large organizations in focal while same is not explored from SMEs point of view (Morrissey and Pittaway, 2004). Concept of collaboration and partnership includes many adversarial elements (Morrissey and Pittaway, 2006) for SMEs. The lack of recognition seems to be given to the SMEs within the partnering literature (Notman,
Partnering has been recommended as having the potential to enhance problem solving and to improve knowledge of the process by the participants (Reed, 1999; Himes, 1995) but majority of the time large enterprises remain the recipient of benefits because of their size and power dominance in supply chain. Cousins and Menguc (2006), have provided valuable insight in the important role of socialization processes in the development of key relationships within supply chains. They propose and test a model including the effect of socialization on supplier communication and operational performance. Benefits are more long-term oriented and may include improved problem solving, joint technology development and asset sharing. Inter-organizational trust is often regarded as one of the critical factors in the development of alliances and partnerships. An increasing number of organizations are realizing that competing effectively in this type of environment often involves trust and cooperation in some network. This has led to formation of long-term collaborative associations with suppliers, where the focus is on mutual benefits for the parties involved. This potential benefits increases interest in the formation of collaborative alliances by firms (Janda et al., 2002).

At the end the literature reveals some important factors that affect the overall buyer-supplier relationship. The major factors are willing to develop long term relationship, inter-organizational trust, operating flexibility and objective oriented approach, information sharing etc. After reviewing all this literature we find out 13 different variables and that is measured using “Likert Scale”.

**OBJECTIVE AND RESEARCH METHODOLOGY**

The main purpose of this study is to find out and analyze the most influencing factors that are responsible for strengthening buyer-supplier relationship and how companies try to influence and shape their key buyer-supplier relationships in SMEs in continuous changing and challenging business environment and how its leads to the competitiveness.

**RESEARCH METHODOLOGY**

Subramanian et al., 2005, buyer supplier relationships articles has been reviewed and classified the research approaches taken such as (1) Surveys (2) Case studies (3) Conceptual and prescriptive. Many researchers have investigated the dynamics of buyer supplier relationships and have in general, posited the importance of long-term, cooperative relationships. To date, studies specifying buyer supplier relationship factors have often focused on analyzing the factors separately. However, formulating strategies for building buyer supplier relationship, it is important for the management of a supply chain to understand characteristics and interrelationship of buyer supplier relationship factors.

After considering the literature we collect the data using structured questionnaire with using likert scale and we approached approx 105 small to Medium sized enterprise situated in the North Gujarat region GIDC i.e. Mehsana, Palanpur. Out of 105 we only received details from the 78 SMEs. Out of this total 78 SMEs, 59 are in the manufacturing business and remaining are engaged in the trading and services activity.
ANALYSIS & OUTCOMES

To assess the factors that leads to buyer-supplier relationship in the SMEs, all the items in the questionnaire were factor analyzed, using the principal components analysis followed by a varimax rotation. The KMO and Bartlett's Test value get as 0.612 that shows the adequacy of the sample size. The initial factor solution for the sample evaluating resulted in five factors with eigenvalues greater than one. The five-factor solution accounted for 66.7 percent of the variance. In order to purify the list, items with loadings of 0.2 or greater on more than one of the factors were eliminated. The reduced list was factor analyzed a second time. This resulted in three factors with eigenvalues greater than one, while accounting for 61 percent of the variance. The first four items of the factor i.e. “Liaison for long term”, “Objective Orientation” identify the “Growth and long term relationship” dimension. The second factor consisting of three items measures the “Importance of suppliers in business” i.e. “Selection parameters”, “Invest in training and development”. The third dimension consist of remaining four items that describe the “Relationship”

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<th>Items</th>
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<tr>
<td>Liaison for long term relationship</td>
<td>0.625</td>
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<td>For the growth of Business</td>
<td>0.598</td>
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<td>Objective oriented Approach/Communication</td>
<td>0.646</td>
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<td>Trust implies right types of relationship</td>
<td>0.836</td>
<td></td>
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<tr>
<td>Company's Parameters for Supplier selection</td>
<td></td>
<td>0.799</td>
<td></td>
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<tr>
<td>Suppliers development through Invest in Training &amp; Development</td>
<td></td>
<td>0.709</td>
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<tr>
<td>Role in New Product development /Product enhancements</td>
<td></td>
<td>0.553</td>
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<tr>
<td>Co-operation from supplier side</td>
<td></td>
<td>0.828</td>
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<td>Continuous information Sharing</td>
<td></td>
<td>0.733</td>
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<tr>
<td>Help of existing relationship in supplier choice</td>
<td></td>
<td>0.744</td>
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<tr>
<td>Comparison of current supplier with other supplier</td>
<td></td>
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CONCLUSION

The buyer–supplier relationship starts out as a market-exchange type relationship, and then gradually moves to a partnering type. The stages in evolution involve constant efforts on the part of foreign manufacturers to develop the suppliers by offering resources, training, feedback and solutions. Buyer-supplier relationship is very important for all organizations irrespective of their operations. The business cannot grow without the cooperation of internal as well as external participants. One of the major external participants is the supplier of an organization. Hence, treating a supplier as a part of the organization is the call of the day where there is acute competition. The paper presents discussion about factors that leads supplier selection approach in the SMEs. The factor analysis outcomes help managers better understand the supplier selection
process from an economic perspective, and improve competitiveness by helping them to make appropriate decisions. The study extends the literature by quantifying previous studies of the buyer-supplier relationship. The empirical findings shows that importance of long term relationship, objective oriented communication, trust, co-operation are the pillar to lead the buyer-supplier relationship. The literature review results show that, contrary to the conventional wisdom, the buyer’s choice of supplier makes a significant difference under conditions of uncertainty, and plainly accepting the lowest bid price is not necessarily the best option.

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An Exploratory study on Performance Management System (PMSs) in SMEs

Darshan Ranpura¹
Dr. Snehal Kumar H Mistry²

Abstract

Several important changes that have taken place in recent years have created a favourable context for the implementation of Performance Measurement Systems (PMSs) in SMEs. Performance measurement systems (PMSs) are considered as a means to gain competitive advantages and continuously react and adapt to external changes. In recent years, literature has shown that performance measurement systems (PMSs) could play an important role in supporting managerial development in small and medium size enterprises. In this paper, the literature on performance measurement in manufacturing SMEs is reviewed, have analyzed characteristics and determinants of performance measurement that affects SMEs. The information used in this study, gathered using a systematic literature review approach. From the literature, shortcomings in the performance measurement systems are highlighted and the many factors that seem to constrain PMSs in manufacturing SMEs are defined, e.g. lack of financial and human resources, wrong perception of the benefits of PMS implementation, short-term strategic planning.

Keywords: Performance Measures, Small to medium-sized enterprises, Performance Measurement Systems

Introduction

Several important changes that have taken place in recent years have created a favourable context for the implementation of Performance Measurement Systems (PMSs) in manufacturing SMEs. Since the middle of 80s, companies emphasized the growing need of controlling production business processes. Companies have understood that for competing in continuously changing environments, it is necessary to monitor and understand firm performances. Measurement has been recognized as a crucial element to improve business performance (Sharma et.al, 2005). The classical approach to performance measurement, as described by the Sink and Tuttle model (Sink and Tuttle, 1989), claims that the performance of an organizational system is a complex interrelationship between six performance criteria: effectiveness, efficiency, quality, productivity, innovation and profitability (Rolstadas, 1998).

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Neely et al. (2002), defined Performance Measurement System is the set of metrics used to quantify the efficiency and effectiveness of past actions” and “it enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis and interpretation of appropriate data”. A PMS is a balanced and dynamic system that is able to support the decision-making process by gathering, elaborating and analyzing information. Furthermore they highlight that a PMS can be examined at three different levels: the individual measures of performance; the performance measurement system as a whole; the relationship between the PMS and the environment within which it operates. The need for companies to align their performance measurement (PM) systems with their strategic goals is well documented in the literature (Kaplan, 1983; Eccles, 1991; Gregory, 1993). Although extensive research has been carried out to investigate the needs and characteristics of PMSs in large organizations, there is a distinct lack of published research on issues related to SMEs (Hudson et al., 2000). Storey (1994) SMEs exhibit distinct characteristics that differentiate them from the majority of their larger counterparts. Small and large firm are fundamentally different from each other in three central aspects: uncertainty, innovation and evolution; literature underlines that the central distinction between large and small firms is the greater external uncertainty of the environment in which the small firm operates, together with the greater internal consistency of its motivations and actions (Storey 1994; Welsh and White1981). PMSs should support SMEs to manage uncertainty, to be innovative in their products and services, and to sustain evolution and change processes. An increasing competitive environment, the proneness of growing in dimension, the evolution of quality concept, the increased focus on continuous improvement and the significant developments in information and communication technologies are the most important changes in recent years that have created a favorable context for the implementation of PMSs in SMEs, particularly in the manufacturing sector (Garengo et al., 2005). The evolution of the competitive environment and propensity to grow in dimension has led to the need for organizational development in these companies (Boldizzoni and Serio, 2003). If a PMS does not focus exclusively on financial aspects, it can play a key role in supporting a rational approach to
growing complexity and qualitative improvement in SMEs.

The paper is organized as follows. The second section gives details about research methodology use for the study. In the third section the literature is reviewed to identify the main general features of PMS and analyses the tools available in literature for PMS assessment in general and in the context of SMEs in particular. Furthermore, the most important characteristics of SMEs along with the main weaknesses of their current PMSs are reviewed. Finally, the paper ends with some conclusions and directions for future research.

Research methodology

The research presented in this paper is specifically concerned with the following point: Which are the various performance measurement systems approach and diffusion and specific characteristics of performance measurement (PM) in SMEs and also focused on are current approaches of performance measurement systems appropriate for SMEs? An initial literature survey was undertaken to establish the status of current knowledge in the area of performance measurement systems for SMEs. This literature survey revealed that while there has been increased attention on performance measurement systems but current literature is inadequate in respect of the specific SME context. The research purely emphasized on exploratory base, study of the research approach may be conceptualized in more detail as two stages: (I) the major dimension of PMS; and (II) the analysis of current PM approaches.

SME Characteristics & Performance Measurement Systems (PMSs) in SMEs:

Despite the recognized heterogeneity of SMEs, there appears to be a consensus from researchers in this field that many SMEs share a number of general characteristics (Hudson et al., 2001). All the characteristics have been grouped into two main categories: external environment and internal environment. External environment represents the context in which the organization operates and the factors essentially outside the control of organizational members. It is divided into two main subcategories: market and customers. Internal environment includes the factors which are inside the company or under the managers’ control, like the resources, both human and financial, and the way they are managed.

In fact, external environment in which SMEs operate is highly competitive, turbulent and uncertain markets (Garengo et al., 2005). Usually they do not have control or influence over the market and
thus they need to adopt a reactive approach and adapt to market changes (Hudson, 2001). Since SMEs rely on a limited customer base, they are usually closer to the customers and have the possibility to develop more personal relationships with them (Hong and Jeong, 2006). However this sometimes forces the development of deferential relationships with their customers and SMEs are often subservient to their larger counterparts (Hudson, 2001). From an internal point of view, all the authors highlight scarcity of resources as one of the main problems and typical characteristic of SMEs (Singh et al., 2008). The term “resources” is considered both in terms of personnel, including also managerial time, and financial stability and security. In addition also skills are limited, not only among staff (Singh et al., 2008), but also owner-managers often do not have enough managerial expertise or organizational capabilities and this implies poor strategic business planning and human resource management (Pansiri and Temtime, 2008). Even though size represents a weakness in terms of available resources, on the other side, it favours a flat organizational structure with lack of bureaucracy and this has a positive impact on flexibility, adaptability and rapidity in responding to the changing environment (Garengo et al., 2005).

The increasing importance of continuous improvement has led many researchers to point out that PMSs might actually be needed to support continuous improvement processes (Atkinson and Waterhouse 1997; Barnes et al. 1998; Lynch and Cross 1991; Maskel 1989; Neely et al. 1996, 2000). The classical approach to performance measurement given by Sink and Tuttle, 1989, claims that the performance of an organizational system is a complex interrelationship between six performance criteria: effectiveness, efficiency, quality, productivity, innovation and profitability. To address this need a number of frameworks and processes (approaches) for the development of PM systems have emerged. The most popular of these is the balanced scorecard (Kaplan and Norton, 1992), which emphasizes a balance between the use of financial and non-financial measures to achieve strategic alignment. McAdam and Kelly, (2002), there is a general belief that performance evaluation models developed for large organizations can be applied to small and medium enterprises (SMEs) either without modifications or with minute changes. This belief is based on the assumption that large organizations being highly complex, models developed for them will be robust enough to address the complexities of small organization too. However, while
SMEs are similar to large organizations in some ways, they are significantly dissimilar in other ways. Antony et al (2010) analyze the following variable like, innovativeness, competitiveness, creativeness, effectiveness, productiveness, efficiency and profitability and try to find out the consolidated value of the variables for obtaining organizational performance and excellence. The seven variables were measured for the whole organization and for work units separately. The model refinement of that approach in that it allows measurement of performance and excellence separately. Hudson et al., 2001, identified the Critical characteristics of performance measures with the help of extensive literature as follows; Clearly defined with an explicit purpose (Globerson, 1985; Neely et al., 1996), Relevant and easy to maintain (Maskell, 1989; Lynch and Cross, 1991), Simple to understand and use (Maskell, 1989; Lynch and Cross, 1991; Neely et al., 1996), Provide fast and accurate feedback (Globerson, 1985; Dixon et al., 1990), Stimulate continuous improvement (Lynch and Cross, 1991; Maskell, 1989). Some of the literature suggests that SMEs may be differentiated from larger companies by a number of key characteristics. These are generally described (Addy et al., 1994; Burns and Dewhurst, 1996; Ghobadian and Gallear, 1997; Appiah-Adu and Singh, 1998; Berry, 1998; Marri et al., 1998; O'Regan et al., 1998; Haywood, 1999) as: Personalised management, with little devolution of authority, severe resource limitations in terms of management and manpower, as well as finance, reliance on a small number of customers, and operating in limited markets, flat, flexible structures, high innovatory potential, reactive, informal, dynamic strategies.

The ability of keeping the PMS continuously updated is a challenge for every firm, but particularly for small and medium-sized enterprises (SMEs), which need to be extremely flexible and reactive to market changes while being characterized by lack of resources and managerial expertise (Garengo et al., 2007; Hudson et al., 2001). Implementing a PMS could support the decision making processes in SMEs and help them improve their management processes and strategic control (Barnes et al. 1998; Bhimani 1994; Hudson et al. 2001; Tenhunen et al. 2001). In addition, SMEs tend to have poor strategic planning and do not fully understand what their critical success factors are (Garengo et al., 2007). The process of designing a PMS forces a company to do strategic planning, and implementing and using it highlights the gaps between the company’s current performance and its objectives.
Consequently, the PMS helps the company set future objectives and plan any necessary improvement processes (Tenhunen et al. 2001). Very little empirical and theoretical research has been carried out on PM in SMEs. The countries where a lot of research has been carried out on PM for SMEs are Australia (Barnes et al. 1998), where a specific organization has been created to support the development of PMSs for SMEs.

An explicit study of various literatures shows some common characteristics of performance measurement system in SMEs. i.e. the companies that do start performance measurement projects rarely continue on to the last phase because of the lack of time available for non-operational activities and the poor involvement of the entrepreneurs or top managers in the PM project (Tenhunen et al. 2001). Some of study also indicates that SMEs either do not use any PM model or they use models incorrectly. Even if general models were applied correctly, they would be inadequate for the particular characteristics of SMEs: ‘the small enterprise is different from the big company; you cannot simply look at the needs of SMEs by turning your binoculars upside down and making small what was big’ (Marchini 1995). For example, some authors who have assessed the implementation of the Balanced Scorecard in SMEs conclude that this model is not suitable for SMEs (Hvolby and Thorstenson 2000; McAdam 2003).

Performance measurement implemented in SMEs rarely has a ‘holistic approach’. The studies by Barnes et al. (1998) and Rantanen and Holtari (2000) highlight the fact that SMEs do not usually implement integrated PMSs, and that they are not aware of the existence of integrated PMS models. Furthermore, since small companies focus on operational and financial performance, balanced models are seldom used. In fact, innovation, human resources, work atmosphere, R&D and training are rarely measured (Addy et al. 1994; Chennell et al. 2000; Hudson et al. 1999). SMEs do not take advantage of the implementation of the PMS to introduce strategic planning. Moreover, performance measures usually focus on past activities. In other words, the aim is to gather information to support the control activities rather than the forecasting and planning processes. There are many factors that influence performance measurement system implementation in SMEs i.e. lack of human resources, managerial capability, limited capital resources, little attention towards the formalization of process and misconception of performance measurement (Garengo et al., 2005). All these factors underline the differences
between SMEs and big companies and the need for a different approach to PM in SMEs. Moreover, these factors could be useful in the study of the dimensions of PMSs for SMEs. From the SME characterization, this section describes the principal characteristics and dimensions of an “ideal” SME performance measurement system that facilitate in designing of an appropriate performance measurement practice.

### Table I: Critical Dimension of Performance Measurement Systems Tools

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<tr>
<th>Dimension</th>
<th>References</th>
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<tr>
<td>Focus on Stakeholders</td>
<td>Atkinson and Waterhouse, 1997; Bititci 1994; Kanji 2002; Neely et al. 2002; Sharman 1995; Barnes et al. 1998</td>
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<tr>
<td>Depth and Breadth</td>
<td>Neely et al. 2000; Dickinson et al. 1998; McAdam 2000</td>
</tr>
<tr>
<td>Clarity and Simplicity</td>
<td>Globerson 1985; Neely et al. 2000; Hussein et al. 1998; McAdam 2000</td>
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Analysis of PMS Models from various literatures

Chow et al. (1997), in their research present the application of Balance Scorecard to small companies. The model consists of indications for management to design a scorecard to fix the needs of the small and medium size company. Using Multi-perspective dimension analysis they proposed four different typologies of firms. But the framework proposed is not clearly structured, and consequently application is subjective. Chennel, et al. (2000), using case study approach developed “Organizational Proposed Measurement” (OPM) for SMEs. The proposed system is in the dissemination phase and it has to be tested yet. An indicator for performance measurement in SMEs model focuses more on performance management rather than performance measurement. The model proposes only few financial indicators and that not makes is balance measurement. Hudson et al. (2001), specifically focused on improvement of quality through effective performance measurement in SMEs. They emphasized on incremental and iterative performance with simple, clear and well define steps for implementation. It uses a case study to investigate whether the process identified is appropriate within a SME context. With case study approach, also discuss the critical characteristics of performance measures and critical dimension of performance measures. The failure of the case study has allowed the gap analysis between the theoretical model and the PM system, which resulted in a greater understanding of SMEs. But model is too strategic oriented and requires too many resources for application, little short-term benefits and the model is not enough dynamic and flexible. Integrated Performance Measurement System (IPMS) (See Bititci, 1994, 1995), model is mainly intended as a general tool for measuring and improving performance without any special reference to the type of industry. The model consist major dimension of performance measurement. All the above PM models summarize critical points for SMEs performance measurement however, little empirical evidence currently exists which describes current PM practice in SMEs or which evaluates the appropriateness of current processes within this context.

Conclusion:

Using a literature review, this study described the characteristics of performance measurement in SMEs and the main factors influencing performance measurement in these companies. Our research showed that, even though the literature highlights the importance of using PMS in SMEs, very few companies carry out performance management. It is found that significant gap between theory
and practice: the theory underlines the importance of PMS in SMEs in supporting the development of managerial systems, but little research focusing on performance measurement in SMEs is available. The literature claims that there is a need to carry out further research on PMSs in both large companies and SMEs. Many models for SMEs have been proposed, but little empirical research has been carried out to assess their effectiveness.

References


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