Improving the performance of New Zealand SMEs: Measures for success

by Patricia Corner

Small and medium-sized enterprises (SMEs) have a dominant role in the New Zealand economy, accounting for 98 per cent of all the country's enterprises and 60.4 per cent of total jobs. Moreover, New Zealand, like other small economies, relies on its SME sector to

TABLE 1

Significance of SMEs in selected economies

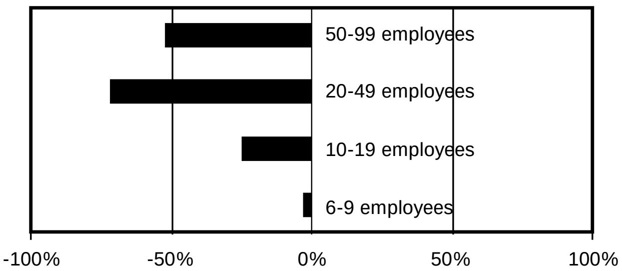
	NZ	US	UK	Australia
% of jobs created by SMEs	60.4	37.2	46.2	50.9
SMEs as % of all firms	98.0	93.0	95.6	96.1

provide significantly more jobs than do comparative countries (see **Table 1**).

Given New Zealand's dependence on SMEs, it is unfortunate that these enterprises often struggle to succeed. Estimates suggest that at least 50 per cent of new small businesses fail in the first five years in New Zealand (Pinfold, 2000; Business Activity Statistics, 1992-93). Also, SME profits have been declining (see **Figure 1**) and there is a lack of New Zealand-based research that might provide managers with ideas for reversing this trend.

FIGURE 1

Percentage decrease in SME average absolute profit per full-time equivalent employee 1995-1997



(SOURCE: MINISTRY OF ECONOMIC DEVELOPMENT)

To develop this sector, most APEC countries are actively pursuing initiatives to support SMEs and, fortunately, international research points the way to improving SMEs' chances for success. Research shows that measuring enterprise performance can help SMEs succeed through increased loan finance, improved planning and better identification of competitive advantages.

The purpose of this paper is to provide a framework of simple performance measures that can help New Zealand SMEs succeed in the increasingly globalised marketplace. The framework suggests both financial and non-financial measures of performance, although the financial measures are emphasised because these are the key indicators of a SME's ability to survive and they are more readily compared or bench-marked with rival companies.

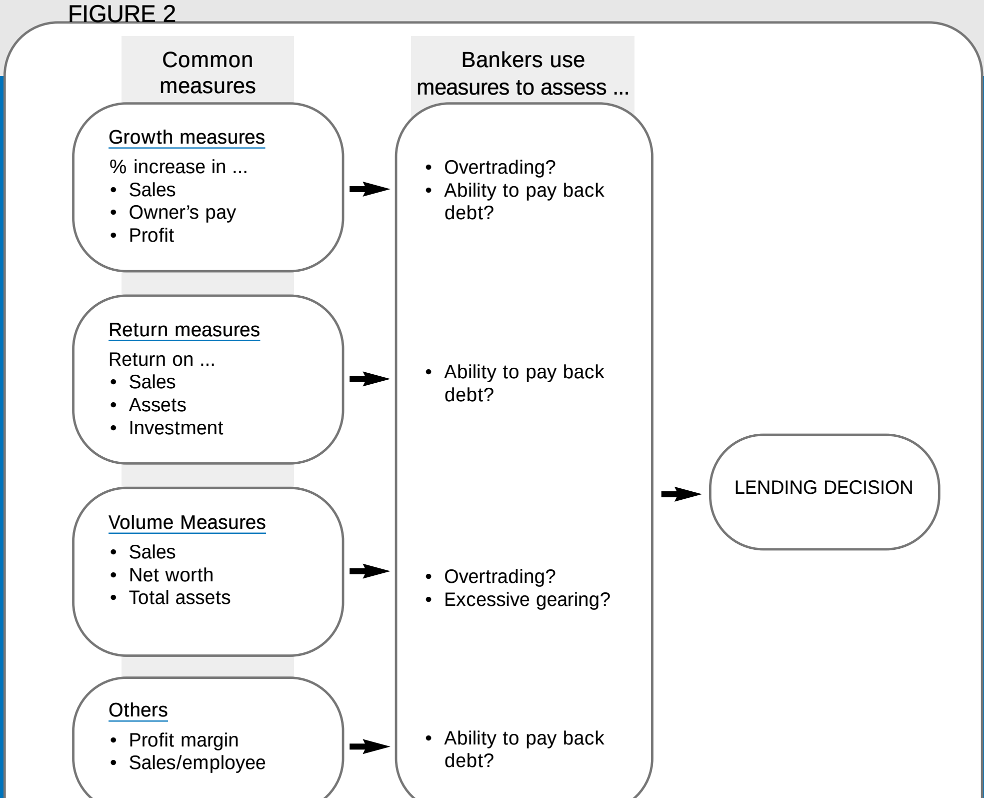
Benchmarking against overseas as well as New Zealand competitors has become an important factor in many sectors of the economy since the 1984 reforms made New Zealand one of the most open economies in the OECD. The proposed framework is tested in the national context through case studies of New Zealand SMEs that track financial and non-financial information to better manage their firms.

It is important to note that neither APEC (Aziz, 1998) nor the OECD (Storey, 1996) have a precise definition of what constitutes a SME for their member economies. This is because member economies are at different stages of development. This article thus uses the Statistics New Zealand definition of small and medium-sized enterprise which holds that organisations with less than 100 employees fit into this category (Business Activity Statistics 1997, Statistics New Zealand). This definition is commonly used when examining New Zealand SMEs (see McGregor and Gomes, 1998; Simpson, McGregor, Seidel, Kolb, Henley-King and Tweed, 2000; Cameron and Massey, 1999). As a result, the article examines only international research that investigates enterprises of fewer than 100 employees.

FINANCIAL MEASURES FOR IMPROVING SME SUCCESS

New Zealand case studies have shown that owner/managers of SMEs often reject notions of outside assistance with financial measures and planning due to a predisposition that it is not helpful (McGregor and Gomes,

FIGURE 2



(SOURCE: BERRY ET AL., 1993)

1998). Fortunately, international research on enterprises of 100 or fewer employees has identified financial measures that are straightforward and can be tracked by owner/managers with the help of inexpensive accounting software. More importantly, this research clearly shows how financial measures can be used in a very practical way to improve SMEs' success.

Common measures and their practical uses are summarised in **Figures 2** and **3**. Specifically, international research identifies the following three ways in which common measures can be applied to improve SME success: greater access to finance, better planning and increased competitive advantages (Berry et al., 1993; Schwenk and Shrader, 1993). Each of these is discussed in more depth in the following three sections.

1 Greater access to finance

One of the major causes of SME failure in New Zealand as well as overseas is under-capitalisation of a company (Cameron & Massey, 1999). Stated differently, SMEs fail because they do not have an adequate amount of finance to cover the revenue shortfalls typical of a start-up or expansion phase of the business. Beyond their personal paid-in capital, the preference of SME owners in New Zealand is to secure additional finance through bank loans.

Fortunately, past research provides information that can help SME owners secure much-needed funding for their companies. It reveals that bankers rely heavily on financial measures for a company, when available, to make a loan decision (Berry et al., 1993; Reeve and Van Peursem, 1998). Financial measures are used not only to judge the financial "health" of the company, but also to judge the competence of the company's management. Figure 2 reports on how bankers use the specific financial measures to assess a SME loan application.

Bankers indicate that if financial measures appear unreliable or incomplete, they require additional security for the loan

In considering these specific financial measures, bankers judged profit margin to be the single most important measure. This is not surprising when considering that profit represents the pool of money from which companies service interest debt and repay a loan (see Figure 2). This finding from overseas research encourages New Zealand SME owners interested in additional bank finance to keep careful records of profit and changes in profit.

In addition to the specific uses included in Figure 2, research on SMEs also conveys more general information on how bankers use financial measures when making loan decisions for SMEs. For instance, the quality and completeness of financial information for a SME are crucial when applying for a loan. Bankers indicate that if financial measures appear unreliable or incomplete, they require additional security for the loan.

This is likely to be an issue for New Zealand SME owners because research suggests they do not consistently track financial information beyond what is required for GST. However, the good news is that SMEs that do track measures similar to those reported in this article are at an advantage relative to rival New Zealand companies attempting to secure finance.

2 Better planning

A common theme in the international research on SMEs is that instituting systematic planning practices improves SMEs' financial measures and helps insure company survival (see meta-analysis of Schwenk and Shrader, 1993). However, systematic planning can be a challenge to SME owners who are often involved in all areas of their companies. For example, case studies of owner/managers in New Zealand manufacturing companies revealed that these people supervised product development teams, overlooked major purchasing and production tasks, stimulated innovation, monitored employees' progress and achievements, as well as played a role in the day-to-day running of the enterprise (McGregor and Gomes, 1998).

Therefore, this section reports on planning practices that are relatively straightforward and easily implemented by managers with minimal time and training. These practices are summarised in **Figure 3**. Moreover, practices were shown to positively influence the measures under which they are listed in a meta-analysis that accumulates findings across 14 overseas studies of SMEs (Schwenk and Shrader, 1993).

Two issues stand out from Figure 3 as likely to be of importance to New Zealand managers in particular. First, New Zealand SMEs wishing to increase growth or volume measures face the challenge of internationalisation earlier than their counterparts in countries with a larger

FIGURE 3

Planning activities that improve financial measures

Growth measures
- SWOT analysis (identify strengths, weaknesses, opportunities and threats)
- Project future financial statements
- Set goals
- Analyse environmental trends

Return measures
- Use outside consultants for strategic planning
- Use a two-year planning horizon
- Analyse accounting ratios
- Involve employees in decision-making
- Generate and evaluate alternative courses of action

Volume measures
- Use outside consultants for strategic planning
- SWOT analysis
- Alter mix of markets served
- Expand into new geographic areas

Profit measure
- SWOT analysis
- Generate and evaluate alternative courses of action
- Review and revise plans

population base. Figure 3 practices such as analysing trends in overseas markets and considering the mix of markets may be very critical tools for New Zealand SME owners. These practices are reviewed in basic texts on strategic management (see Hunger and Wheelen, 1996; Hill and Jones, 2001).

Beyond these practices, technology-based SMEs can benefit from contacting venture capitalists in the markets into which they intend to expand. These venture capitalists not only provide funding for expansion in new markets, but also provide access to suppliers, partners, distribution networks and key customers (Kelly and Kakadia, 1995).

Second, Figure 3 includes the measure of profit and lists those planning practices that research shows positively influence profit. Profit emerges as a key financial measure for SMEs because (1) bankers rate it as the most important financial measure as already stated and (2) failure to make a profit has been the single biggest reason for discontinuance of small retail businesses in Australia (Watson and Everett, 1992).

Overseas research thus encourages New Zealand SME owner/managers to pay particular attention to the practices that Figure 3 lists as improving profit. For example, the business practice unique to improving the profit measure is that of reviewing and revising plans for the business.

Researchers believe that the action of reviewing and revising business plans helps SME owners build profits in two ways. First, reviewing plans helps owners stay focused on actions consistent with the plan and such actions are more likely to contribute to profit than actions that are tangential to the plan. SME owners report that it is easy to get sidetracked into tangential issues given the day-to-day pressures of running a business (Cameron and Massey, 1999) and case studies of technology-based SMEs in New Zealand verify this (McGregor and Gomes, 1998).

Second, researchers believe that regularly reviewing plans helps managers assess whether or not the assumptions underlying the original plans are still valid. If so, plans are still likely to yield profit and should be pursued further. However, a review sometimes reveals that assumptions underlying original plans are no longer valid. This suggests the plan no longer has profit potential and a new approach or plan is needed.

3 Increased competitive advantage

In order to get the full benefit of the planning practices summarised in Figure 3, SME owners require a mechanism for identifying where advantages and weaknesses lie in their businesses relative to competitors. Benchmarking or comparison with example firms in New Zealand or overseas offers such a mechanism.

In financial benchmarking, a SME owner compares his or her company against example companies on selected financial measures. In this way, the SME owner may see areas of advantage such as lower expenses or faster-growing revenues. These advantages can be further developed and any weakness hopefully improved or minimised. Industry trade associations and their publications are a source of this kind of information.

SME owners also can get comparison data through the benchmarking survey done annually by the Management Research Centre (MRC) at the University of Waikato. This data represents 128 industry categories and 3811 separate companies and reflects the measures reported in Figures 2 and 3.

The business practice unique to improving the profit measure is that of reviewing and revising plans for the business

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For overseas comparisons, New Zealand SME owners can get financial measures on comparable US firms from two sources. The first is the Small Business Data Base (SBDB) managed by the Small Business Administration (SBA). The SBDB was set up by the US Government through the Economic Policy Act of 1980 to examine closely the effect of small business on the US economy. The second source is the National Federation of Independent Businesses (NFIB). The NFIB can report averages of financial measures for SMEs within industry categories at the national as well as state level.

In Australia, comparable data is available through a report entitled "A Portrait of Australian Business – Results of the 1997 Business Longitudinal Survey". The report tracks the performance and growth of 5000 Australian SMEs over four years. Reports comparing SMEs across Australian states are available as well. This report can be ordered through government information offices and more specific data can be requested from the Australian Bureau of Statistics (Annual Review of Small Business, 1999).

NON-FINANCIAL MEASURES FOR TRACKING SME PROGRESS

SMEs can significantly improve their chances for success by tracking non-financial measures of enterprise performance in addition to tracking the crucial financial measures already discussed. Specifically, research shows that it is important to assess SME progress from the following three non-financial perspectives: customer, internal business processes, and company learning and growth (Kaplan & Norton, 1996).

The customer perspective suggests that a SME's success is dependent on the extent to which it meets the needs of the customer group or market segment it is trying to serve. SME owners are advised to pay particular attention to customer groups that meet an enterprise's recently set goals. For example, a SME owner with the goal to grow is advised to develop measures assessing the new customer group he or she is hoping to attract. These can include items such as customer satisfaction, customer retention and new customer acquisition.

The internal business process perspective says a SME must identify the critical processes performed within an enterprise that enable it to achieve its goals. Examples of such processes might be the activities and time taken to prepare a rental car for a hire customer. It particularly encourages businesses to identify processes critical to achieving any new goals and formulating measures to track progress toward these goals. It is very likely that additional internal processes will need to be developed to achieve any new goal.

Finally, the learning and growth perspective addresses building skills to meet SMEs' longer-term goals. Such learning or skill development comes from three principal sources: people, information systems and enterprise procedures. To meet five- or 10-year goals, SMEs generally must upgrade the skills of employees, invest in new technology for information systems and align procedures to match new goals. Precise measures that help SMEs upscale people and information systems must be formulated when these goals are set initially.

EXAMINING THE FRAMEWORK IN THE NEW ZEALAND CONTEXT

An in-depth study of three New Zealand SMEs was conducted to examine the relevance of the proposed framework for the national context. The firms represent different industries and were selected because of their clear success and their belief that the tracking of performance measures was a crucial factor in that success.

These firms represent SMEs that follow an "ideal" New Zealand framework for tracking enterprise performance and serve as a useful comparison against the "ideal" framework

TABLE 2 Descriptive information of companies studied

Companies' characteristics	KAS	PT	BAS
	Companies included in study		
Business description	Franchised retailer of international manufacturer and seller of farm equipment	Retail timber products (independent)	Kitchen manufacturer and distributor
Product lines	1 Machine sales 2 Machine parts 3 Machine repair	1 Sawn pine 2 Sawn exotic woods (i.e. cedar) 3 Roundwoods 4 Trusses and pre-nail 5 Hardware	1 Kitchen cabinetry (joinery)
Success of business	Started business in 1990 as "provisional" franchise. From 1991 to 1998, franchise was No.2 or No.3 in New Zealand (out of 18)	Started retail business in 1990 and doubled sales every year for five years; growth now in single percentage figures.	Start up with explosive growth.
Number of employees	12	20	50
Family business?	Yes (married couple)	Yes (married couple)	Yes (brothers-in-law)
Stage in company life cycle	Owners started "provisional" franchise and built it up into business actively sought by buyers and sold in 1998.	Owners started and grew business into mature, independent timber retailer.	Start-up business (2000) experiencing explosive growth.
Persons interviewed	2 (owner/manager and accountant)	1 (owner/manager)	1 (owner/manager)

suggested by international research in the first half of the paper. Moreover, all firms met the Statistics New Zealand definition of small and medium-sized enterprises because they had fewer than 100 employees (Simpson et al., 2000).

Table 2 provides precise data on the number of employees per firm as well as other details. The names of the firms are fictitious to insure confidentiality.

In particular, the investigation is based on semi-structured interviews with the owner/managers of these firms and in one case (KAS) also included the accountant specifically hired to generate measures for management decision-making. The three organisations include a franchised retailer of internationally known agricultural equipment (KAS), an independent timber retailer (PT) and a kitchen manufacturer/distributor (BAS).

Secondary documentation was triangulated with the interviews. The analysis employed traditional, framework-testing, qualitative research techniques (Miles and Huberman, 1994; Yin, 1994). The following sections discuss the financial and non-financial measures used by the companies and a comparison is made with the measures suggested by international research. The positives and negatives associated with tracking such measures are discussed and conclusions are drawn.

FINANCIAL MEASURES TRACKED

All three firms compiled financial information using three different

New Zealand SME owners tend to think of their businesses in lifestyle, not investment terms

accounting software packages as well as Microsoft Excel for graphing and charting data. All three firms tracked financial measures at least monthly. PT tracked sales data more frequently (weekly) in that the company allowed individual employees access to sales information so they could assess their individual performance relative to targets set. PT did not share expense information with employees, only sales data. Similarly, BAS reported plans to shift to weekly dissemination of actual sales data graphed against projected sales data within six months.

Figure 4 reports the financial measures tracked. These were revealed through the interviews and confirmed with archival data from the companies. There are three issues of interest to note when comparing the New Zealand measures with the common international measures.

First, the return measures were not of interest to the New Zealand SME owners. The accountant for KAS, who has worked for numerous small businesses, said the reason for this is New Zealand SME owners tend to think of their businesses in lifestyle, not investment terms and thus are not interested in return measures.

Second, two of the companies (PT and BAS) indicated that they tracked the sales/employee measure informally across competitors (see right-hand column of "Others" row in Figure 4). This is an issue they specifically thought of as a source of competitive advantage and they attempted to informally find out what this ratio might be for rivals.

Third, the New Zealand companies in the study included measures that are not reflected in the international literature on businesses with fewer than 100 employees. These are shown at the bottom of the right-hand column

FIGURE 4 Comparison of international and New Zealand financial measures

	Common international measures	New Zealand measures
Growth measures	% increase in ... • Sales • Owner's pay • Absolute profit	% increase in .... • Sales by product line • Owner's pay • Absolute profit (gross and net)
Return measures	Return on ... • Sales • Assets • Investment	• Not tracked by businesses studied
Volume measures	• Sales • Net worth • Total assets	• Sales (by product line for KAS and PT, by distributor for BAS) • Total assets (KAS)
Others	• Profit margin • Sales/employee	Sales/employee (informally traced by two of three businesses)
New Zealand measures		• Wages and cartage (PT) • Product line expenses (KAS) • Manufacturing and distribution expenses (BAS) • Break-even point (BAS) • Cashflows (BAS, PT, KAS) • Inventory (KAS, PT)

of Figure 4. In particular, these measures reflect what expenses were seen as critical for the individual businesses. For example, PT tracked wages and cartage for its timber products while KAS tracked expenses for the three areas of the business and BAS computed overhead expenses for each of its distributors. The New Zealand measures also indicate a concern for cashflow.

FINANCIAL MEASURES AND BANKERS

According to international research on SMEs, bankers are particularly interested in financial data as summarised in Figure 2. The interviewed SME owners verified and extended this story for New Zealand. Bankers' interest in financial data was confirmed by the owner of BAS who said that bankers required extensive pro forma financial projections before lending him the start-up finance for his company.

Beyond start-up, however, none of the enterprises required additional finance to fund growth. Growth was funded through internally generated funds. As a result, banks requested only annual financial statements and tax accounts for the operating businesses. This was the case even for KAS whose banker knew that the company was generating extensive financial information in-house for management purposes.

FINANCIAL MEASURES AND PLANNING

The owner/managers interviewed for this article used financial information for both operational and strategic planning. The operational planning focused on inventories and cashflow. Specifically, the owner of KAS used financial information to plan for GST payments and for inventory management. His business had significant resources invested in an inventory of expensive farm machinery and had to pay particular attention to turning this over into sales. Similarly, PT used financial accounts to plan for overdraft needs when timber supplies were ordered in preparation for its busy season.

The owner/manager of BAS used financial data for strategic planning purposes. This was necessary to secure the initial finance from the bank to start up the company. In particular, sales were forecast by projecting a trend based on historical data for the number of kitchens sold. Scenario planning was conducted using key financial statistics. For example, profit-funded growth potential was estimated assuming three different scenarios for average price per kitchen. These were (1) current average retail price, (2) $2000 above current average retail price, and (3) $2000 below average current retail price.

The owners of PT also used financial data when making the decision to expand into a new geographic area. Market share data for retail timber products was analysed and possible PT sales in the new market were projected from this.

FINANCIAL MEASURES AND COMPETITIVE ADVANTAGE

The companies studied found it difficult to compare their financial results with those of rival firms because they did not know where to get comparative data. Of the three, only BAS was able to systematically compare itself to rivals on costs of manufacturing and retail prices of kitchens. This was possible because the company was signing up potential rivals as distributors within their new firm. Data on prices relative to costs for individual joiners was used to illustrate how BAS could provide kitchens to the local distributor at lower costs due to an economy of scale generated by centrally manufacturing many distributors' kitchens.

Bankers required extensive pro forma financial projections before lending start-up finance for his company

The measures were not developed using a systematic framework, but emerged over time as important for managing the business

The other two firms expressed a strong interest in comparing their financial measures with that of rival companies, but did not know where to access such data. These two firms did make comparisons against financial standards where possible.

For example, PT had industry averages for sales and expenses reported by its accountant in annual financial statements. KAS was able to secure sales and market share data from the parent company for all New Zealand franchises of the parent. KAS thus knew that it was consistently the number two or three franchise in the country. KAS also tried to obtain sales and market share data for franchises in the US (the parent company was a US-based firm), but was unable to do so due to parent-firm bureaucracy.

NON-FINANCIAL MEASURES TRACKED

The New Zealand companies investigated did track non-financial measures of enterprise performance. These measures were not developed using a systematic framework as suggested by Kaplan and Norton (1996), but emerged over time as important for managing the business. The specific non-financial measures used by the studied firms are reported in **Figure 5**.

As recommended by Kaplan and Norton (1996), the non-financial measures were tied to specific goals for each company. For example, a principal goal of BAS is to increase market share and this can be seen in this enterprise's attention to customer and distributor satisfaction (Figure 5, left-hand box). KAS' goals were to increase revenues and decrease expenses. These goals are reflected in its willingness to share sales information with employees and its tracking of repair time on products under warranty relative to parent-company standards (Figure 5, middle box). PT aspired to continued growth as seen through its sharing of sales information with employees (Figure 5, right-hand box).

Beyond goals, four other trends emerge from gathering data on non-financial information tracked by New Zealand SMEs. First, the SMEs studied were thoughtful about tracking internal business processes (Figure 5, middle box). The number of measures identified here are substantively more than those in the other two categories. The importance of following internal business processes was succinctly summarised in the following quote from the owner/manager of

FIGURE 5

Non-financial measures tracked by New Zealand SMEs

Customer	Internal processes	Learning & growth
• Distributor satisfaction (BAS) • Final customer satisfaction (BAS)	• Kitchen installer feedback sheet (BAS) • Manufacturing times tracked by computer (BAS) • Time to complete typical repairs on products sold compared to standards set by parent company (KAS) • Time to assemble pallet (PT, informal) • Value of cubic metre of timber (PT, informal) • Forklift loading time (PT, informal)	• Hire training manager for manufacturing employees (BAS) • Sales information sharing with employees/distributors (BAS, PT, KAS) • Training prospective manager to take over business (PT)

KAS: "We had to know exactly how much time service jobs took relative to (the parent company's) standards ... otherwise how could we budget for those costs or know what was going on in that area of the business?"

Second, some of the internal business process measures were tracked informally, where indicated in parentheses in Figure 5 (see middle box). For example, the owner/manager of PT, the timber retailer, developed a standard amount of time it should take to assemble a pallet after years of experience. This standard is communicated and worked to by employees, but pallet-assembling time is not formally measured. The owner feels the company achieves close to the standard consistently, but has no way of knowing with certainty.

Third, the companies studied were thoughtful about the long-run learning and growth of their enterprises. This is seen in the owner/managers' willingness to share sales information with employees. All three owner/managers talked about providing sales data as feedback to employees so they "self-manage". Stated differently, employees were given sales information that they could use to assess their progress toward personal goals. The owner/manager of PT said the sharing of sales information with employees had a very positive effect on them: "Employees tend to see this as their own company ... one they have a stake in." The New Zealand companies' concern with learning and growth was also seen in their interest in training employees (see Figure 5, right-hand box).

Fourth, the researcher was surprised by the presence of just two measures that assessed the customer view of the enterprises studied (see Figure 5, left-hand box). Two companies, KAS and PT, did not formally assess customer satisfaction with their products or services. The owner/manager of KAS said he felt it was not necessary to do so because of the brand strength of the parent company and because of the continual contact the owner had with customers. PT's owner believed that his enterprise's strong growth indicated customer satisfaction. Given the success of these two companies, it makes sense that there was a relatively high level of satisfaction among customers. However, what these companies do not know is if and how customer satisfaction could be improved. Such an approach is being taken by BAS with feedback from customers and distributors being actively sought and measured. The company is also developing standards and systems for responding to this feedback within 72 hours of receiving it. The thinking here is that customers know best how they wish to be served and finding out what they want will keep the company well ahead of the competition.

FINDINGS FROM CASE STUDIES

Table 3 reports the broad findings from the case studies. These findings were generated by comparing themes in the New Zealand case studies with themes that are common in research done on overseas SMEs. The rows articulate the following three themes for New Zealand SMEs: what they can do more of according to overseas research, what is relevant for them that is overlooked by overseas research, and what they can teach overseas SMEs. The columns represent the different kinds of enterprise performance measures investigated in the case studies.

POSITIVES AND NEGATIVES OF TRACKING MEASURES IN NEW ZEALAND SMES

The owner/managers interviewed talked of the positives and negatives associated with

All talked about providing sales data as feedback to employees so they "self-manage"

TABLE 3 Broad findings from case studies

	Different measures of enterprise performance			
	Financial	Customer	Internal Processes	Learning & Growth
What NZ SMEs should do more of according to overseas research	1 Track return measures or profit margin (way to focus on expenses relative to sales). 2 Benchmarking – NZ SMEs wish to do it, but do not know where to get comparative data.	1 Consider formally measuring customer satisfaction. 2 Devise formal mechanisms for feedback from customers.	1 Formally measure and track internal processes critical to business. (For example, if PT formally measured loading of pallets, it might be able to get closer to standard loading time and cut costs as a result.)	1 Share expense data with employees, not just sales data.
Issues for NZ SMEs *overlooked* by overseas research	1 Management of accounts receivable in NZ context. Cash discounts may motivate US customers to pay in short timeframe, but SME owners report they do not work in NZ.	1 What specific benefits can formal customer satisfaction measures and customer feedback devices provide in the small, somewhat insular context of NZ small business.	1 What tangible benefits are likely to accrue from formally tracking internal business process measures.	1 What information systems and training are particularly important for growing NZ SMEs over the long run.
What overseas SMEs can learn from NZ SMEs	1 Pictures and graphs effectively communicate financial information to employees of any educational level. 2 Financial measures help with operational planning, not just strategic planning. 3 Financial measures need to be tracked by in-house manager weekly to facilitate good decision-making.		1 SME owners able to identify key internal business processes by being actively involved in day-to-day activities of the business.	1 Employees more likely to learn if owner/manager is continually learning and expanding skills 2 Openness of companies to sharing sales information created employees who felt like owners of businesses.

tracking performance measures within SMEs. It is important to present both in an effort to create a balanced picture of tracking SME performance.

Five positive themes were reflected by the enterprises studied. The first was that tracking financial measures on a monthly basis gave owner/managers an accurate picture of what was happening in their business. Owner/managers reported that before they tracked financials systematically they had only a "feel" for where the business was. For example, both PT and KAS felt they had seasonal sales, but measurement provided a way to put a precise number and time period to this cycle.

To illustrate this more precisely, consider the following quote from the owner of PT: "This (tracking information on financial software) is such an improvement over the cashbook that I started the business with. In those days we knew only once a year where we were and that was when the accountant put together the financial statements. Even then, we didn't get those statements until three to six months after the financial year ended and then it was too late to do anything about problems ... we always ended up operating based on the feeling of whether we were doing well or poorly."

The second positive theme was that measurement facilitated precise operational planning for the business. In particular, the studied enterprises were able to plan more accurately for the following: GST payments, product inventory, cutbacks in expenses during seasonal lows in sales, and bank overdrafts.

The third positive theme identified in the interviews was that owner/managers learned things they did not know about their business through the process of measuring enterprise performance. KAS, in particular, learned that its parts business was an excellent and steady moneymaker and decided to expand it. KAS also learned that its repair business lost money, but was necessary to support the machine sales area of the business (see Table 2). The owner/managers thus decided that the best way to manage the repair area of the business was to attempt to minimise the loss of operating it.

The fourth positive theme is that tracking sales information and sharing it with employees helped to motivate employees to meet personal targets for sales and bonuses. This aligned the employees' goals with the owner/managers' goals and created, in the main, a very co-operative atmosphere within these companies.

The last positive theme uncovered was that extensive financial and manufacturing forecasting could help secure very significant start-up financing. The owner/manager of BAS believes that without this forecasting, the company would not have received this much-needed finance.

Interestingly, five negative themes about tracking SME performance surfaced as well. The first was the difficulty in trying to communicate with people (employees) in numbers. These companies predominantly found that people did not make much sense out of numbers so they converted these into "pictures" such as charts and graphs that employees could understand.

The second negative theme was the time involved in tracking performance measures. The owner/manager of BAS expressed this quite well: "Time spent on financials is time away from marketing which is critical for this business. I should be on the road all the time signing up new distributors and talking directly to customers and I can't be because I have to attend to the numbers." This quote also reflects the individualism identified in other New Zealand case studies where successful SME manufacturers insist on coping with

Tracking sales information and sharing it with employees helped to motivate them

The most surprising finding from the case studies was that SME owners did not track return measures

financial planning and forecasting themselves (McGregor and Gomes, 1998).

A third negative theme was cost. The owner/manager of KAS indicated that a downside to the company's system was the money it had to spend to have a full-time accountant generating measurement information for management. Similarly, the owner/manager of PT talked of the significant investment that had to be made in software to track financial measures. The original package cost $50,000 in 1991 and significant upgrades had been made since it was first adopted. This "cost" theme was echoed in research done on European SMEs where owners were very product-oriented and found it difficult to justify the expense of hiring in-house marketing or financial expertise (Bamberger, 1994).

A fourth theme was that a small number of employees resented the compilation and publication of sales data for the company. In particular, the manager for the repair area of KAS' business did not appreciate his area of the business showing up as a "loss" to the company overall.

The fifth and final negative theme was the potential intimidation that performance measures, financial measures in particular, can sometimes create. The owner of BAS spoke of this when describing the scenario planning done to secure start-up finance for the company. He was able to see how quickly things could go seriously wrong with the business if just a few measures got out of line. Similarly, the owner/manager of PT talked about getting worried or intimidated by a bad month. This person described how, when it is your own business, it is sometimes hard to remember that there have been bad months in the past and they are just part of the natural cycle of doing business.

CONCLUSION

The purpose of this article was to develop a framework of performance measures for SMEs based on overseas research and to test this framework in the national context through New Zealand case studies. The framework included both financial and non-financial measures.

Findings from the case studies endorsed many of the proposed measures while rejecting some. Also, results suggested (1) improvements New Zealand SMEs could make in tracking performance measures, (2) issues for New Zealand SMEs that are overlooked by overseas research and (3) insights on tracking performance measures that might help overseas SMEs as well as New Zealand SMEs.

The most surprising finding from the case studies was that SME owners did not track return measures. Results show that, in part, this was due to owners viewing their businesses in terms of lifestyle and not investment. It also suggests that SME owners might have a more operational or tactical planning horizon, as opposed to a strategic planning horizon.

An operational planning level is consistent with PT's informal internal process measurements such as time to assemble a pallet of timber and forklift loading time (see Figure 5). It is also consistent with the expense items tracked by PT and KAS and listed under the New Zealand measures in Figure 4.

These findings suggest that tracking return measures, in addition to recording important operating measures, is a possible prescription for New Zealand SMEs interested in adopting a more strategic, long-run planning horizon. Other more strategically focused analyses implemented by BAS such as scenario planning and break-even analysis can also help SMEs expand to a more strategic planning horizon.

Finally, the benchmarking and customer measures mentioned in the "should" row of Table 3 add to a strategic focus through identifying potential competitive advantages and unmet customer needs respectively.

Beyond tracking SME performance, it is hoped that the reviewed measures can help owners of New Zealand SMEs take advantage of the opportunities that are emerging for SMEs in the global economy. These opportunities include speedy delivery of innovative products and services to markets and customers now accessible as a result of globalisation.

It is small and medium-sized enterprises, more than big business, that consistently provide the flexibility, innovation and speed needed to meet the challenges presented by the pressures of globalisation (Naisbitt, 1994). Big businesses are less able to meet these challenges because they are constrained by rigid structures and standard operating procedures that promote inertia not innovation.

The differences between SMEs and big business in meeting the challenges of globalisation are summarised in a popular metaphor. SMEs are seen as gazelles, compared to the elephants of big business. Gazelles are small, but extremely fast and agile, whereas elephants are large, slow and incapable of the quick, numerous changes in direction that come naturally to gazelles.

It is hoped that New Zealand "gazelles" use the measures described in this article to ensure they respond quickly to the opportunities presented by the globalisation of the economy.

Patricia Corner

SENIOR LECTURER

Department of Strategic Management and Leadership

Waikato Management School

University of Waikato

Email: pcorner@mngt.waikato.ac.nz

FURTHER READING

Readers are referred to Kaplan and Norton (1996) for detailed information on using non-financial measures to improve SME performance. Readers also are referred to Schwenk and Shrader (1993) for additional information on the influence of planning techniques on SME financial measures. These authors meta-analysed findings from 14 studies of overseas companies with fewer than 100 employees. For an in-depth look at SMEs in New Zealand, readers are directed to Cameron and Massey (1999).

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