

# STUDY ON THE PERFORMANCE EVALUATION MODELS OF SMALL AND MEDIUM ENTERPRISES IN ROMANIA

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## Abstract:

*In the current economic context, market by the globalization of the requirements of the European integration process, there is a growing interest in the business performance, so that they substantially improve their competitiveness in the European requirements.*

*The paper highlights some of the results of a study conducted by the author in the doctoral program. One aim of this study was to determine the usability of business excellence models to assess the performance of small and medium enterprises in Romania.*

*The research was conducted by the author in 2011-2012, in 173 small and medium enterprises in Romania. The research has shown that small and medium enterprises in Romania are concerned with the use of a business excellence model either Romanian or European model. Although uses a model of excellence in business, yet they meet certain criteria of the EFQM European Excellence Model.*

**Keywords:** *performance evaluation , SME, social responsibility, Romania*

**JEL Classification:** *C52, L25*

## 1. Introduction

The importance of performance evaluation in other contexts than the financial one was highlighted since the mid-20th century by various theorists and practitioners. One of the developers of the idea of performance assessment at the individual level and aligning objectives at individual performance with organizational level was Peter Drucker. Peter Drucker introduced the concept of management by objectives in 1954 in his book „The Practice of Management”. Peter Drucker has supported the idea that all employees should have drawn personal performance goals to be anchored and paragraphs organizational strategy.

Recent years are marked by a number of concerns regarding the definition and evaluation of the enterprise performance. Being efficient means being the best, to fight for the best. Performance is success, competitiveness, action, continuous effort, the optimization and projected future. Increasing competitiveness is a key factor for both SMEs and large enterprises. Enterprise performance involves the same challenges in the context of a national economy as in a global economy, namely efficiency, effectiveness, competitive advantage.

A somewhat more comprehensive view on performance is obtained if defined and by reference to the conduct and results. Such a definition is that of Brumbach (1988) who considered that “*performance means both behaviors and results. Behavior emanating from the performer and transform performance from abstract to concrete action. Not just tools for obtaining results, behaviors are, by themselves, and outcomes - product made to exercise and cerebral tasks – and can be judged apart from results*”. (Rizea and Parpandel, 2009). This definition leads to the conclusion that performance when managing the performance of teams and individuals, should be considered as inputs (behavior) and outputs (results).

According to the authors Zybaczinski and Manole, the enterprise performance can be seen from many points of view (Niculescu and Lavalette, 1999):

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- *technical performance* are the effective use of available resources in the organization and is measured primarily by productivity. Therefore, increasing the technical performance is affected by the increase in productivity;

- *economic performance* means achieving at high levels of business activity overall results compared to objectives, competition and the years preceding;

- *social performance* are adapting to the needs of customers and their purchasing power by offering products / services of technically good and reasonably priced. The organization shall provide employees with a favorable and satisfactory wages;

- *performance management*, business is adapting to the needs and cultural conditions of both the company and the environment in which it operates. From here, there were many management models, such as the Japanese model, the Swedish model, the Anglo-Saxon model, American etc.

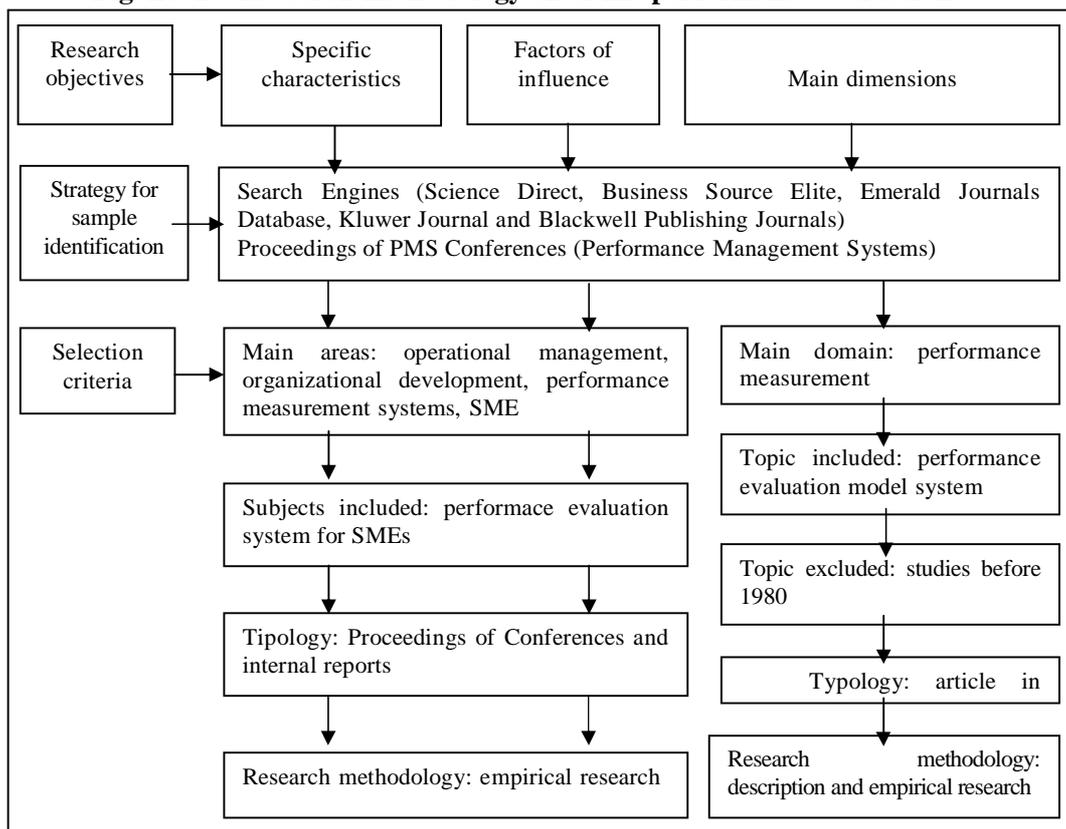
In the economic practice, enterprise performance to be productive and effective at the same time. Performance evaluation of an enterprise can be achieved using models and tools.

## 2. Research methodology and results

Research highlights some of the results of doctoral research conducted by the author. The research methodology was based primarily on an analysis of the literature and a questionnaire in 173 enterprises in Romania, in 2012. Thus the main goals of this research are (fig. no. 1):

- identify the characteristics of performance evaluation models of SMEs;

**Fig. no. 1 – Research methodology on SMEs performance evaluation**



Source: adapted by Garengo, P., Biazzo, S. și Bititci, U.S., *Performance measurement systems in SMEs: A review for a research agenda*, International Journal of Management Reviews, vol.7, no.1, pp.25-47, 2005

- highlighting the factors influencing the performance evaluation of SMEs;
- typology of performance evaluation models of small and medium enterprises;
- study on the use of business excellence models to assess the performance of SMEs in Romania.

Given the objectives of the author in making this research, the research results are presented below.

### ***2.1. The research results on the characteristic of performance assessment models of small and medium enterprises***

Garengo P., Biazzo S. and Bititci U.S. (2005), in their paper „*Performance measurement systems in SMEs: A review for a research agenda*”, were able to identify five common characteristics regarding the performance evaluation. These features are presented as follows.

*a) Difficulty on the involvement of small and medium enterprises in measuring project performance*

Businesses that take part in these projects rarely continue with the lack of time available for non-operational activities and to involve a small number of entrepreneurs or top managers in such projects.

*b) Small and medium enterprises either do not have a performance evaluation model, or they have but do not use it properly*

Many enterprises often implement only a part of the general model, while other enterprises change the structure of the model without taking into account carefully changes.

*c) Implementation of performance management in SMEs was rarely a holistic approach*  
SMEs do not implement integrated performance management systems and do not have knowledge of performance evaluation models.

*d) Measuring the performance of SMEs is informal*

Within SMEs, planning is usually absent or limited to operating levels, that if the performance is measured.

*e) SMEs have limited resources for data analysis*

SMEs usually use more tables than the version graphics, making it more difficult in the interpretation of information. Only SMEs with experience in quality management began to develop a graphical presentation of the information it gathers.

### ***2.2. Research results on the factors that influence small and medium enterprises performance evaluation***

Many researchers say that there are a number of factors specific to small and medium enterprises, which can even be obstacles in the implementation and use of a performance measurement system. They are listed below.

*a) Lack of human resources*

SMEs have limited human resources. All personnel involved in management activities of daily labor, with no time spent and additional activities such as implementing a system of performance evaluation.

*b) Management capacity*

A managerial culture, most often missing in an enterprise. Therefore management tools and techniques are seen as techniques with small benefits for enterprise.

*c) Limited capital resources*

The impact of resources for the implementation of a performance evaluation system in SMEs is directly proportional with the implementation in large enterprises.

*d) Reactive approach*

Lack of methodologies and strategies to support the explicit control orientation promotes both short-term and reactive approach to managing activities within the enterprise.

*e) Tacit knowledge and less attention given to the formalization process*

One of the main obstacles to organizational development in SMEs is the lack of leadership and lack of a formalized management process itself.

*f) Misconception regarding the performance evaluation*

SMEs most often do not understand the benefits of implementing a performance appraisal system, these systems are perceived as a cause of bureaucratization and an obstacle to SME flexibility.

**2.3. Research results on the typology of performance evaluation models of small and medium enterprises**

To excel in business is to be better than others, to be higher especially by performance management and financial. If we evaluate and compared the performance of some benchmarks by an enterprise, we can determine a level of excellence in its specific business (Olaru și Pirnea, 2011).

Internationally, the evaluation of the performance can be achieved by the following models and tools:

*a) European model* – resulted in EFQM European Quality Award criteria.

*b) National Business Excellence Models:*

- American model – resulted in American Award for Quality Malcolm Baldrige criteria;
- Canadian model – materialized on the criteria: leadership, planning, customer focus, human resources, process management, beneficial supplier relationships, organizational performance;
- Japanese model – materialized into CWQC principles;
- Australian model – materialized on the criteria: leadership, strategy and planning process, data, information and knowledge, human resources, customer and market focus, processes, products and services, results;
- Romanian Award for Quality J.M.Juran – materialized in increased confidence in the quality both at micro and macro level, stimulating a modern management style based on teamwork and customer division that owns.

*c) Balanced scorecard tool (BSC)* analyzes the strategic decisions from four dimensions: financial focus, customer focus, internal focus and organizational learning focus.

*d) The „Performance Prism” model* is materialized in the categories of partners whose importance has grown in recent years: vendors, lobbyists standardization bodies. Performance Prism is a model proposed by Cranfield University. Based on the expectations of partners, the model seeks to partially reduce this area is virtually ignored by the BSC and its improvement.

*e) The Skandia Navigator model* focuses primarily on measuring and managing intellectual capital. One of the most popular models of performance management is the Swedish company Skandia, developed in the early 1990s. A team led by L.Edvinsson proposed a performance management model based primarily on intellectual capital. Initial model used by Skandia, is a development of the BSC, which focuses primarily on measuring and managing intellectual capital.

*f) The Organizational Performance Profile model* is materialized on the criteria leadership, direction, environment and values, responsibility, coordination and control, skills, motivation, external orientation, innovation.

*g) The „7 S” model* is used as a tool for addressing global enterprise, allows a systematic and comprehensive view of the organization highlighting the diversity of the levers that determine the effectiveness, organizational performance and the need for harmony/ balance of these.

*h) The dashboard* is a tool for performance measurement, is based on the pyramid objection and concentration information from the tip of the pyramid.

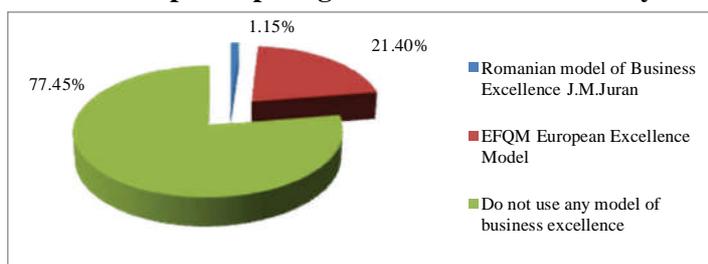
i) *Benchmarking* is the measure of performance of an enterprise that is focused on the following basic idea “*to be competitive you have to compare, and to compare you need to measure*”.

#### **2.4. Research results of the study on the use of business excellence models to assess the performance of SMEs in Romania**

Research highlights some of the results of a study conducted by the author, based on the survey of 173 enterprises.

According to this study, the proportion of businesses using business excellence models is relatively low. Thus only 1,15% of SMEs involved in research are using Romanian model of business excellence J.M.Juran, while 21,4% of enterprises are using the EFQM European Excellence Model (fig. no. 2).

**Fig. no. 2 – Share of business excellence models used in small and medium enterprises participating in research conducted by the author**



Source: according to the research conducted by the author

Therefore, it can be estimated that SMEs are concerned with the use of a model of excellenc in business or Romanian or European model. Although European EFQM model of excellence in business is quite attractive and can be used as a framework adapted to the characteristics ans specific situations, small and medium enterprises are not interested for the adoption of such a model.

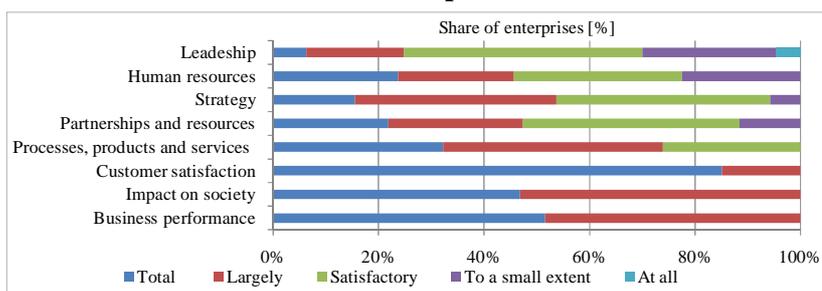
The EFQM European model was revised in 2010 as a result of new challenges in the business environment.

According to the research results, participating enterprises to the research, although they use a model of business excellence, yet they meet certain criteria of the EFQM European Excellence Model. The research showed that while 77,45% of small and medium enterprises are not using any model of business excellence, thy largely meet the criteria of the EFQM Business Excellence.

Survey results revealed that although a number of 134 SMEs are nor using any model of business excellence, thay still meets the criteria fully or largely “*business performance*”, *impact on society*” and „*customer satisfaction*” (fig. no. 3).

Another important criterion that enterprises meet largely is “*processes, products and services*”, respectively 73,8% of enterprises.

**Fig. no. 3 – The fulfillment of the criteria of the European EFQM model of excellence in small and medium enterprises involved in the conducted research**



Source: according to the research conducted by the authors

It can be seen in Figure no. 3 that there are enterprises that meet the criteria by which a limited extent such as:

- criterion „partnership and resources” is met slightly to 11,6% of enterprises participating in the research;
- criterion „strategy” is met slightly by 5,8% of enterprises;
- criterion „human resources” is fulfilled by 22,5% of enterprises.

The only criterion that is not met by 4,6% of all small and medium enterprises in the research is the criterion of „leadership”.

### 3. Conclusions

According to the research conducted by the author, the performance of an enterprise is influenced by factors coming from the external environment and factors derived from internal environment or factors that can be controlled: clear lines of action, the efficient execution, effective operations. An enterprise focusing on these factors can get high and sustainable performance. None of these factors, the performance can not be sustained.

Research results based on questionnaire survey shoed that most SMEs participating in the research, although not used for the performance evaluation any business excellence model, they nonetheless meet wholly or largely European EFQM excellence model criteria in business. Thus, only 1,15% of SMEs involved in the research are using Romanian model of business excellence J.M.Juran, while 21,4% of enterprises are using the EFQM European Excellence Model. Also, while 77,45% of small and medium enterprises that included 134 in research does not use any model of business excellence, they still meets the criteria largely EFQM business excellence model.

This research can provide a starting point for future researches.

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