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THE EFFECTS OF FINANCIAL PERSPECTIVE AS A DETERMINANT OF PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES. A CASE OF ELGEYO MARAKWET COUNTY, KENYA

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Abstract

Purpose: This study effect of financial perspective as a determinant of Performance in Small and Medium Enterprises. The objectives of the study are; to determine the effects of financial perspective on performance, to evaluate the effects of customer perspective on performance and to assess the contribution of the internal business perspective on performance. The study was informed by Balance Score Card theory and a survey research design was used.

Methodology: A population of two thousand small and medium enterprise business persons in Elgeyo Marakwet County was assessed. A sample size of 95 from the target population was used. The study employed a stratified sampling technique for the sub-county and then simple random sampling. Data was analyzed by multiple regressions.

Results: The study found out that the County Government did not support to SMEs in giving loans and these retarded their sales growth in my SME continuously. This was therefore an implication that there was no revenue growth, no increased market share in my SME and little increased return on investment in my SME. Correlation results revealed a significant and positive relationship. However much that financial perspective was a problem , the SMEs in Elgeyo Marakwet County had tied to increased product quality ,customers were satisfied on how staff respond to their grievances in my SME .Finding from objective three found to be less significant to the performance SMEs, as the county working environment was not aware of their conducive for SME, it was found out that Electronic commerce system were not used by SME in the County and neither did achieve any social economic goals and that SME did not increased process capacity. It was found out that HO_1: on relationship between financial perspective and performance. The results rejected the null hypothesis. ($\beta = 0.017$, $p < 0.847$). HO2: on relationship between customer perspective and performance and the hypothesis was therefore not supported, therefore the hypothesis result was rejected ($\beta = 0.299$, $p < 0.009$). HO3: There is no significant relationship between internal business perspective and performance. The results accepted the null hypothesis. ($\beta = -0.076$, $p < 0.500$).

Unique Contribution to Theory, Policy and Practice: The study made the following recommendations: - There need for the county government and microfinance institutions to support SMEs financial, that is by offering them cheap, affordable and low interest loan to the resident. There is need for increased product quality in my SME, maintain customer loyalty, increased customer satisfaction pertaining to staff-: customer relationship in my SME and on time deliveries to customers are valued by my enterprise. On internal business perspective on performance in Small and Medium Enterprises. County government should improve good working environment which conducive for SME, there is need for adoption. The study suggests that other study be done to analyze, future research could verify the dimensions developed in this study and to enhance the generalizability of the research findings, future inquiries could employee more diversified samples across genders and diverse international customer environments.

Keywords: *financial perspective, performance, small and medium enterprises*

1.0 INTRODUCTION

Financial perspective is a measurement indicator as to whether the company's strategy, implementation and execution are affecting the bottom-line enhancement. Financial goals for big companies would be profitability, growth and shareholders' value. But these are different from the financial goals of SMEs who do not have large volume of resources. Kaplan and Norton (1992), For the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992). To date the evidence pertaining to the influence of proactive CSR on a firm's financial performance has been inconclusive. While some studies show no relationship at all (e.g. Gilley *et al.,* 2000; Thornton *et al.,* 2003), some others have shown a negative relationship (e.g. Wagner *et al.,* 2002). However, the majority of studies positively associate proactive CSR in large firms with enhanced product differentiation, improved production efficiencies, and lower operation costs, each of which contributes positively to a firm's financial performance (e.g. Harrison and Freeman, 1999; Hart and Ahuja, 1996; Mackey *et al.*, 2007). These mixed findings may be explained in part by the difficulty of demonstrating empirically a clear direct causal effect of proactive CSR on financial performance, particularly in cases where the activity is philanthropic in nature and not necessarily related directly to the operational business of a firm (Burke and Logsdon, 1996; Castka *et al.,* 2004). Furthermore, as proactive CSR requires a significant investment in resources, the return on that investment may often only be realized in the long-term, rather than becoming immediately apparent through obvious improvement in short-term financial performance (Eisenhardt and Martin, 2000; Hart and Ahuja, 1996; Russo and Fouts, 1997).

2.0 LITERATURE REVIEW

2.1 Concept of Performance

Performance is a measure of how well a mechanism/process achieves its purpose. In enterprise management, Moullin (2003) defines an organization's performance as how well the organization is managed and the value the organization delivers for customers and other stakeholders. Srinivasan, Woo & Cooper (1994) indicates performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. Researchers

(Lau, Zhao & Xiao 2004; Prajogo & Sohal 2003; Rahman & Sohal 2001) identified a positive relationship between best business practices and business performance. Furthermore, a study by Pushpakumari and Wijewickrama (2008) in which County, relating to both large firms and SMEs, constantly emphasizes the relationship between business practices, management activities and firm performance on time of the study. Mandal, Venta and El-Houb (2008) note that best business practices produce best performance. This study also explains that there are several ways through which business practices can be established in specific areas, which can lead to outstanding business performance. Measuring performance is a multi-dimensional concept. Effectiveness and efficiency are the two fundamental dimensions of performance; this is emphasized by Neely, Adams *et al. (2002)* effectiveness refers to the extent to which stakeholder requirements are met, while efficiency is a measure of how economically the firm's resources are utilized when providing a given level of stakeholder satisfaction. To attain superior relative performance, an organization must achieve its expected objective with greater efficiency and effectiveness than its competitors (Neely 1998). To illustrate efficiency, effectiveness, and the value delivered, multi-measures should be used. Though their forms vary widely, financial indicators are traditionally used; Neely (1998) further expounded upon manufacturing performance measures, suggesting that Performance measurement five key-dimensions should be assessed: quality, delivery speed, delivery reliability, price (cost), and flexibility. By measuring all of these factors, performance is thus balanced and multi-dimensional, better reflecting stockholder interest. Performance is the perfect opportunity to address long-term goals that may not be on the everyday to-do list. Not only does this provide the employee with an opportunity to be of greater use to an organization, the employee feels pleased and valued. Lighting the way toward a successful career path inspires loyalty and stability and can improve the bottom line, especially when the employee's first concern is the health of the business, and subsequently, her career. Celebrating a job well-done is the easy part of the performance appraisal. Areas of improvement are not so easy, nevertheless, no one is perfect, and the performance appraisal is an ideal time to diplomatically highlight areas that need improvement. Even the most valuable employee could benefit from additional training, while those who are on the cusp of dismissal need the heads-up. When a company has detailed information on employee performance, business decisions become easier. Filling open positions with existing staff strengthens the organization and promotes loyalty. Knowing which employees display what strengths improves the speed with which projects can be assigned. Appraisals also provide a framework when making decisions about compensation and layoffs. If the organization becomes the unfortunate party to a lawsuit, the performance appraisal can refute or support claims. As a result, the effective use of performance appraisals helps an organization operate efficiently and with focus.

2.2 Financial Perspective

Financial perspective is a measurement indicator as to whether the company's strategy, implementation and execution are affecting the bottom-line enhancement. Financial goals for big companies would be profitability, growth and shareholders' value. But these are different from the financial goals of SMEs who do not have large volume of resources. Kaplan and Norton (1992), For the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992). These mixed findings may be explained in part by the difficulty of demonstrating empirically a clear direct causal effect of proactive CSR on financial performance, particularly in cases where the activity is philanthropic in nature and not necessarily related directly to the operational business of a firm (Burke and Logsdon, 1996; Castka *et al.*, 2004). Furthermore, as proactive CSR requires a significant investment in resources, the return on that investment may often only be realized in the long-term, rather than becoming immediately apparent through obvious improvement in short-term financial performance (Eisenhardt and Martin, 2000; Hart and Ahuja, 1996; Russo and Fouts, 1997).

As suggested earlier, the debate over whether a lack of resources constrains the implementation of proactive CSR in SMEs, thus limiting any positive impact on financial performance, remains ongoing (e.g. Gadenne *et al*., 2008; Miles *et al.*, 1999; Orlitzky, 2001; Rutherfoord *et al.*, 2000; Simpson *et al.*, 2004). However, the idea that there is a positive causal link between proactive CSR and financial performance in SMEs has some empirical support. Financial perspective differs from that of the Traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment. Financial considerations for public organizations have an enabling or a constraining role, but will rarely be the primary objective for business systems. Success for public organizations should be measured by how effectively and efficiently they meet the needs of their constituencies. Therefore, in the government, the financial perspective emphasizes cost efficiency, i.e., the ability to deliver maximum value to the customer.

H_{01}: There is no significant relationship between financial perspective and performance

3.0 MATERIALS AND METHODS

The study was carried out among the business persons who live in Elgeyo Marakwet County. The research employed survey research design and according to Sanders and Thorn ill, (2007) is a research that involves data collection from members of a sample for the purpose of estimating one or more population parameters. Survey design is appropriate for this study as it provides description and accounts of business events and objects of research in their natural setting and thus portrays the actual picture. The study targeted Small and Medium Enterprises (SME'S) in Elgeyo/ Marakwet County totaling 2000. Sample is a subset of the population being studied. It represents the larger population and is used to draw inferences about that population. It is a research technique widely used in the social sciences as a way to gather information about a population without having to measure the entire population.

The sample of this study was obtained from a formula of Nassiuma (2000)

$$S = \frac{N (CV^2)}{CV^2 + (N-1)\, e2}$$

Where

S= desired sample

N= population

CV= coefficient of variation (take 0.5)

e= tolerance at the desired level of confidence (take 0.05 at 95% confidence level) substituting the constants in the relationship above.

S= 0.25×2000 / 0.2+ (2000-1)0.0025 =95

Sample size = 95 representing 4.75% of the population.

The study adopted stratified sampling and sampling technique where the County was sub divided into 4 sub counties namely; Marakwet East, Marakwet West, Keiyo North and Keiyo South. The simple random Sampling technique will be used to pick respondents from each sub county. Each sub county is expected to generate 22 respondents which will total to 88 and 7 from county Government who will be used as a control totaling to 95.

4.0 RESULTS

Frequency tabulation was used by the researcher to present the effects of financial perspective on performance of SMES.

Table 1: Financial Perspective on Performance of SMEs

	SD		D		UD		A		SA	
Financial Perspective	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
My County Government give loan to support to SMEs	47	52.3	36	40.2	4	4.5	0	0.0	3	3.0
There is increase of sales growth in my SME continuously	39	43.9	40	44.7	7	7.6	3	2.3	1	1.5
Revenue in my SME is growing annually	39	43.9	30	33.3	18	20.5	3	3.0	0	0.0
There is increased market share in my SME	19	21.2	30	33.3	17	19.7	16	17.4	7	8.3
There is Increased return on investment in my SME	35	38.6	40	44.7	15	16.7	0	0.0	0	0.0
My Operating cash flows is increasing annually in my SME	18	19.7	42	47.0	19	21.2	7	8.3	4	3.8
My SME operates with value for products	33	37.1	48	53.8	8	9.1	0	0.0	0	0.0
In my SME there is return on capital employed	37	40.9	47	52.3	6	6.8	0	0.0	0	0.0
My SME get loans from microfinance institutions	47	52.3	43	47.0	0	0.0	0	0.0	0	0.0
There is increased return on assets in my SME	26	28.8	49	54.5	15	16.7	0	0.0	0	0.0
My SME achieves profit growth annually	42	47.0	22	24.2	13	14.4	6	7.2	6	7.2
My SME maintains books of accounts	33	36.7	28	31.1	14	15.5	8	8.8	7	7.7

Source :(Survey data, 2015)

From the above questionnaire respondent were asked on whether the County Government gives them loan to support to SMEs, their responses were as follows, majority of 52.3% of the respondent strongly disagree, 40.2% disagreed, 4.5 Undecided and only 3.0% strongly agreed. On financial perspective questionnaire sought to assess whether there was increase of sales growth in my SME continuously, the responses were as follows: - 44.7% Disagree, this was followed by 43.9% who Strongly Disagree, 7.6% were undecided, 38% a small portion of percentage agreed. From the questionnaire the respondents were asked whether their revenue in my SME had grown annually, the responses were as follows: - majority of 43.9% of the respondent strongly disagree, 33.3% disagreed, 20.5% Undecided and only 3.0% agreed. On whether there is increased market share in my SME as result of f financial perspective, the responses were as follows: - majority of 33.3% of the respondent disagree, 21.2% strongly disagreed, 19.7% were undecided, 17.4% Undecided and only 8.3% agreed. The study further asked on whether there is increased return on investment in my SME, the response was as follows: - majority of 33.3% of the respondent disagree, 38.6 % strongly disagreed and 16.7% were undecided. My operating cash flows increased annually in my SME, the responses were as follows: - majority of 47.0% of the respondent disagree, 19.7% strongly disagreed and 21.2% were undecided whereas 12.1% agreed. Responding on whether my SME operates with value for products, the responses were as follows: - majority of 52.3% of the respondent disagree, 40.9% strongly disagreed and 6.8% were undecided.

On the same question on the effects of financial perspective on performance, on whether SME there is return on capital employed the response were as follows: - majority of 52.3% of the respondent disagree, 40.9 % strongly disagreed and 6.8% were undecided. The study sought to asses on whether SME get loans from microfinance institutions the responses were as follows: - majority of 52.3% of the respondent strongly disagree and 47.0 % disagreed. The study further asked on whether there was increased return on assets in my SME the responses were as follows: - majority of 54.5% of the respondent disagree, 28.8% strongly disagreed and 16.7% were undecided. On whether SME achieves profit growth annually the responses were as follows: - majority of 47.0% of the respondent disagree, 38.6 % strongly disagreed, 14.4% were undecided and 12.4 agreed. Responses on whether SME maintains books of accounts: - majority of 36.7% of the respondent disagree, 31.1 % strongly disagreed, 15.5% were undecided, 16.5% agreed. Kaplan and Norton (1992), For the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Measurement of survival is measured in terms of cash flow, success by quarterly sales growth, operating income by division, prosperity by increased market share by segment, and return on equity Kaplan & Norton, (1992).

4.1 Correlations

Table 2: Association of variables

		Financial perspective	Performance (SMEs)
Financial Perspective	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	90	
Performance (SMEs)	Pearson Correlation	.027	1
	Sig. (2-tailed)	.758	

****. Correlation is significant at the 0.01 level (2-tailed).**

Source :(Survey data, 2015)

Model		Coefficients B	Coefficients Std. Error	Standardized Unstandardized Beta	T	Sig.
1	(Constant)	1.087	.448		2.424	.017
	Financial Perspective	.026	.132	.017	.193	.847

Source :(Survey data, 2014)

a. Dependent Variable: performance in SMEs

b. $Y= \beta_x1 + \beta_x2 + \beta_x3 + \beta_x4 + e$

c. $Y=0.017\ _x1 + 0.299_x2 + 0.061_x3 + e$ Where y = performance in SMEs, β=beta

x_1= Financial Perspective

From the results on model summary R= 0.261, R- square = 0.068, adjusted R- square= 0.039, and the SE= 0.55874. Multiple correlation R coefficients indicate the degree of linear relationship of performance in SMEs with all the predictor variables, whereas the coefficient of multiple determinations R-square shows the provision of the total variation in performance in Small and Medium Enterprises that is explained by the independent variables, financial perspective ,customer perspective and internal business perspective in the regression equation.

The R-square gives us the coefficient of determination between the variables the results from the regression analysis give an R-square value of 0.068, which means that 6.8% of the independent variables cause the change on dependent variable (performance in SMEs).

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.261[a]	.068	.039	.55874

Source :(Survey Data, 2015)

a. Predictors: (Constant), financial perspective, customer perspective, and internal business perspective

The significance of the regression model was tested using Analysis of Variance (ANOVA). Table 5 presents the results of this test.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.905	4	0.726	2.326	.060[a]
	Residual	39.648	127	0.312		
	Total	42.553	131			

Source :(Survey data, 2015)

a. Predictors: (Constant), financial perspective, customer perspective, and internal business perspective

b. Dependent Variable: performance in Small and Medium Enterprises. As shown from the table, F= 2.326, p< 0.060

The F test provides an overall test of significance of the fitted regression model. The F value of 2.326 indicates that all the variables in the equation are important hence the overall regression is significant. Since the level of confidence was 99%.

5.0 DISCUSSIONS

Financial perspective is a measurement indicator as to whether the company's strategy, implementation and execution are affecting the bottom-line enhancement. Kaplan and Norton (1992), for the SMEs, the financial goals are simply to continue to exist, to be successful and to prosper. Though their forms vary widely, financial indicators are traditionally used; Neely (1998) further expounded upon manufacturing performance measures, suggesting that Performance measurement five key-dimensions should be assessed: quality, delivery speed, delivery reliability, price (cost), and flexibility.

6.0 CONCLUSIONS

The study concluded that it was found out that County Government did not support SMEs in giving loans and these retarded their sales growth in SME continuously. This was therefore an implication that there was no revenue growth, no increased market share in SME, and little increased return on investment in SME.

7.0 RECOMMENDATIONS

1. There is need for the county government and microfinance institutions to support SMEs financial, that is by offering them cheap, affordable and low interest loan to the resident.
2. There is need for SMEs to be educated on the importance of book keeping, this will facilitate them to know value for their products, return on capital employed and whether there is increased return on assets in my SME.

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