

## **MAF001    A Performance Measurement Framework to enhance the Business Performance and Survival of MSMEs in the Retail Sector in Zimbabwe**

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### **Abstract**

This is a conceptual paper that seeks to propose a performance measurement framework for MSMEs in the retail sector in Zimbabwe. A performance measurement framework is a business tool which may be used to enhance the success and survival of a MSME. The performance measurement framework should be based on critical success factors of the enterprise and the key performance indicators of the critical success factors. The critical success factors which can be considered are commitment of the owner-manager, business planning, management of information, strategies to manage revenue and costs, innovation, management of customers, management of suppliers, management of competitors, the enterprise's pool of resources, conformance to regulations and management of sources of finance. The performance measurement framework is proposed to be built on the basis of the organisational theory, goal theory, open system theory, and stakeholder theory. Therefore, there is a need for considering and balancing the interests of all the stakeholders. The performance measurement framework should focus on both financial performance and non-financial performance.

**Key words:** Performance measurement, critical success factors, key performance indicators, performance measurement framework

### **INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) play a very significant role in the economic development of Zimbabwe. A survey by Finmark Trust revealed that Zimbabwe has 3,5 million MSMEs, with an estimated turnover in 2012 of US\$7, 4 billion and employing 5,7 million people (Block, 2013). This annual turnover for MSMEs in 2012 was much higher than the national budget for that year which stood at only \$3.4 billion (own deduction). Chinamasa (2013:202) also highlighted the importance of the MSMEs to the Zimbabwean economy when he indicated in his 2014 national budget statement that the 2012 survey by Finmark Trust found that Zimbabwe's MSMEs contribute more than 60% to GDP.

The number of people employed by MSMEs as cited in the Finmark Trust survey referred to above is also very high (own deduction) given that according to a national census held in 2012, Zimbabwe has a population of about 13 061 239 people (Zimbabwe National Statistics Agency 2012 census report). According to the Reserve Bank of Zimbabwe's (2007) monetary policy review statement, 80% of population in Zimbabwe depend on MSMEs for their livelihood. The high level of unemployment in the country as a result of

economic meltdown in the last 10 years or so and the government's indigenisation program may have encouraged the majority of people to resort to entrepreneurship in order to earn a living. This implies that the contribution of MSMEs in employment creation and economic development in Zimbabwe is very significant.

Chinamasa (2013:102) argues that strategies that target the development of MSMEs will provide immense benefits to the country in terms of growth, employment generation and support to the fiscus through taxes, among others

### **The retail sector in Zimbabwe**

The Zimbabwean economy is classified into a number of sectors and the major sectors are mining, transport and communication, manufacturing, agriculture and retail (Zimbabwe National Statistics Agency, 2014). The retail sector is the largest sector of the economy and made the highest contribution to GDP in 2013, contributing at least 15.3% (African economic outlook, 2014). This is also supported by Zimbabwe Revenue Authority (2014) which indicated that value added tax contributed the highest tax revenue of 28% in 2014 and it may be inferred that much of the VAT was from the retail sector as the manufacturing sector is currently experiencing very low capacity utilisation (own deduction).

The Zimbabwean economy is sustained more by commercial activities (that is buying and selling) rather than manufacturing and processing activities. A survey by Zimbabwe National Statistics Agency between August 2013 and June 2014 indicated that 59.2% of business operators are in the retail trade (Zimbabwe National Statistics Agency, 2014). The economy has had a declining manufacturing sector for the past years with industry capacity utilisation being estimated at 36.3% in 2014 (Confederation of Zimbabwe Industries, 2014). It may therefore be argued that much of the economic activity in the Zimbabwean economy is in the retail sector. This may suggest that the retail sector is very important for the economic development of Zimbabwe.

### **Challenges faced by MSMEs enterprises in Zimbabwe**

Most MSMEs in Zimbabwe are faced with a lot of challenges which impede their graduation into sizeable corporates (Chinamasa, 2013:203). Nyoni (2012) mentions that most MSMEs in Zimbabwe fail within a year of operating despite the finance and other resources they receive from government and other development partners.

Frazer, Weaven and Grace (2012:54) observed that most of failed small business owners in Australia had ventured into business not by choice or to explore business opportunities, but to get a source of income. This may also be the case in Zimbabwe given that about 50% of economically active persons are self-employed (Zimbabwe National Statistics Agency, 2012:87). There is a possibility that some of the people establishing these MSMEs are likely not to have obtained any training on running a business. Therefore there may be a need to develop a simple framework which may be used by the owner/managers of MSMEs to enhance business performance.

### **Concept of performance measurement**

According to Neely, Gregory and Platts (2005:1229) performance measurement can be defined as “a process of quantifying the efficiency and effectiveness of a process” and a performance measure is defined as “a metric used to quantify the efficiency and/or effectiveness of an action.” They went on to define a performance measurement system as “the set of metrics used to quantify both the efficiency and effectiveness of an action.” Neely, Adams and Kennerly (2002) define performance measurement and a management system as a system that gathers, elaborates and analyses information needed for decision-making purpose. Therefore, these definitions may suggest the existence of a relationship between performance measurement and management and enterprise performance and survival.

### **Importance of performance measurement in an enterprise**

Researchers belonging to different time periods and disciplines appear to be unanimous that performance measurement has an influence on the success and survival of a business enterprise (Srimai, Radford & Wright, 2011:665). There is an argument that performance measurement is a crucial business tool in enhancing business performance (Taticchi, Balachandran, Botarelli & Cagnazzo, 2008; Taticchi & Balachandran, 2008; Amir, 2011:44; Goh, 2012; Hegazy & Hegazy, 2012; Waweru & Spraaakman, 2012; Zeglat, AlRawabdeh, AlMadi & Shrafat, 2012:440; Al-Matari, Al-Swidi & Fadzil, 2014). Cocca and Alberti (2010:186) are of the view that performance measurement is one of the cornerstones of any enterprise’s survival. Taticchi, Tonelli and Cagnazzo (2010:4) argue that enterprises need to monitor and understand their performance in order to become competitive and survive.

Performance measurement is essential in steering an organisation towards achieving its objectives (Gomes & Yasin, 2011:543; Taticchi, Balachandran & Tonelli, 2012:41; Zeglat, *et al*, 2012:440). Research is therefore carried out to find out how measurement of performance can facilitate attainment of organisational objectives (Taticchi, *et al.*, 2010:13). Hence, it might be vital to have a suitable performance measurement framework in place which enterprises may make use of in order to succeed and survive.

There is an argument that having a performance measurement framework in place may influence the managers’ belief system and the way they conduct their business (Srimai, *et al.*, 2011: 673). Taticchi, *et al.*, (2012:43) argue that the measurement of business performance encourages management to be proactive rather than reactive. This may indicate that if it is likely that there are any operational challenges to be encountered in future, the enterprise will begin preparing for such an eventuality now and therefore safeguard survival and continuity of the business.

Performance measurement may influence managers to come up with strategic plans for their enterprises. It might therefore be essential for the performance targets to be in line with the enterprise’s business strategy. It is evident from literature that what gets measured

gets attention (McAdam, 2000:321; Neely, Adams & Crowe, 2001; Cocca & Alberti, 2010:186). Therefore, business performance measurement may force owner/managers of enterprises to decide on factors in their strategic plans that are critical to the success and survival of the enterprises and to design frameworks for measuring and managing them.

A system of performance measurement may help in aligning different activities or organisational units to ensure that synergy is realised. This is supported by Kaplan and Norton (2001:87) who argue that performance measurement systems provide insight into different units or levels of analysis and this helps to assess whether there is synergy among the units and also aligns the units to the enterprise's objectives. Such an alignment is likely to promote efficient use of resources and also encourages the enterprises to capitalise on their economies of scale. Hence the enterprise might become competitive and enhance its chances of survival and success.

Several authors indicate that in order for an enterprise to survive, it is essential to satisfy the competing needs of its various stakeholders (Garengo, Biazzo, & Bititci, 2005:26; Neely, 2005:1272; Chong, 2008:1; Cocca & Alberti, 2010:186; Taticchi, *et al.*, 2012:41-42). Therefore, it might be necessary to identify those stakeholders which the enterprise needs and incorporate them in the performance measurement framework as they play a pivotal role in the success of the enterprise.

It may be argued that benefits assumed to be derived from measuring performance of an enterprise cannot be easily disputed considering the available literature in support of performance measurement (Srimai, *et al.*, 2011:665; Cocca & Alberti, 2010:186; Taticchi, *et al.*, 2010:4; Gomes & Yasin, 2011:543, Taticchi, *et al.*, 2012:41-42). Therefore, is there a need to continue investing time in research on performance measurement in enterprises? While it may be correct to argue that there has been a lot of research on performance measurement over the years, there are still a lot of unresolved issues on the subject especially with regard to performance measurement in SMEs in general and Micro Enterprises (MEs) in particular (Garengo, *et al.*, 2005:28; Chong, 2008:1; Taticchi, *et al.*, 2008:57; Taticchi *et al.*, 2010:14). Therefore, there seem to be a need for research on performance measurement, especially among very small enterprises, if the recent high failure rate of MSMEs reported in literature is to be considered.

The fact that a number of frameworks on performance measurement have been proposed by researchers (Chennell, Dransfield, Field, Fisher, Saunders & Shaw, 2000; Kueng, Meier & Wettstein, 2000; Hvolby & Thorstenson, 2001; Laitinen, 2002; Chong, 2008; Taticchi, *et al.*, 2008; Chalmeta, Palomero & Matilla, 2012) also pose problems for the practicing managers. This may also be evidence that research on the subject has not been conclusive. A review of the literature on performance measurement does not point towards an agreement amongst authors on the best performance measurement framework to be adopted by MSMEs (Neely, 2005:1267). Probably the reason is that performance is a concept which may mean a different thing to different people and which has a number of variables. The concept is very complex and multi-dimensional in nature (Simpson,

Padmore & Newman, 2012:272-274). Hence the need for the design of a performance measurement framework in the context of MSMEs in the retail sector in Zimbabwe arises.

## **RESEARCH PROBLEM**

As argued before, the future economic growth of Zimbabwe lies in the performance and success of MSMEs in general and those in the retail sector in particular. The focus on the retail sector will be more ideal for most MSMEs in Zimbabwe because the sector has less entry barriers for small enterprises (Chikweche, 2015; Mufudza, Jengeta & Hove, 2013). However, the challenge which most MSMEs face the world over is to sustain their operation (Myles, 2010). MSMEs in Zimbabwe are not an exception to this challenge. Nyoni (2012) and Chinamasa (2013) indicate that most MSMEs in Zimbabwe fail to graduate into large corporates. The MSMEs therefore fail to act as the seed-bed for the development of large companies as proposed by Storey and Westhead (1994). According to Mudavanhu, Bindu, Chigusiwa and Muchabaiwa (2011) the failure rate of MSMEs in Zimbabwe is at 85%, with 60% failing in the first year and 25% within the next three years. Their research just like many other researches the world over, found that the major causes of failure of MSMEs in Zimbabwe were lack of general knowledge on how to run the business, unavailability of credit, competition from imports and high cost of raw materials. Nyoni (2002) also highlights the causes of MSMEs failure in Zimbabwe as limited access and cost of finance; lack of marketing skills and market knowledge; inadequate management and entrepreneurial skills; lack of access to infrastructure; lack of access to land; lack of information; and a hostile regulatory environment.

While most previous studies have tended to focus on identifying the causes of failure for MSMEs, this research will attempt to focus on the critical success factors for the performance of MSMEs and propose a performance measurement framework to manage the critical success factors. Thus, the research assumes that measurement of the critical success factors will lead to better management of the factors resulting in high performance and the success, survival and growth of the MSMEs in the retail sector in Zimbabwe.

## **Research objectives**

The main objective of the study is to develop a performance measurement framework to be used by MSMEs in the retail sector in Zimbabwe in order to enhance their success and survival.

## **Specific objectives**

- Determine the critical success factors which drive the business performance of MSMEs in the retail sector in Zimbabwe.
- Propose a conceptual framework and performance measurement framework applicable to MSMEs in the retail sector in Zimbabwe.

## **Literature Review**

MSMEs may require a framework that is efficient, easy to apply and cost effective. The reason being that most MSMEs have limited resources especially information technology,

and therefore require approaches and performance measurement frameworks that respond to their specific circumstances (Garengo, *et al.*, 2005:29-30). An ideal performance measurement framework is one which can encourage an enterprise to set performance targets and review performance from time to time to ensure that the enterprise is still on course towards achieving its objectives (Linn, 2007). Focus should not be only on the results but determinants of those results as well (Taticchi, *et al.*, 2012:41). Therefore, it is important to understand the causal relationship between results and determinants of those results as this would help in deciding the course of action to take in order to steer an enterprise towards achieving its performance objectives (Garengo, *et al.*, 2005:34-35; Simpson, *et al.*, 2012:264-266).

The performance measurement framework should be flexible so that it responds to the changing circumstances of MSMEs (McAdam, 2000). Cocca and Alberti (2010:193-97) also argue that it is important to design a framework for small enterprises which is simple, clear, focused and which give useful information. Such a framework might be more appropriate to MSMEs given that the majority are managed by owner-managers and some of the owner-managers may lack basic training in business management (Mudavanhu, Bindu, Chigusiwa and Muchabaiwa, 2011) and may therefore not be able to comprehend complex performance measurement frameworks.

A performance measurement framework should be balanced. A balanced framework is one which incorporates different performance dimensions (Garengo, *et al.*, 2005:32). Kaplan and Norton (1992) consider a balanced framework to be one which incorporates financial and non-financial measures. Taticchi, *et al.* (2008:66) argue that a balanced framework is one which incorporates financial and non-financial measures, internal and external measures and considers all stakeholders. Therefore a balanced framework may likely contribute to the success and survival of the MSMEs.

### **The performance of MSMEs in the retail sector in Zimbabwe**

The hyperinflationary environment experienced between the period 2004 and 2008 saw the proliferation of MSMEs in the retail sector (Chikweche, 2015). He further argues that the MSMEs were taking the market once occupied by large retail outlets which had either ceased operating or reduced the level of operating. Examples of such large retail outlets in Zimbabwe are OK supermarket, TM supermarket, Spar supermarkets, large clothing companies such as Topics, Edgars and large furniture retail shops such as Meikles, Pelhams, TV Sales and Hire and many others. The hyperinflationary period was characterised by high interest rates, frequent price changes, shortage of foreign currency and price controls (McGreal, 2007). Most formal large organizations could not continue operating during turbulent economic environment. On the other hand the same hyperinflationary period presented opportunities for MSMEs as they could be reactive enough to adapt to the rapidly changing economic environment (Mufudza, Jengeta & Hove, 2013).



The MSMEs outperformed the large and formal retail shops by acquiring foreign currency from the illegal parallel market (black market) and importing products to make up for the local supply shortages (Chikweche, 2015). The MSMEs were also in a better position to elude price controls than large supermarkets which were being constantly monitored by the authorities (McGreal, 2007).

In 2009 the Zimbabwean economy ceased using the Zimbabwe dollar and adopted multi currencies as legal tenders. The use of multi- currency system, mainly the United States dollar, the South African rand and the Botswana pula led to the stabilisation of the economy as characterised by low rates of inflation and relatively low interest rates (Kanyenze, Kondo, Chitambara & Martens, 2011). The use of the multi- currency system was followed by the re-entry of large retail outlets posing a threat to the MSMEs in the retail sector (Chikweche, 2015). There is an argument that MSMEs performed well during the hyperinflation period because they took advantage of the scrutiny that the big retail outlets faced from the Government and gained market share without necessarily developing sustainable business models (Chikweche, 2015). This research advances an argument that one such sustainable business model that may enhance the survival and success of the MSMEs is a performance measurement framework.

The large retail outlets regained lost market share by recapitalising and expanding their outlets as well as improving operational systems so that they could use their critical mass advantage (Chikweche, 2015). The large retail outlets managed to improve their performance by forming strategic alliances with suppliers, reducing profit margins and diversifying to other business sectors (Chikweche, 2015).

### **Criticisms of the available frameworks**

As stated earlier, literature seems to suggest that most of the available performance measurement frameworks are not suitable for MSMEs. There are limited frameworks specific to the context of MSMEs. Therefore it would appear as if MSMEs are compelled to use models which do not suit their circumstances (McAdam, 2000:305-306; Garengo, *et al.*, 2005:28). The assumptions held in performance measurement frameworks developed for large enterprises may not be valid when applied to MSMEs. Some frameworks assume that enterprises have large customer bases and these customers are relatively homogenous in nature (McAdam, 2000:309). On the contrary, in Zimbabwe MSMEs have a diversity of customers ranging from individual customers to large corporations as well as from informal enterprises to formal enterprises (Chikweche, 2015; Mufudza, Jengeta & Hove, 2013). Hence the need to develop a framework tailored to the needs of MSMEs in the retail sector in Zimbabwe.

Unlike large enterprises, MSMEs' employees have a closer relationship with the enterprises' customers (McAdam, 2000:309). This closer relationship with customers implies that there may be a need for designing a framework that maintains such relationships for a long time thereby promoting long-term success of the enterprises.

Most of the frameworks developed for large enterprises assume involvement and participation of employees at all levels (McAdam, 2000:309). For example the Balanced Score Card (BSC) has a quadrant on people or employee learning and growth. However in MSMEs there is less participation by employees in decision-making and the owner-manager makes sole decisions regarding the running of his or her business (Garengo, *et al.*, 2005:26). The advantage of lack of involvement of employees in the running of business might be that there may be no unnecessary bureaucracy (Cocca & Alberti, 2008:3). Involving employees in the decision-making process on the other hand might foster the spirit of teamwork and make everyone aware of the mission and vision of the enterprise and thrive to achieve the enterprises' objectives (McAdam, 2000:309-10; Garengo, *et al.*, 2005:30). There may therefore be a need to develop a framework which strikes a balance in terms of involvement of employees.

The frameworks also assume that managers of enterprises are full time employees who can directly oversee the implementation of the frameworks (Cocca & Alberti, 2008). However, it seems that some owner-managers of MSMEs are employed full time elsewhere apart from the enterprises they own and manage (own deduction). As a result, these owner-managers might need frameworks which enable them to monitor and control their enterprises within the limited time they have.

Lastly, most performance measurement frameworks assume that enterprises have a motive to create wealth and would therefore have performance measures which would result in value creation for the company. On the contrary some MSMEs are not formed to pursue wealth creation objectives but to pursue other personal, usually social objectives of the owner (Simpson, *et al.*, 2012:268).

Some authors criticise the current methods used to measure performance. Simpson, *et al.* (2012:266) argue that most research papers on the subject are not scientific since they fail to identify and control moderating, intervening and contaminating variables when trying to establish existence of cause-effect relationships between the independent variable and the dependent variable. They also argue that conclusions drawn from most of the research are based on the opinions and perceptions of managers. These opinions and perceptions are gathered using self-report questionnaires which are not reliable data collection instruments (Simpson, *et al.*, 2012:267). Therefore, the researcher may need to overcome this pitfall by carrying out semi-structured interviews with the chosen research subjects. This may enable the researcher to give clarity to certain questions which may not be clear to the respondents.

### **CRITICAL SUCCESS FACTORS FOR BUSINESS PERFORMANCE OF MSMEs**

Before attempting to highlight the critical success factors, it is important to define the concepts of success and critical success factors. Previous researches indicate that the definition of the term success in small businesses is not easy (Simpson, Tuck & Bellamy, 2004:483; Simpson *et al.*, 2012:272-275). This may be due to the fact that success has different meaning to different people and depends on the context of the person defining it.



Simpson, *et al.* (2004:483) and Simpson, *et al.* (2012:276) indicate that the enterprise's success is defined by its growth and profitability. Watson, Nicholas, Watson, Hogarth-Scott and Wilson (1998) argue that a business is successful if it continues to trade and is said to have failed if it ceases trading. However, this definition of success is criticised by Simpson, *et al.* (2004) who argue that the decision to continue or cease trading may be influenced by other factors besides profitability and viability of the business.

Lack of consensus on the definition of success among researchers makes the study of success in small businesses difficult. The several meanings of success suggest that the best measure of success is as defined by the owner of the small business. For small business success to be relevant an entrepreneur should define the success of his or her business and not an outsider (Simpson, *et al.*, 2004:484; Simpson, *et al.*, 2012:272-275). This suggests that a performance measurement framework needs to satisfy the aspirations of the owners and promote success as defined by the owners. However, this study defines success as measured by business growth, profitability and the ability of the MSME to continue operating. The study assumes that the owners of MSMEs are rational investors whose business motive is to create and maximise their wealth.

Oakland (2003) defines critical success factors as those elements which should be examined to ensure effective management and attainment of organisational goals. Masocha and Charamba (2014:61) furthermore highlights that a key success factor is anything which enables an enterprise to get business. Tracy (2007) mentions that each industry has its own success factors. The literature reviewed in this study, seem to suggest that the performance of MSMEs is influenced by commitment of the owner-manager, business planning, management of information, strategies to manage revenue and costs, innovation, management of customers, management of suppliers, management of competitors, the enterprise's pool of resources, conformance to regulations and management of sources of finance. The following sections review each factor separately.

### **Commitment of the owner in the running of the company**

Research suggest that MSMEs which have a family CEO tend to report high return on assets and return on investment when compared to enterprises where the CEO is not a family member and this return is even reduced where the family CEO is not the founder (Hansson, Liljebloom & Martikainen, 2011:404). Literature therefore seems to suggest that the owner of a business is likely to make decisions that result in long-term success and survival of the business. The management skills rather than technical skills and the growth motivation of founders is very important and are the leading factors in the growth, success and survival of an enterprise (Feindt, Jeffcoate & Chappell, 2002:53; Halabi, Barrett & Dyt, 2010:164). Therefore, the founder plays an important role in the performance of MSMEs. In addition to owner involvement, very small boards results in optimal performance in MSMEs (Coles, Daniel & Naveen, 2008; Guest, 2009).

### **Business planning**

A business plan is an important ingredient for any organisation which seeks to succeed in its operations and therefore MSMEs are not an exception (Uddin & Bose, 2013:170). Planning enables the enterprise to develop, communicate, implement, and improve its strategy in order to achieve the organisation's performance objectives (Talib, Ali & Idris, 2014: 156). The business plan should focus on the needs of the enterprise's important stakeholders such as customers, suppliers, government regulators, employees, and the shareholders (Talib, *et al.*, 2014).

### **Management of information**

Management of key and strategic information is very important for any organisation (Bengesi & Roux, 2014:154). For performance measurement to be possible, an enterprise should have in place a mechanism for gathering and analysing performance measures (Turner, Bititci & Nudurupati, 2005). Lakhal, Pasin and Limam (2006) highlight that gathering and analysing information has an effect on business performance. Performance measurement may therefore be regarded as a component of information management (Turner, *et al.*, 2005). However, information management systems for MSMEs should be very simple since MSMEs lack adequate IT related resources needed for a complex information management system (Alattar, Kouhy & Innes, 2009).

### **Management of revenue**

Revenue management is an area of management accounting which focuses on improving revenue and managing the enterprise's limited capacity in order to enhance the chances of long term survival (Ng, Harrison & Akroyd, 2013:98). This is done by offering an affordable product or service at the right time and which meets the needs of the customers (Ng, *et al.*, 2013: 93). Revenue management involves collecting and analysing data to get information on the trends, habits, and demand patterns of customers in order to assess customer profitability (Ng, *et al.*, 2013:98).

### **Management of costs**

Cost management results in efficient operation of business. For example, cost cutting measures applied by a struggling company during a scheme of business reorganisation can result in performance improvement and therefore recovery of the business (Smith & Graves, 2005; Alfaro, Ortiz & Poler, 2007:641; Laitinen, 2011:63). Cost control is also considered a critical success factor by Feindt, *et al.* (2002:61-62). Biggart, Burney, Flanagan and Harden (2010:3) assert that one of the primary means of improving an enterprise's profitability is to control costs, mainly inventory and store expenses. Inventory management will consist of managing shrinkage through in-store audits (Ng, *et al.*, 2013:98). Therefore, literature review from several authors seem to point to the fact that cost management is a very important success factor for MSMEs in the retail sector.

### **Improvement of business processes**

Management of processes is very important for any organisation which seeks to achieve higher performance (Chikweche, 2015). Process management involves the organisation's

management, evaluation, and improvement of key processes in order to produce quality output (Talib, *et al.*, 2014:157). Laitinen (2011:63) argues that in a scheme of business reorganisation, improving efficiency of business processes results in best performance in the long term. In order for MSMEs to succeed, there is a need for them to measure the most important and critical business processes (Alfaro, *et al.*, 2007:642). Measuring the performance of a process makes tracking of the current process performance possible and therefore gives room for process improvement where the performance of the process is found to be unacceptable. Therefore, it may be necessary to identify performance measures useful in monitoring and controlling business processes.

### **Innovation**

Innovation is a requisite for sustainable long-term business performance. The success and survival of an enterprise will depend on its innovation capability (Talke, Salomo & Kock, 2011; Al-Ansari, Pervan & Xu, 2013). Studies established a positive relationship between business performance of MSMEs and the extent of innovation (Keskin, 2006; Otero-Neira, Lindman & Fernández, 2009; Kotey, 2014). However, other researchers found a negative or no relationship between business performance and the level of innovation (Freel, 2000). An innovative enterprise is one which constantly seeks new ideas that result in new products and ways of doing business (Shirokova, Vega & Sokolova, 2013:177). This would be critical for MSMEs considering that they face a shortage of resources. Shirokova, *et al.* (2013) further argue that MSMEs need to develop new abilities, entrepreneurial orientation, entrepreneurial culture, and entrepreneurial mind-set in order to survive and grow especially when faced with a constraint of resources. Masocha and Charamba (2014) identify constant innovation as a critical factor for SMEs to successfully compete with large enterprises. They posit that this innovation should focus on marketing strategies, internal processes, and maximising delivery of customer benefits and satisfaction.

### **Management of customers**

In order for an enterprise to become competitive and therefore succeed, there is a need to improve customer service (Alfaro, *et al.*, 2007:641). Most studies, if not all, on performance measurement have a customer perspective. This seems to suggest that these researches have a unanimous view that customer management is a key factor in the business performance of enterprises. Therefore, the customer should be a key factor in performance measurement (Tucker & Pitt, 2009:408; Talib, *et al.*, 2014:156).

Enterprises which have a successful growth usually have close contact with their customers and are committed to quality of products and services (Feindt, *et al.*, 2002:53). The enterprise should develop a close and trusted relationship with its customers for it to achieve a higher performance (Azmat & Samaratunge, 2009; Azmat & Samaratunge, 2013:383; Shi & Yu, 2013:1309) and this can be done through a process of networking (Taipale-Erävala, Heilmann & Lampela, 2014:30). Therefore, it is plausible that the importance of developing a relationship with customers can never be over emphasised.

Customer management should aim at developing customer loyalty and trust. Customer loyalty will lead to customer retention which is critical for the success of any enterprise (Azmat & Samaratunge, 2013:383). A loyal customer will always buy from the enterprise even if there are better alternative goods or services offered by the enterprise's competitors (Tucker & Pitt, 2009). Therefore, the MSMEs should be customer focused and concentrate on satisfying customers so as to retain current customers and acquire new customers leading to higher market performance (Laukkanen, Nagy, Hirvonen, Reijonen, & Pasanen, 2013:514).

### **Management of suppliers**

A critical review of performance measurement frameworks seems to suggest that management of suppliers is not highlighted to a very large extent as a critical success factor for business performance in MSMEs. For example, the most common performance measurement frameworks, the Balanced Scorecard Card by Kaplan and Norton (1992) and the Results Determinant Framework by Fitzgerald, Johnson, Brignall, Silvestro and Vos (1991) do not consider suppliers in their perspectives. Supplier management is one of the important drivers of financial performance (Quesada & Gazo, 2007:9; Rajagopal, 2010; Shi & Yu, 2013:1309). Enterprises should develop a relationship with their suppliers for them to achieve a competitive advantage and long term organisational performance (Temtime & Solomon, 2002; Tari, Molina & Castejon, 2007; Talib, *et al.*, 2014:156).

### **Management of competitors**

Management of the enterprise's competitors is necessary for the success and long term survival of the enterprise (Miles, 2012). MSMEs should not focus on their customers and suppliers only but should place equal importance on their competitors as well if they are to gain competitive advantage in the business environment (Matanda & Ndubisi, 2009:385). Management of competitors by the enterprises involves knowledge of who the competitors are and their business operations (Masocha & Charamba, 2014:62). The enterprise should aim to offer unique and better products than competitors if it is to survive in the market place (Nieman & Nieuwenhuizen, 2009). Masocha and Charamba (2014) further argue that the enterprise should identify the weaknesses and gaps left by the competitor and capitalise on the weaknesses and gaps. Therefore, it may be concluded from review of literature that a performance measurement framework for MSMEs may also need to factor in to some extent the performance of the MSMEs' competitors.

The performance of competitors can be factored into the performance measurement framework for MSMEs through benchmarking. Tucker and Pitt (2009) view benchmarking as a process of searching the industry's best practice against which the enterprise's performance will be measured.

### **The enterprise's pool of resources**

The resource-based theory suggests that the performance and growth of an enterprise is driven by the resources possessed by that enterprise (Atristain, 2010; Barney, Ketchen & Wright, 2011; Hsu, Tan, Laosirihongthong & Leong, 2011:6632; Tan, Smyrniotis & Xiong,

2014:327). An enterprise's capability depends to a greater extent on its pool of tangible and intangible assets (Ratnatunga, Gray & Balachandran, 2004). These resources are financial, physical, human, organisational, and technological (Laosirihongthong & Leong, 2011:6632). Therefore, the performance of enterprises in the same industry is different because of the differences in the resources and capabilities they possess (Kohlbacher & Gruenwald, 2011:709; Shirokova, *et al.*, 2013:179). Previous studies indicate that in order for an enterprise to be competitive and hence successful, there is a need for it to acquire unique resources which cannot be replicated or substituted by competitors (Caldeira & Ward, 2003; Edelman, Brush & Manolova, 2005; Davidsson, Achtenhagen & Naldi, 2007; Blackburn, Hart, & Wainwright, 2013:10; Shirokova, *et al.*, 2013:179; Shi & Yu, 2013:1295; Kotey, 2014:329). However, it is important to compare the MSME's performance to its physical capability since most MSMEs have limited resources which can be the cause for poor performance (Taticchi & Balachandran, 2008:152).

### **Conformance to regulations**

MSMEs should conform to regulatory authorities in order for them to succeed in their business endeavours. Examples of regulatory authorities are government departments like tax authorities, standards setting, and monitoring boards, environment monitoring boards and local authorities. A considerable number of MSMEs in Zimbabwe face closure every year when the Zimbabwe Revenue Authority fines them heavily for failing to comply with various tax laws of the country (Mashiri & Mazhindu; 2013; Nyamwanza, Mavhiki, Mapetere, & Nyamwanza, 2014). Therefore compliance to the country's trade regulations could ensure that an enterprise avoids unnecessary penalties and operate profitably leading to its long term success.

### **Management of sources of finance**

Non-availability of finance is always cited as one of the reasons contributing to the failure of MSMEs (Olawale & Garwe, 2010; Nyoni, 2012; Masocha & Charamba, 2014; Ramukumba, 2014). The fact that MSMEs cannot easily get finance from financial institutions (Ramukumba, 2014:25) means that MSMEs should establish good relationships with their suppliers so as to get goods on credit (Nyoni, 2012; Ramukumba, 2014). Therefore it is plausible that a performance measurement framework should identify the drivers of this relationship and measure the extent of the relationship. Measurement of the extent of the relationship would enable MSMEs to monitor the relationship from time to time for the benefit of the enterprise.

Mere access to financial resources is not enough condition for success of an enterprise. The financial resources may need to be utilised effectively and efficiently in order to result in a successful enterprise. Some MSMEs with adequate resources have often been found to misuse those resources leading to failure of the enterprise (Stokes & Wilson, 2006; Ramukumba, 2014:25). On the other end, Masocha and Charamba (2014:61) found that foreign owned MSMEs in South Africa performed better than local MSMEs despite the fact that local MSMEs had better access to financial resources than MSMEs owned by foreigners. There is an argument for a shift in focus from challenges related to lack of

financial resources to viability of the business, entrepreneurial abilities of the owner/managers and use of modern management techniques to enhance performance and survival of MSMEs (Ramukumba, 2014:20).

### **KNOWLEDGE GAPS**

The review of literature has identified the following knowledge gaps:

- There is no consensus among researchers on the most ideal performance measurement framework in general and more specifically for MSMEs.
- None of the performance measurement frameworks reviewed seem to propose the performance measurement of MSMEs in the retail sector from the perspective of their critical success factors.
- There seem not to be any literature identifying the most important critical success factors for MSMEs in the retail sector in general and more specifically in a developing country such as Zimbabwe.

### **THEORIES UNDERPINNING THIS STUDY**

The study is based on the broad organisational theory and three other theories namely goal theory, system theory and stakeholder theory. Each theory captures an important phenomenon of the enterprise in as far as performance measurement is concerned. The use of more than one theory in a single study where a single theory would not capture the phenomena under study is suggested by Henri (2004). Therefore, the focus on the three theories may result in a holistic performance measurement framework for an enterprise.

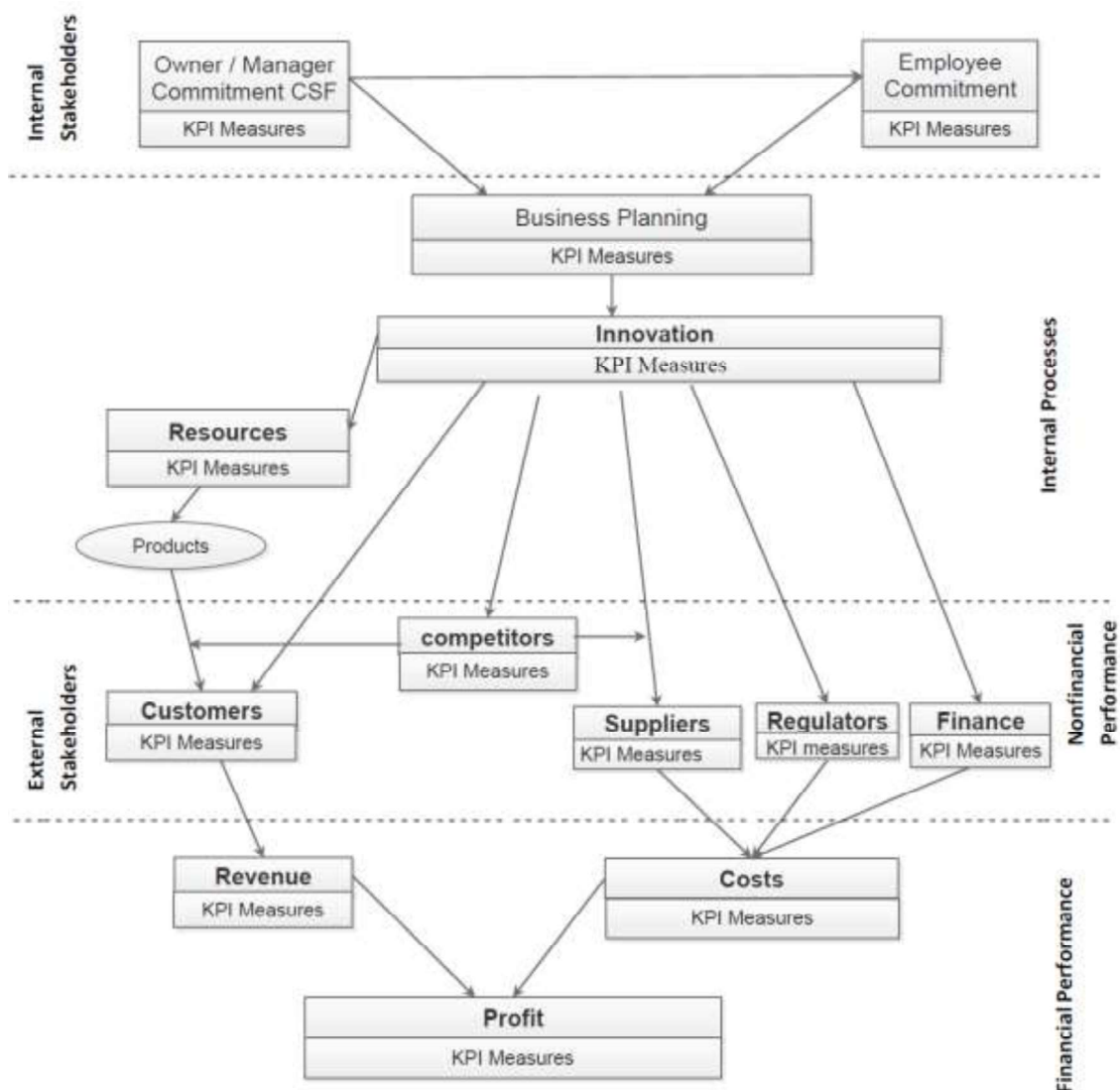
#### **Conceptual framework for the study**

The conceptual framework in Figure 1 proposes that owner-manager commitment and commitment of employees may be pre-requisites for the success of MSMEs. Owner-manager commitment and commitment of employees may result in proper business planning which may be a product of both employee and employer involvement. Business planning ought to focus on innovation as a cardinal critical success factor. Innovation should focus on critical success factors such as acquisition of unique resources, management of customers, management of suppliers, management of employees, management of regulators, management of sources of finance, and management of competitors.

Management of stakeholders as critical success factors may result in generation of higher revenue and minimisation of costs which may lead to high profits and therefore survival of the enterprise.



**Figure 1. Proposed performance measurement framework based on literature review**



The framework proposes that key performance indicator measures should be identified for each critical success factor. Therefore measurement of performance should focus on the KPIs which are derived from the critical success factors. Such a thrust may give a holistic performance measurement for the enterprise.

## CONCLUSION

A performance measurement framework is an important tool in measuring performance of MSMEs and monitoring their business processes. The performance measurement framework may be based on the critical success factors of the retail MSMEs and the key performance indicators of the critical success factors. Furthermore the performance measurement needs to consider and balance the needs of all the stakeholders and consider the financial and non-financial performance of MSMEs.

The conceptual study managed to identify from the review of literature the critical success factors for the performance of MSMEs. A performance measurement framework was then proposed on the basis of the critical success factors identified in the literature. A follow up empirical study will be carried out in future studies to assess the extent to which these critical success factors are measured by the MSMEs in the retail sector in Zimbabwe. The applicability of the proposed performance measurement framework will also be tested on MSMEs in the retail sector in Zimbabwe.

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