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## **STUDY ON FACTORS AFFECTING THE PERFORMANCE OF SMEs WITHIN THE CONTEXT OF A SUSTAINABLE BUSINESS**

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### **Abstract**

The objective of this article is to find main elements which affect the performance of small and medium enterprises.

The methodology considered by the authors of this article refers to the performance of an empirical research within 20 small and medium Romanian companies considering 2014-2016 period of time, based on information made available by the representatives of such organizations.

A series of elements having a negative impact on the performance degree of such companies have been identified, within the aforesaid reference period of time, following the said study.

Moreover, the study identified the inexistence of some prevention actions regarding the issuance or elimination of such elements, the effects of such an approach being the change of a performing company into a non-performing economic organization.

**Keywords:** corporate sustainability, performance, investment strategy, opportunity, strategic decision

**JEL Classification:** M10

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### **Introduction**

It is an overall accepted approach that SMEs are well-known for their role in social, political and economic development of the society. Their significant importance is especially pointed out by the capacity to supply, at a reasonable price, goods and services, income and considering the labor market (Lawrey, 2009). As a consequence, it a significant concern to improve the performance of such companies, beginning with finding elements which determine the mitigation of the performance degree till taking some actions meant to ensure the sustainable development of such companies.

So, the executives have to see the need to assume an increased responsibility by adopting more sophisticated actions for reporting and ensuring the performance of the companies, in order to implement coherent actions to develop sustainable businesses.

Therefore, due to the lack of such mechanisms, organizations face, in many cases, crisis situations which affect their long-term activity.

### **Theoretical aspects**

In view of developing the research, aspects of theoretical nature on SMEs performance and sustainable business concept have been reviewed, the authors of the article being able to identify one of the model on making the ranking of core elements affecting the performance of a company.

The SMEs performance promotes the economic environment and could be assessed by way of reporting to the achievement of objectives being initially set. Some authors consider the performance of an organization could be assessed by taking into account the degree of the manager's satisfaction in terms of profit, turnover and business development (Alasadi and Abdelrahim, 2007). Most of the opinions stated on the concept of a company's performance show this could be assessed considering a) quantitative indexes, such as: financial outcome, production, efficiency or b) indexes of qualitative nature: leadership, individual behavior, achievement of objectives, organization performance etc. (Tattichi et al., 2008).

Sustainability is a tremendous significant element in assessing the performance of a company. According to the studies in this domain, a sustainable business supposes to consider financial, social and environmental aspects when a company's manager takes a decision. Considering studies at global level, a conclusion could be reached, namely any sustainable business: a) considers the long-term financial value; b) is aware of the impact on the environment and acts to mitigate it; c) grants a special attention to its employees, clients and community and acts towards a positive social impact. Sustainable businesses take into consideration a long-term development strategy. Leadership, organization culture and change management are among the elements having a key role in the sustainable development of a company (Paraschiv, et al., 2012).

Determinative elements of the performance of a company have been subject to countless researches, some authors considering such elements could be ranked in non-financial and financial elements. Čerović, et al. (2015) reviewed the companies' performance connected to the structure of the ownership of such companies, especially in the context of transition economies where such a relation could be extremely strong. Other studies took into consideration criteria such as the size of the organization, green performance (Siminica, et al., 2015) or the company's field of activity.

Also, the management policy has been considered as the key elements which contribute to the non-performance of a company, results showing serious managerial errors in case of company with a low performance degree.

Considering both categories of financial and non-financial elements Ooghe and Waeyaert (2008) proposed a conceptual model (Fig. no.1) in which they identified five categories of reasons that could lead to the failure of a company. In the said authors' opinion, reasons could be classified as follows:

- **General environment** refers to different factors of economic, political, social and technological kind or to aspects involving the behavior of political and banking systems;

- **Immediate environment** involves relation with stakeholders: clients, suppliers, competing companies, credit companies or shareholders;
- **Management** include motivation, skills, capabilities and other personal characteristics of managers. Usually, personal features are considered as the critical factor in a company's failure;
- **Corporate policy** refers to the adopted strategies considering various activities within the company, such as investments, marketing policy, sales or administrative, financial or human resources issues;
- **Corporate characteristics** include size, maturity or industry it belongs.

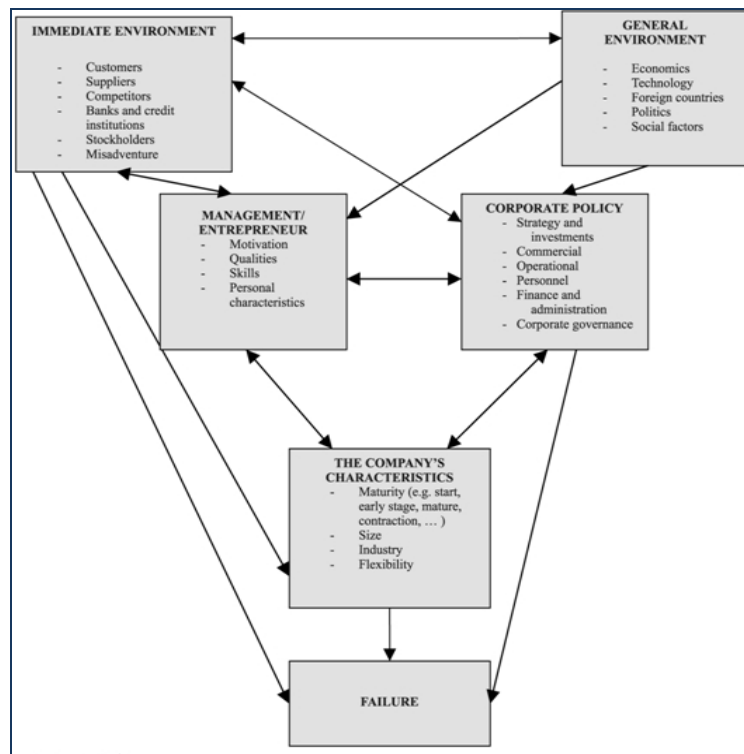


Figure No. 1: Model of possible causes that determine a company bankruptcy

Source: Ooghe și Waeyaert, 2008

In view of ensuring a sustainable development of a business, we need to identify factors which affect the company's performance. The SMEs long-term performance could be ensure only by implementing actions able to lead to the elimination or improvement of such factors.

### Methodology of research

Authors of the article performed an empirical research within 20 small and medium Romanian companies operating in various domains: raw materials production and distribution, industry, trade and constructions.

The study has been developed connected to factors which affect the performance of such companies during 2014-2016, based on information made available by the companies' representatives.

In such context, for each company, authors of the article took into consideration information on:

- Fixed assets: lands, constructions, technical installation, equipment, transportation means etc. ;
- Current assets: inventories, clients, bank accounts etc. ;
- Short-term debts: credits, suppliers, salaries and social contributions, loans from shareholders;
- Long-term debts: credits, leasing, guarantees;
- Profit and loss account: evolution, operation outcome (turnover, operating costs, profit-loss).

Considering the ranking of factors which could affect a company's performance, authors of the article identified a series of factors which constantly affect the sustainable development of such companies (Tab. no. 1), no improvement or elimination actions of such factors being identified by the study.

In this context, it remains a series of questions with no answers for Romanian SMEs regarding lack of actions in the management strategy able to ensure them a long-term competitiveness and sustainable development.

**Table no 1: Classification of factors affecting SMEs performance**

No. Crt.	Classification of factors that affecting SME performance	Factors affecting SMEs performance	Mesures to improve/eliminate factors
1.	<b>General Environment</b>	<ul style="list-style-type: none"> <li>▪ Crisis management in the specific activity field;</li> <li>▪ The risks resulting from contractual relations with public authorities;</li> <li>▪ Political crisis effects ;</li> </ul>	<b>None</b>
2.	<b>Immediat Environment</b>	<ul style="list-style-type: none"> <li>▪ The enterprise difficulty to obtain bank financing;</li> <li>▪ Setting prices inconsistent with market trends;</li> <li>▪ Unrealistic prediction of markets;</li> </ul>	<b>None</b>
3.	<b>Management</b>	<ul style="list-style-type: none"> <li>▪ The relations of conflict between management and employees;</li> <li>▪ Lack of investment in human resources development;</li> </ul>	<b>None</b>
4.	<b>Corporate Policy</b>	<ul style="list-style-type: none"> <li>▪ Corporate and investment policy insufficiently substantiated;</li> <li>▪ Lack of vision for the long term development;</li> <li>▪ Lack of pricing strategies uncorrelated with characteristic market trends;</li> </ul>	<b>None</b>
5.	<b>The company's characteristics</b>	<ul style="list-style-type: none"> <li>▪ The relationship with the activity of other distressed companies;</li> <li>▪ Oversized personnel structure.</li> </ul>	<b>None</b>

*Source:authors*

**Results**

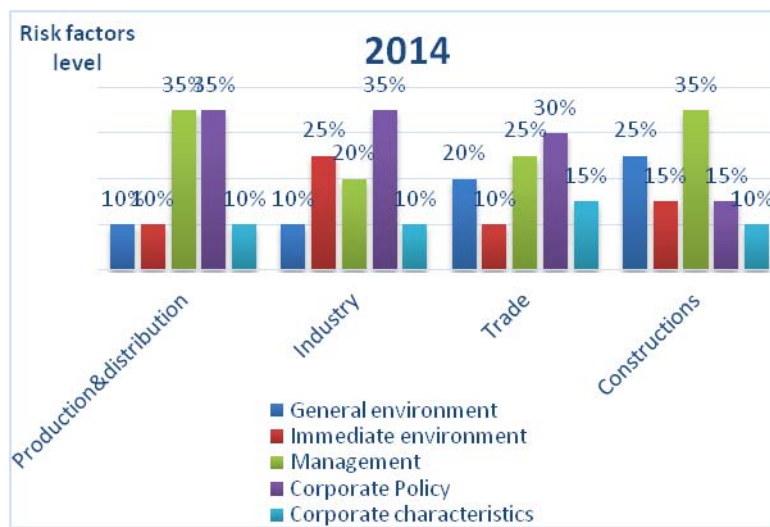
In the achieved study, authors took into consideration the trend of financial and non-financial indexes of each company during the reference period of time, the study outcome showing some factors affecting the performance of the respective company.

The article underlines the impact of such factors over the company’s performance in a certain field of activity within various periods of time.

Considering the research on economic indexes of each company during 2014-2016, the deficient management and corporate policy represents two of critical factors affecting the sustainable development of an organization.

Thus, at the level of 2014 year, companies’ performance has been affected by both implemented corporate policy (decisions on commercial strategy or low-grounded investments) – 45% and also management features – 30 %, followed by immediate environment factors – 30%. (Fig. no. 2).

For each aforesaid factor, no actions to improve or eliminate them were identified, in view of developing the activity in terms of economic, social and environmental elements.



**Figure No. 2: The result of the risk factors on the performance of SMEs, 2014**

*Source: authors*

The study showed the companies’ performance, at the level of 2015 year, was affected firstly by the management features motivation, personal capabilities etc.) in 40%, followed by factors of immediate environment – 30% and corporate policy – 30% (Fig. no. 3).

Reviewing various periods of time, no action has been identified, at the companies’ level, regarding the management strategy or performance indexes, sustainable development being further on one of the challenging approach for business environment.

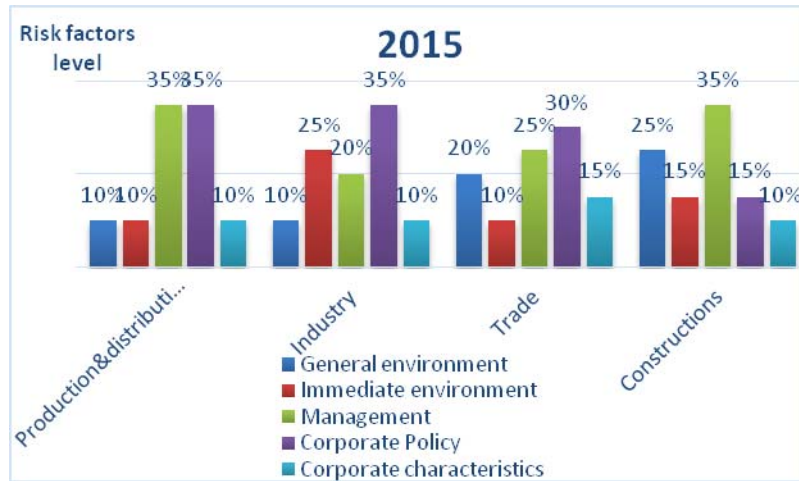


Figure No. 3: The result of the risk factors on the performance of SMEs, 2015

Source: authors

In 2016, the research outcome shows that corporate policy - 35 % and management features – 35% are still two of the most critical elements affecting the performance of a company, followed by elements of immediate or general environment – 25% (Fig. no. 4). Overall, in spite of the improvement of economic conditions, at companies’ level, not even in this year have been identified long-term actions able to suppose the elimination of elements of risk which could impact on companies’ performance.



Figure No. 4: The result of the risk factors on the performance of SMEs, 2016

Source: authors

### Conclusions

Following the research, the management features and corporate policy were identified as core critical elements affecting the performance of a company.

The study also underlines the low importance granted to actions meant to improve or eliminate such elements, from a period of time to another, effects of such an approach leading a performing company to a non-performing one.

Considering sustainable businesses aim a long-term strategy, authors of the study did not identify any action, at those 20 companies level, able to mirror a long-term financial value, mitigation of activity impact on environmental elements or actions meant to show attention granted to employees, clients or community, but only an opposite trend.

A constant assessment of a company's performance could represent a significant impact on keeping the company viable within the economic environmental. Improvement of performance by taking actions able to ensure the business sustainability has to represent a key objective of any management strategy, study pointing out the effects of certain elements over a business activity. Any management strategy which does not involve such actions is subject to a failure.

The study creates the bases of a future research on finding mechanisms by which small and medium enterprises of Romanian could eliminate elements affecting their performance, in view of the sustainable development of a business.

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