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Analysis of Small and Medium Sized Enterprises' Business Performance Evaluation Practice at Transportation and Storage Services Sector in Latvia

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Abstract

In the circumstances of globalisation, the assessment of the companies' business performance becomes crucially important for small and medium-sized enterprises (SMEs). Despite a wide variety of the methods for evaluation of the companies' financial performance offered by the theory of economics, the issue on what is the optimal method to be chosen and to be applied by the company to manage efficiently the enterprise is still up-to-date. During the research performed by the authors, it was established that the SMEs business performance assessment in Latvia can be carried out mainly using just financial indicators. The research reveals inadequacy of traditional performance measurement approach based on the analysis of just financial indicators of the economic activities and explains its insolvency by using as an example the analysis of financial conditions of some bancrupted companies during the recent years of their existance. The current research is based on the analysis of scientific publications, results of the authors' previous studies, and the results of the expert survey.

Keywords: performance, measurement, SME, transportation company

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1. Introduction

The term "performance" is used in the foreign scientific and academic literature to describe results of companies' business activities. By the opinion of Kotane (2015) business performance dimensions include indicators characterising both the companies' financial and non-financial performance. Evaluation of the SMEs business performance measurement practices (Jamil and Mohamed, 2011; Phihlela and Odunaike, 2012; Bianchi *et al.*, 2015) leads to the conclusion that an evolution towards a merger of financial and non-financial performance perspectives can be observed. However, despite the foreign practice, the evaluation of SMEs' business performance in Latvia can be conducted using only financial indicators. The financial indicators used for business performance evaluation in studies of the researchers (Carpinetti *et al.*, 2008; Shi and Yu, 2013) point towards their diversity.

The research results on the SMEs performance (Sousa *et al.*, 2006; Alver and Branten, 2011; Saunila and Ukko, 2011) confirm that there are problems in practical application of the indicators, since there is no a consistent approach to identification, measurement, and assessment of financial and non-financial performance indicators.

Despite the fact that the number of publications on the given topic in the scientific literature increase, there is no united opinion among the researchers on the business performance measurement and assessment methods.

The authors of the paper believe that, aimed at recognition and assessment of the significance and role of the financial indicators and intended for successful solution of the companies' financial management problems, the issue of development of a single financial indicators' system in the context of business performance evaluation arises. The research is based on the analysis of the academic literature and scientific publications, study of the financial indicators used in the Latvia's institutions for evaluation of financial analysis of the enterprises, and the results of the experts' survey. The following general study methods are used in the research: analysis and synthesis of information, logical construction, monographic, expert survey method, data grouping, and graphical presentation methods.

The aim of the research is to examine the current practice of SMEs business performance evaluation in transportation and storage services sector in Latvia. The following tasks are defined to achieve the aim of the research:

1. To review theoretical aspects of the performance measurement and management in the SMEs;
2. To explore the current framework and practical tools that are used in Latvia in respect of evaluation of financial position of SMEs;
3. To identify most important financial indicators that could be used to measure the SMEs' business performance in transportation and storage sector.

In the result, the study of business performance measurement and management of the SMEs of transportation and storage services sector is carried out, and a set of financial indicators used to assess business performance of the transportation and storage services sector's SMEs is identified.

2. SMEs business performance: literature review

2.1. Performance measurement

The term "performance" is used in the foreign research and academic literature to describe results of companies' business activities. The concept of performance has several meanings and all-encompassing nature and its extreme popularity as an expression in regular speech. Performance is a fact of life. In work or in play, indeed in any activity where we input even momentary attention, performance can be felt or, at least, deduced if necessary (Folan*et al.*,2007). Lebas (1995) considers that the performance is never objective it is only a way of defining where one wants to go. "Performance" is not an objective reality out there somewhere waiting to be measured and evaluated. "Performance" is socially constructed reality. In accordance with Hudson (2001), presented sets of guidelines detailing the characteristics of performance measures, which have often been reiterated, developed and added to in more recent studies (e.g. Lynch and Cross, 1991; Neely *et al.*, 1997; etc.).

One of the company's priorities is the achievement of the specific aim (Folan*et al.*, 2007), furthermore, the company is assessed according to its future goals, referring to the targets the company intends to achieve. He defines