FINANCIAL ANALYSIS FOR SMALL ENTERPRISE PERFORMANCE MEASUREMENT: CASE OF HARARE, ZIMBABWE

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ABSTRACT
The study derives from the notion that small enterprises (SEs) could be the drivers of the Zimbabwean economy, after many large companies have either closed down or downsized in the past two decades. This study also constitutes the second phase of the research aimed at examining how the financial performance of small firms is influenced by microfinance services offered by MFIs. The purpose of the current study was to identify financial performance measures (FPMs) currently monitored by Zimbabwean SEs; as well as to examine the financial analysis techniques currently used by Zimbabwean SEs in measuring their financial performance. The research employed the qualitative design, whereby the population for the study comprised the innumerable SEs in and around Harare Central Business District. The researchers purposively sampled twenty SEs from each sector from within the population of SEs operating in Harare on condition that: (1) the SE had obtained microfinance from an MFI and is currently indebted to at least one MFI, (2) The SE meets the operational definition of an SE; that is it has six up to forty employees, annual turn-over of $50 000 to $500 000 and assets valued at between $50 000 to $1 million. The research utilised a questionnaire as the data collection tool. The key findings of the study were that SEs employed the technique of analysing their annual increase in profit before tax as the major technique, followed by growth in annual revenue. Most of the traditional financial analysis techniques in the form of ratios were utilised by most SEs. Overall, SEs in Zimbabwe were found to be depending on traditional techniques; without making meaningful reference to contemporary financial analysis techniques and approaches touted in literature.

Keywords: Financial performance; Small enterprise; Financial analysis

INTRODUCTION
The term 'performance', as widely referred to in both academic and scientific literature refers to the extent to which companies accomplish their objectives. In the views of authors such as Kotane (2015), business performance indicators take two forms; financial and non-financial indicators. That is, a well performing business not only improves on its financial position and profitability, but also improves on customer satisfaction, internal business processes and employee innovation and learning, among other dimensions of organisational performance. A critical evaluation of business performance measurement practices among large and small firms worldwide reveals a contemporary trend of blending both financial and non-financial business

performance measurement techniques in monitoring performance.

The present study is however premised on the notion that although both financial and non-financial performance measures are crucial for small enterprises, for the SEs under study (all of which are indebted to MFIs), it would be worthwhile to focus primarily on financial performance. Financial performance is considered crucial as it relates to the SEs' financial dimensions such as profitability, liquidity and financial position. The researchers consider the aforementioned financial dimensions crucial in assessing the worth of microfinance in the SEs. To this end, the present study sought:

1. To identify financial performance measures (FPMs) currently monitored by Zimbabwean SEs;
2. To examine the financial analysis techniques currently used by Zimbabwean SEs in measuring their financial performance.

LITERATURE REVIEW

2.1 Performance measurement

The term 'performance' as widely used in literature in the business context describes the outcomes of a business enterprise (Franco-Santos, 2007). Other authors view performance as unreal, for instance Neely et al (2001). The authors' argument is that performance is not objective, that is considering how it is measured and evaluated using different approaches and techniques. According to Monge (2016), every business enterprise prioritises the accomplishment of specific objectives and therefore the organisation's performance is measured according to its set goals and set targets.

After extensive review of academic literature on the nature and significance of performance measurement, we deduce the major trends relating to the subject. First, the objectives of performance measurement have gone dynamic. This has seen a paradigm shift from internal objectives (focusing on the inside of the organisation) to those focusing on the company's strategic direction. On the other hand, the performance measurement techniques have also changed. There is a major shift from focusing on financial indicators of business performance to a hybrid of both financial and non-financial indicators, which ushers in a balanced performance measurement methodology.

2.2. Small enterprises and framework for performance measurement

In 1980, economic value added (EVA) was developed as the maiden performance measurement model, albeit it was specifically suitable for large companies. During the second half of the 1990s, studies on small enterprise performance measurement emerged. At the dawn of the 21st century researches on small enterprise performance measurement took two directions as follows: (1) Adopting those performance measurement models originally developed for the large companies and (2) developing specific performance measurement models designed for SEs (Taticchi *et al.,* 2008).

Empirical studies on small enterprise performance measurement have been carried out in several countries and the table below summarises some of the researches.

Table 1: Empirical Evidence

Author(s)	Purpose	Methodology	Country	Findings
Taticci et al (2008)	Contributing to knowledge on sustainable supply chain performance measurement (SSCPM).	Use of citation and co-citation analysis techniques.	Italy	The field of research was still at its infancy, but was fast growing.
Bianchi et al (2015)	To illustrate how a performance management approach based on system dynamics modeling can improve effectiveness of business monitoring.	A Case study approach was used.	Italy	The proposed approach was found useful in enhancing an understanding of the causes and effects in relation to adopted policies, undertaken actions and targeted outcomes.
Maduekwe and Kamala (2016)	To identify and determine the effectiveness of the diferent types of performance measures employed by small enterprises.	Data was collected using a questionnaire and analysis was done using descriptive and inferential statistics.	South Africa	Most of the sampled SMEs measured performance using both financial and non-financial measures. The performance measurement reports generated by the SMEs were found useful for the businesses.
Sousa and Sampalo (2005)	To examine the application of performance measures in SMEs	Survey method was used; the questionnaire was the key research instrument.	Portugal	Various performance measures were applied by the SMEs.
Jamil and Mohamed (2011)	To develop a modified performance management system for improved performance measurement in SMEs	A critical review of related literature.	Malaysia	The missing link was the integration of measurement and management. The proposed framework integrates the two.

Source: Own Analysis

Other researchers opt for a more comprehensive performance measurement framework, which incorporates several dimensions. For instance, Australian researchers Watts and McNair-Connolly (2012) propose a three-dimension small business performance pyramid, which encompasses sustainability, productivity/flexibility, and liquidity. Bianchi et al (2015) on the other hand assert that small enterprise performance measures ought to incorporate both financial and non-financial measures in three dimensions namely competitiveness, financial, and social.

2.3 Performance Measurement: Financial Analysis

Financial analysis entails the examination of a business from a range of perspectives so as to fully comprehend the greater financial status and determine ways of strengthening the business (Carton, 2010). In the view of Carton (2010), a financial analyst would focus on a number of aspects of the enterprise, that is profitability, financial position (stability), solvency as well as liquidity. It therefore follows that financial analysis is more centered on the financial perspective than any other perspective such as the customer, internal business processes and innovation. The financial analysis process can conveniently be broken down into a number of phases during which the financial analyst would access different sources of information and have different output objectives as follows:

Table 2: The financial analysis process

Phase	Source of information	Output
1. Define the purpose and context of the analysis	• Nature of analyst's function, eg. Issuing a credit rating • Communication with client or supervisor • Institutional guidelines for developing a specific product	• Statement of purpose or objective of analysis • A list of specific questions to be answered by analysis • Nature and content of the report • Timetable and budget
2. Collect data	• Financial statements, other financial data, questionnaires, industry and other economic data • Discussions with management, suppliers, customers and competitors • Company site visits	• Organised financial statements • Financial data tables • Completed questionnaires
3. Process data	• Collected input data is subject to analysis tools (giving processed data)	• Adjusted financial statements • Common-size statements • Ratios and graphs • Forecasts • Analytical results
4. Analyse/interpret the processed data	• Input data as well as processed data	• Analytical results
5. Develop and communicate conclusions and recommendations	• Analytical results and previous reports • Institutional guidelines	• Analytical report answering questions posed in phase 1 • Recommendations regarding

	for published reports	purpose of the analysis
Follow-up where on-going analysis required	• Information gathered by periodically repeating above steps	• Updated reports and recommendations

Source: Investopedia

RESEARCH METHODOLOGY

The research employed the qualitative research design for quick and effective collection of qualitative data. The population for this particular study comprised the SEs in and around Harare Central Business District. The study stratified the SEs by sector. Then the researchers purposively sampled twenty SEs from each of the eight identified sectors, on condition that the SE owner or manager reveals that the enterprise has acquired microfinance at some point in time; taking into consideration the cost and time benefit analysis. Questionnaires were used as a data collection tool. In particular, a structured questionnaire was designed containing appropriate number of closed ended and open-ended questions to allow the respondent to give as much information as possible in a short space of time. Due to the largely scattered population and also to avoid risk of meager responses, the questionnaires were sent to the respondents in different workstations where the respondents were based. However, after distributing the questionnaires, only 128 were returned, representing an 80% response rate.

RESULTS AND DISCUSSIONS

The researchers utilised descriptive statistics in the discussion of the research findings. The research findings are based on a sample size of 128 respondents who successfully completed and returned the survey questionnaires. The 128 questionnaires returned represent an 80% response rate, out of the 160 copies distributed. Thus, in consistence with the promulgations of authorities such as Cooper and Schindler (2003), that a response rate of 30% to 80% is representative of the entire targeted population, the researchers found it appropriate to make conclusions for the current study basing on the responses.

4.1 Respondents' Demography

The research sought to gain an understanding of the respondents' demographic profiles by posing questions that solicited responses on their gender, highest level of education, age and experience in their current positions. The respondents were the chief accounting officers (CAOs) in their respective SEs. Table 3 below tabulates the demographic information of the targeted research group.

Table 3: Demographic Information

Demographic Characteristic	Type	Frequency	%
Gender	Male	79	61.7
	Female	49	38.3
	Total	**128**	**100**

Demographic Characteristic	Type	Frequency	%
Age Group	18-28 years	39	30.5
	29-38 years	57	44.5
	39-48 years	18	14.1
	49-58 years	12	9.4
	Above 58 years	2	1.5
	Total	**128**	**100**
Experience	Less than 1 year	31	24.2
	1-5 years	37	28.9
	6-10 years	41	32
	11-15 years	13	10.2
	Above 15 years	6	4.7
	Total	**128**	**100**
Education	Primary	5	3.9
	Secondary	18	14.1
	Certificate/Diploma	59	46.1
	Degree	17	13.3
	Postgraduate	29	22.6
	Total	**128**	**100**

4.2 The Financial performance measures (FPMs) monitored by SEs
The study examined how SEs monitored the various measures of financial performance, particularly after acquiring microcredit. Figure 1 below depicts the findings with regards to financial performance measures monitored by the SEs.
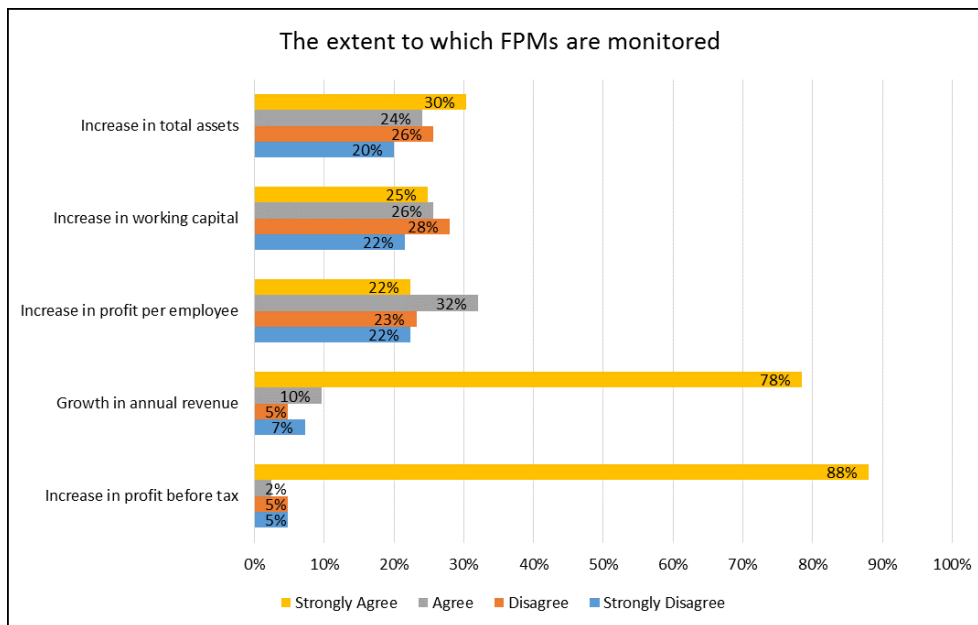
Figure 1: FPMs monitored

Fifty-four percent of the respondents generally agreed (30% strongly agreed, 24% agreed) that the increase in total assets was being monitored since the time they received microfinance. A total of 51% of the respondents generally agreed (25% strongly agreed, 26% agreed) that they monitored increase in working capital. Increase in profit per employee was monitored by 54% of the total respondents. Growth in annual revenue was monitored by a resounding 88%. Ninety percent of the total respondents monitored the increase in profit before tax.

Generally, the information shows that the majority of the respondents (more than 50%) monitored all the financial performance measures studied, that is: Increase in total assets – probably to see the wealth the organisation is able to create after receiving the microfinance; Increase in working capital – probably as a measure of any improvement in the liquidity position of the organisation; whether it has, through the microfinance issue, been able to generate short-term funds that may be used to settle short-term obligations when they fall due; Increase in profit per employee – whether the issue of the microfinance managed to raise profits that may be used to pay the workers' wages and salaries; Growth in annual revenue – this may also be monitored so as to determine whether the issue of the microfinance has managed to create any growth in the size of the organisation; Increase in profit before tax – this measures usefulness of the microfinance in enhancing business efficiency; that is the ability of the organisation to increase revenues or to cut costs or simultaneously increasing revenues and cutting costs.

We infer that the major reason why the participants measured the performance was that performance measurement improves management analysis, instils objectivity, provides balance to business, helps in understanding the current state of organisational affairs and also helps in achieving strategic objectives. The results are in contrast with Naude (2007) who established that the firms they studied showed that they had very limited or no knowledge of performance measurement frameworks. Naude (2007) says the firms did not give priority to performance

measurement since the benefits associated with the practice are less than the costs involved in using the resources required to do so.

Neely et al (2001) agree with Naude ibid that small enterprises do not monitor their financial performance. The reasons noted are varied, ranging from lack of knowledge to less benefits than costs associated with monitoring the financial performance. It was found out that asked about whether business organisation managers understood the concept of performance management, especially the balanced score card, the majority of the responses indicated that the management of the SEs do not understand the reasons and the benefits of financial performance measurement.

It is essential for managers and directors of SMEs to realize the prominence of performance measures. (Wouters 2009; Gunasekaran and Kobu 2007). It is critical to comprehend measures that are implemented and to utilize performance measures effectively to enable smooth operation, review and redesign of new processes and systems should there be a need (Akyuz and Erkan 2010). The implementation of performance measures should be regarded as a decisive step towards a successful manufacturing business that requires a maximum functioning capacity of automated systems that enables frequent reporting devices (Bourne et al, 2000). In addition, a manual performance measurement system may be used to some degree to examine individual performance. However, individual performance may be automated for easy referral and updates on the development. These measures may also be evaluated at strategic, tactical and operational levels (Gunasekaran et al. 2001; Gunasekaran et al, 2004).

Maduekwe & Kamala (2016) had a study to determine the types of performance measures employed by SMEs, purpose for which performance measures are used, perceived effectiveness of performance measures used and factors that may inhibit SMEs from financial performance measures. Maduekwe & Kamala (2016) above say:

> "The results of this study show that most of these entities used both financial and non-financial performance measures, however, financial performance measures were used more frequently than the non-financial ones. Of the financial performance measures, the most popular ones were sales growth, cash flows, operating income and net profit margin." (page 57)

4.3 Financial Analysis Techniques Used by SEs

The study examined which financial analysis techniques were mainly applied by SEs in monitoring and measuring financial performance after receiving debt finance. Figure 2 below depicts the findings with regards to financial analysis techniques applied by the SEs.
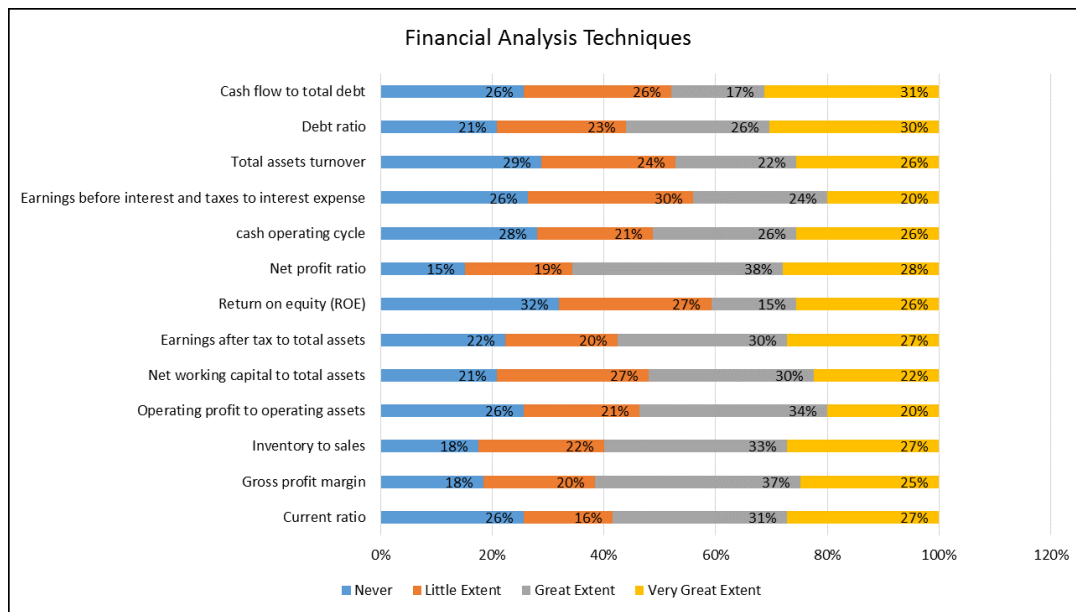
Figure 2: Financial Analysis Techniques used

Twenty-six percent of the total respondents indicated that they never used the cash flow to debt ratio whilst the debt ratio was never used by 21% of the total respondents. The total assets turnover was never used by 29% of the respondents. EBIT, net profit ratio and ROE were never used by 28%, 15% and 32% respectively. Twenty-two percent, 21%, 26%, 18%, 18% and 26% of the respondents indicated that earnings after tax to total assets, net working capital to total assets, operating profit to operating assets, inventory sales, gross profit margin and current ratio were never used at all by the organisations.

The ratios used as performance measures were the net profit margin (85%), inventory to sales (82%), gross profit margin (82%), debt ratio (79%), earnings after tax to total assets (78%), net working capital ratio (76%), current ratio, operating profits to operating assets, cash flow to debt, EBIT (each 74%), cash operating cycle (72%), total assets turnover (71%) and return on equity (68%) in that order of most frequently used.

The net profit margin is thus calculated as:

$$Net\ Profit\ Margin = \frac{Earnings\ after\ tax}{Revenue} \times 100\%.$$

This ratio measures the proportion of revenues that is profit after all expenses, taxes and interest have been taken into account. This may explain the reason why it was mostly used. The other reason why it is mostly used is that it is simple both to calculate and interpret (Gunday, et al, 2011). Close to the net profit margin is the Inventory to Sales ratio and the gross profit margin. The inventory to sales ratio is calculated thus:

$$\frac{Inventory}{Sales}$$

The inventory to sales ratio is a proportion of inventory on hand to the sales revenue

figure. A smaller inventory turnover is deemed favourable since it shows that the organisation is not holding too much inventory. Holding too much inventory incurs inventory-holding costs such as insurance, wastage in form of pilferage and decaying, etc. The current study establishes that inventory to sales ratio was used to the extent of 82% by the SEs under study, revealing how SEs are particular about the inventory holding costs that are bound to accrue when excess inventories are held.

The gross profit percentage is calculated thus:

$$Gross\ Profit\ Margin = \frac{Gross\ Profit}{Revenue}.$$

This ratio measures the proportion of revenue that is *trading* profit; or profit before considering operating and finance costs for the period. It shows how much profit is being earned through *trading*. Since it is also easy to calculate and interpret, the ratio also comes as popular amongst firms, (Gupta, 1994). The study reveals that gross profit to sales ratio (gross profit margin) is considered an important financial analysis approach (with 82% generally using it). This indicates that SEs in Zimbabwe are conscious about the relationship between revenue and profitability.

The other ratio that was mostly used is the debt ratio. The debt ratio measures the proportion of total capital that is debt:

$$Debt\ Ratio\ = \frac{Total\ Debt}{Total\ Assets}$$

The corporations borrow money to do their business because debt capital is cheaper than the equity capital. On the other hand, excessive amount of debt can create problems for the company. With 79% of the respondents generally agreeing that they used this ratio, we realise that the SEs place more cognisance on profitability than the possible liquidity challenges that might loom as a result of an unfavourable debt ratio.

The other ratios used as FPMs are presented in Table 4.

Table 4: Ratios Used

Ratio	Model	Explanation	Percentage Usage
Earnings after tax to Total Assets	$\dfrac{Earnings\ after\ tax}{Total\ Assets}$	This represents the profit that is available to all the finance providers of the company; including equity holders, preferred stock holders, debt holders and providers of short-term credit (trade suppliers, employees for wages and salaries).	78%
Net working capital to Total Assets	$\dfrac{Working\ Capital}{Total\ Assets}$	This measures the liquidity of the business as measured by its ability to meet the requirements of all the finance providers.	76%
Current Ratio	$\dfrac{Current\ Assets}{Current\ Liabilities}$	The current ratio of a company gives a quick way to look at its current assets and current liabilities. They should be nearly equal to one	74%

Ratio	Model	Explanation	Percentage Usage
		another.	
Interest Cover (Earnings before interest and taxes to interest expense)	$$\frac{Earnings\ before\ interest}{Interest\ Charge}$$	Another ratio that looks at the ability of a company to pay its interest when due is its interest coverage ratio, or times interest earned.	74%
Cash flow to total debt	$$\frac{Change\ in\ cash\ and\ cash\ equivalents}{Total\ noncurremt\ liabilities}$$	This measures the efficiency at which the interest bearing borrowings are able to generate cash flows. The ratio can be broken down into two parts; the cash flow from financing activities (*NCFFFA*) to debt $$\left(\frac{NCFFFA}{Debt}\right)$$ and the cash flow from other activities (*NCFFOA*) to debt ratios $$\left(\frac{NCFFOA}{Debt}\right)$$	74%
Operating profits to assets	$$\frac{Operating\ Profits}{Total\ Assets}$$	This measures the profit attributable to all the finance providers, i.e. profit before interest and tax to equity + preferred capital + debt. It measures the capability of the business to meet the requirements of all the financiers.	74%
Cash operating cycle	*Cash operating cycle = Trade receivables collection period + Inventory holding period - Trade Payables payment period*	This measures the days it takes from buying merchandise on credit, through selling the goods and finally receiving cash. A shorter operating cycle is deemed favourable.	72%
Total Assets Turnover	$$\frac{Annual\ Sales}{Total\ Assets}$$	This ratio looks at the aggregate assets of a company and measures the way the company utilizes them.	71%
Return on equity (ROE)	$$\frac{Earnings\ after\ ax}{Equity}$$	This is a ratio that represents the profit that is attributable to the equity holders of an organisation.	68%

Ismaila (2011) says:

> "The findings revealed the following ratios as the most widely used by respondents: Cash flow to total debt (used by six respondents); Current ratio (used by six respondents); Working capital to total assets (used by five respondents); Cash flow to average total current liabilities (used by five respondents); Gross profit margin ratio (used by four respondents); and Inventory turnover (used by four participants)." (page 78)

Ismaila (2011) identified gross profit margin and inventory turnover as the least used financial performance measures. The results established by the author are in contrast with what this research established. Amongst the ratios found by Ismaila ibid to be least frequently used, for example inventory turnover and gross profit margin, the same ratios were found by this study to be frequently used.

CONCLUSIONS

Previous research shows that SEs do not monitor their financial performance, because of very limited or no knowledge of performance measurement frameworks and because the firms did not give priority to performance measurement since the benefits associated with the practice are less than the costs involved in using the resources required to do so. However, the study established that the majority of the firms actually monitor their performance after receiving microcredit finance. Such measurement of performance is done because performance measurement improves management analysis, instills objectivity, provides balance to business, helps in understanding the current state of organisational affairs and also helps in achieving strategic objectives. The firms generally used more of profitability and efficiency, and solvency financial analysis techniques to monitor their financial performance. The first four frequently used ratios were net profit margin, inventory to sales ratio, gross profit margin and the debt ratio. The firms would then be able to monitor the effectiveness of their borrowed funds using these financial analysis techniques. Although the study established that financial analysis is common among the majority of SEs, those SEs that are not part of the majority need to consider monitoring their financial performance in the post-microfinancing period as this will improve the SEs' efficiency, effectiveness, quality control, futuristic outlook and individual employee performance appraisal. The study concludes that SEs in Harare are using more of the traditional financial analysis techniques than the modern day financial analysis models. The use of contemporary bankruptcy prediction models is thus recommended for all the SEs so as to ensure that SEs do not collapse abruptly due to indebtedness and lack of information on the direction of their businesses.

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