

## **Relationship Between Strategic Financial Management And Business Performance among Small and Medium Enterprises in Finland: A Survey Report by Collector Credit OY Inc.**

**Tasmin, R. , A Malek, N.A. ,Takala, J. , Pennanen, J.**

Strategic and Quality Management Office, Universiti Tun Hussein Onn Malaysia, Faculty of Technology, University of Vaasa, Finland, Faculty of Technology, University of Vaasa, Finland, <sup>4</sup>Collector Credit Oy, Finland

### **Abstract**

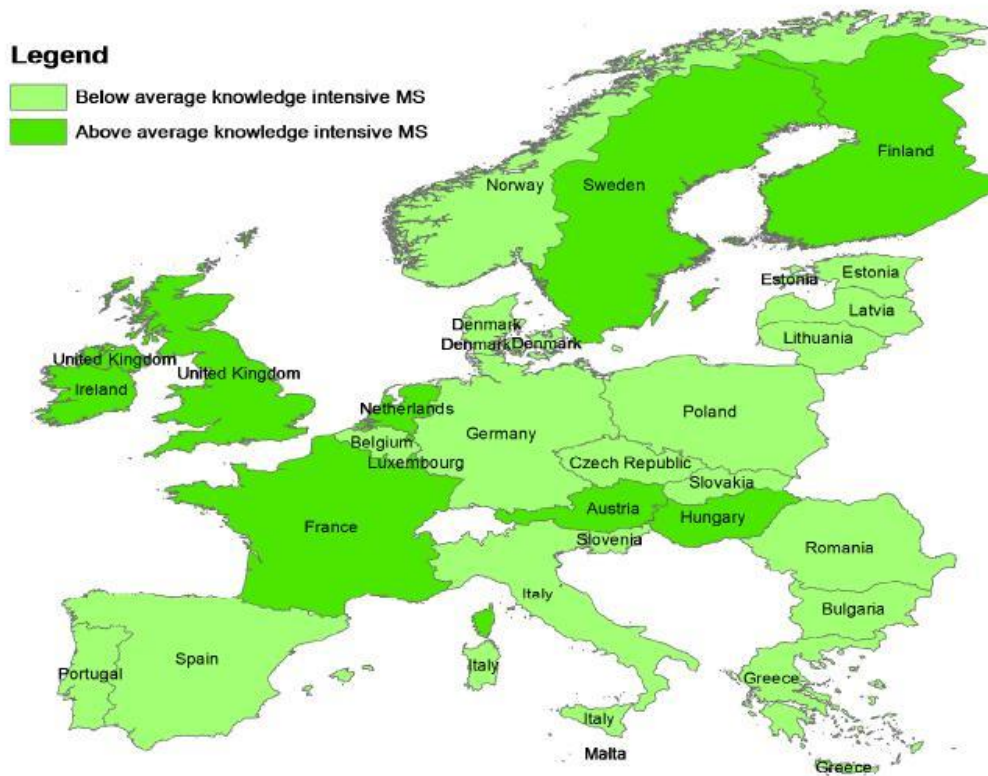
It is very essential and strategic, especially for Small and Medium Enterprises (SMEs), to plan, organize and control their financial aspect, as it is deemed very limited. Managing scarce capital or fund and yet attaining profitable business margin are proven challenging for the SMEs. Hence, the study aims to determine the relationship, as well as the differences that exist between financial situation and business performance among the Finnish SMEs. Thus, this study employed the use of SPSS statistical tools in order to guide the research questions in achieving the overall aim of the research. Data are derived from more than 450 respondents who are working within SMEs across Finland. The findings of the study reveal that there is a significant and positive relationship between strategic financial situation and business performance. Also, three groups were found to have statistically significant difference towards business performance; -positionø -critical success factorøand -net sales to increaseø

**Keywords:** *Financial Outlook, Strategy, Business Performance, SME's, Finland, Europe, Correlation, Significant Difference, Collector OY, Entrepreneurs, Managers*

## Introduction

In today's fast changing and increasingly competitive global market environment, small and medium enterprises (SMEs) are found to exert a strong influence on the economies of many countries (Aziz, 2013; Mahmoud, 2011; Soininen, 2012). Although, SMEs are not able to compete on price with multinationals organisations because of limited financial resources but still the SMEs explore their strategic strengths in other ways in order to complement their strength in related to their lighter structure. Conversely, while larger firms often find it very difficult to adjust to the current trends in the market place because of their corporate policy, SMEs use this lighter and strategic structure to rapidly adapt their strategies to the special needs of the market and present high level of commitment, which will be essential for building good relationships with their customers in achieving competitive advantage in relation to larger corporations. (Lages & Montgomery, 2004). In this regard, SMEs strategically provide the economy with numerous economic developments, such as the economic growth, employment and innovation. Studies have shown that SMEs have played major and strategic roles in fostering economic growth, generating employment opportunities and reducing poverty around the globe (Lages & Montgomery, 2004; Soininen, 2012).

It is on the same rationale and basis in Finland, whereby the SMEs played a strategic and critical role towards economic development and have contributed significantly to the economic growth, such as the job creation, social stability, and economic welfare of the country (Komppula, 2004). The Rotterdam report 2012, stated that Finland is among the countries in Europe, with negative real value added and employment growth on SMEs, while their performance is above the U27 average benchmark for both SME employment and SME value added.



**Figure 1:** Categorisation of EU Members States according to their average share of KIS SME employment in total SME employment in 2009-2011 (Adopted from Rotterdam report 2012)

While SMEs account for the majority of the business enterprises and boost employment figures, their contribution to the economy of Finland is only about 19 percent of the total export value and 32 percent of gross domestic product. Previous studies have shown that the performance of SMEs co-relate directly to the financial positions of the SMEs (Breznik, & Dermol, 2011). Traditional views have generally indicated that financial situation can have a positive impact on the performance of the SMEs regarding success or failure of the SMEs business depends on the financial situation (Hodorogel, 2011). Therefore, SMEs need to be financially sound so as to propel their basic and daily petty needs operations. In essence, effective financial resources are important for SMEs success and business performance especially in the competitive environment in which Finnish SMEs are presently operating.

Although SMEs face micro customers; however, their success or performance is influenced by the difference in the financial situation. Thus, measuring Finnish SMEs performance in today's economic environment is critical and strategic issues for academic scholars and practising managers. In general, business performance is the operational ability to satisfy the expectations of the company's major shareholders and it must be assessed to measure as an organisational accomplishment (Kanter, & Summers, 1994). However, attempts were made to examine the relationship between SMEs performance and their financial outlook for over many years. Consequently, the current studies also focus on this aspect, where scholars have examined the importance of performance evaluation and practices for SMEs. Measuring SMEs performance is an important and strategic tool within many research areas, particularly in business and social science studies (Carpenter, & Petersen, 2002). Even though, there are various means of measuring business performance, such as the business performance measurement (BPM) system, profit, return on investment (ROI), level of turnover, number of customers, quality design, product improvement, number of enterprises, output via gross value added (GVA) and the number of employees on their payroll (Hudson, *et al.*, 2001; Kanter, & Summers, 1994; Neely, 2002; Pitt, *et al.*, 1996).

Hence, this study applied some of the measuring tools that are relevant to the SMEs of Finland Financial Situation (such as the Current financial situation, Financial growth from the previous year, Financial situation expectation for the next year) and the Business Performance (such as the SMEs' business environment, SMEs growth from the previous five years, the current SMEs competitiveness level, the SMEs competitiveness growth for the past five years, the operating environment expectation for the upper year, additional competitive variable for the upper year, delay in payment and cash flow) as indicators for measuring SMEs performance for analysing and investigating the effects of SMEs business performance on the financial situations. The major function of the system is to focus on investigating the relationship and the differences between the financial situation on the business performance of the Finnish SMEs. This system is also appropriate for both quantitative (for example, questionnaires) and qualitative (for example, structured interview) research methods. Although, Finnish SMEs are often very reluctant to publicly reveal their actual financial performance; however, scholars have deliberated on the

need for subjective measures in evaluating the relationship of financial situations and the business performance (Pasanen, 2003). On the other hand, the question that reminds uncertainty is how does the financial situation of Finnish SMEs relate with their level of business performance? Thus, this paper aims to analyse the related literature on how financial situation can be used to evaluate SMEs performance. On the same perspective, empirically investigate the significant relationship or differences between business performance, as well as financial situation of the SMEs, if any.

### **Research Questions**

Research is to ponder a problematic situation, hence proposing solutions or, the least surfacing new knowledge on that challenging situation. As such, this research aims to remedy the lack of studies on Finnish SMEs financial situation and business performance in sparsely populated country, as Finland. This research deals with the relationship and significant differences between SMEs financial situation and business performance in one fine Scandinavian country, Finland. Hence, there will be a need to raise important and strategic academic questions relating to the causal type of this research.

- Is there any significant relationship between financial situation and business performance among Finnish SMEs?
- Are there any significant difference between different groups of Finnish SMEs towards financial situation and business performance?

### **Research Objectives**

As stated in research questions above, this work is to address certain targets or objectices, which have been aligned with the subject interest. Specifically, the main objectives of this study are:

- To examine the relationship between financial situation and business performance among Finnish SMEs.
- To identify any significant difference among different groups of Finnish SMEs towards financial situation and business performance.

### **Collector Credit OY Information**

Collector is a credit marketing company which aims to be a creative and innovative way thinking player in the financial sector in Europe, specifically in the Scandinavian Region. The collector provides services that allow exempt the capital and for an effective and safe shopping as well as a decrease in the hire among companies. They also offer loan and deposit services, as well as

credit card details individuals. Collector has grown steadily since started in 1999. At the moment, Collector has more than 200 employees who work in Gothenburg and Stockholm, Sweden, Oslo, Norway and Helsinki, Finland offices.

## Methodology

### Research Framework

The independent variable in this research is financial situation while the dependent variable is business performance. Each variable measured by a number of items derived by the Collector company themselves. In order to attain the second objective of the research, eight groups of Finnish SME are constructed to see any difference against their financial situation and business performance. The following figure shows each item in each category.

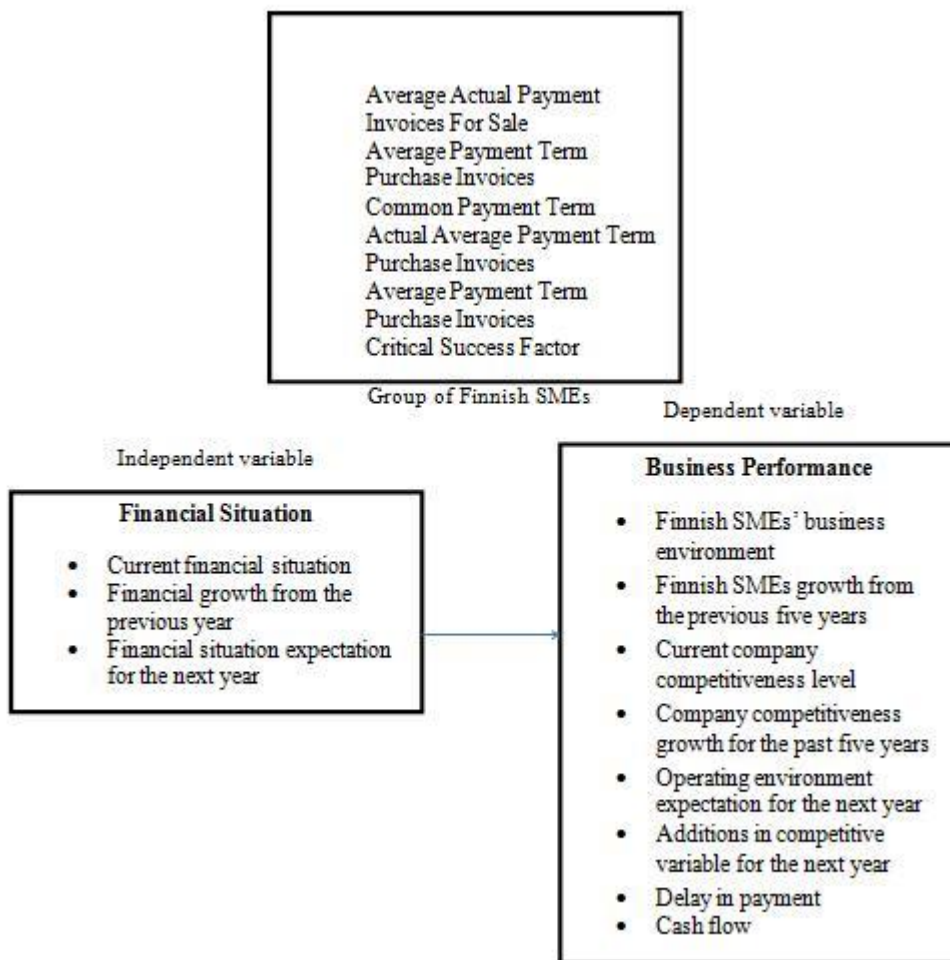


Figure 1: Research Design

## **Research Population and Sampling**

The nature of this research is based on a survey involved by Finnish Small and Medium Enterprises. The online questionnaire was answered by a total of 466 companies with a net sales ranging from 46 percent of net sales of EUR 1-2 million, 46 per cent of EUR 2 ó 10 million, and the remaining more than EUR 10 million. 72 percent of surveyed companies hired less than 50 employees.

## **Data Collection Method**

### Data Sources

Primary and secondary data are used for this research. In terms of primary data collection for this research, survey method using online questionnaires which are developed based on the Collector themselves. Furthermore, the secondary data sources which are used for the research include review papers, journals and online publications by Collector. The research instrument is a survey method using online questionnaires. The questionnaire consists of 19 items measured with two types of scale; categorical and ordinal.

## **Data Analysis Method**

The articulated data of the research is analyzed by using IBM Statistical Package Social Science (SPSS). In order to answer the research objectives constructed earlier, inferential analysis was conducted. Pearson correlation was used to determine the relationship between financial situation and business performance. The result from Kruskal-Wallis test is used for determining any difference among different groups of Finnish SMEs towards financial situation and business performance.

### **Pearson Correlation**

Since normality test result shows that the data are normally distributed, therefore parametric correlation test method is used. The correlation between variables is a measure to perceive how well the variables are related. The most common measure of correlation in statistics is the Pearson Correlation which shows the linear relationship between two variables.

### **Kruskal-Wallis Test**

The Kruskal-Wallis test is the nonparametric test equivalent to the one-way ANOVA which allow the comparison of more than two independent groups. It is used to compare three or more sets of scores that come from different groups. Kruskal-Wallis test cannot tell which specific groups were significantly different from each other but it can provide such information that at least two groups were different.

According to Kruskal and Wallis (1952), Kruskal-Wallis test is only permissible where these two assumptions are met:

Assumption #1:

The dependent variable should be measured at the ordinal or interval/ratio level. Examples of ordinal variables include Likert scales, amongst other ways of the ranking categories (e.g., a 3-point scale explaining how much a customer liked a product, ranging from "Not very much", to "It is OK", to "Yes, a lot"). Examples of interval/ratio variables include revision time (measured in hours), intelligence (measured using IQ score), exam performance (measured from 0 to 100), weight (measured in kg), and so forth.

Assumption #2:

The Independent variable should consist of two or more categories, independent groups. Normally, a Kruskal-Wallis test is used when you have three or more categories, independent groups. Example independent variables that meet this criterion include ethnicity (e.g., 3 groups: Caucasian, African American and Hispanic), physical activity level (e.g., 4 groups: sedentary, low, moderate and high), profession (e.g., 5 groups: surgeon, doctor, nurse, dentist, therapist), and so forth.

**Findings (Kruskal-Wallis Test Analysis)**

**Correlation Analysis**

Since normality test results show that the data are normally distributed, therefore parametric correlation test method is used for examining the relationship between Financial Situation and Business performance. Pearson product-moment correlation coefficient (r) which is the most frequently used correlation coefficient in data analysis for parametric data is used in this context of research, where the value of correlation coefficient,  $r = 0.506$  indicates a significant and positive correlation.

Table 1: Correlation Analysis

	<b>Business Performance</b>	<b>Financial Situation</b>
<b>Business Performance</b>		0.506**
<b>Financial Situation</b>	0.506**	



## Position

Table 2 shows that the majority of the respondent are entrepreneurs. They account for 62% of the whole sample. From the result, it shows that there was a statistically significant difference in business performance ( $H(3) = 21.28, p = 0.000$ ) with a mean rank of 210.33 for entrepreneur, 276.04 for shareholder, 199.31 for the chairman and 261.26 for other type of position. Similarly, financial situation also achieved statistically different result with a p value of 0.001 among those groups.

Table 2: Positions of respondent

	Position	N	Mean Rank	Chi-Square	Significant
Business Performance	Entrepreneur	280	210.33	21.28	0.000
	Shareholder	75	276.04		
	Chairman	32	199.31		
	Others	68	261.26		
	Total	455			
Financial Situation	Entrepreneur	278	211.17	15.93	0.001
	Shareholder	75	271.07		
	Chairman	32	210.88		
	Others	69	253.67		
	Total	454			

## Sales Variation

As shown in table 3, there are three groups under sales variation. Business performance does not have statistically significant difference among all three groups. In opposition to financial situation, there was a statistically significant difference with a mean rank of 234.89 for companies remained at the same level, 236.96 for those who vary slightly and 211.23 for companies that varies dramatically in sales.

Table 3: Sales Variation

	Sales Variation	N	Mean Rank	Chi-Square	Significant
Business Performance	Remains at the same level	14	234.89	4.32	0.115
	Varies slightly	246	236.96		
	Varies dramatically	191	211.23		
	Total	451			
Financial Situation	Remains at the same level	14	208.75	24.90	0.000
	Varies slightly	246	253.13		
	Varies dramatically	190	190.96		
	Total	450			

### Common Payment Term

This group has been divided according to the payment period that commonly given to their customers. They are grouped into five groups with starting from two weeks or less until more than 60 days period. It seems two weeks is the most period agreed for both parties. Table 4 has outlined that both business performance and financial situation do not have any differences among common group of payment.

Table 4: Payment term

	Common Payment Term	N	Mean Rank	Chi-Square	Significant
Business Performance	1-15 days	230	240.96	7.96	0.093
	16-30 days	194	210.95		
	31-45 days	28	253.82		
	46-60 days	4	247.00		
	More than 60 days	2	335.25		
	Total	458			
Financial Situation	1-15 days	230	237.00	2.50	0.645
	16-30 days	193	219.00		
	31-45 days	28	224.05		
	46-60 days	4	267.00		
	More than 60 days	2	266.50		
	Total	457			

### Average Actual Payment Invoices for Sale

This group was separated according to the average actual payment from customer. As previous group, this group also consists of five groups with a minimum of two weeks or less and maximum of more than 60 days. The result indicated that the average actual payment is also two weeks or less. These groups did not have any statistically significant difference to business performance and financial situation.

Table 5: Average actual payment from customer

	Average Actual Payment Invoices For Sale	N	Mean Rank	Chi-Square	Significant
Business Performance	1-15 days	215	243.95	6.89	0.142
	16-30 days	191	214.96		
	31-45 days	40	223.65		
	46-60 days	10	198.70		
	More than 60 days	2	336.00		
	Total	458			
Financial Situation	1-15 days	215	239.61	2.91	0.573
	16-30 days	190	219.17		
	31-45 days	40	218.29		
	46-60 days	10	222.85		
	More than 60 days	2	267.25		
	Total	457			

### Actual Average Payment Term Purchase Invoices

The following group was divided according to actual average payment term purchase invoices. They are also clustered into five different periods from 1 to 15 days to more than 60 days. In comparison with previous groups, this group has the highest amount of companies in 16 to 30 days. This group also has a higher number of companies in 31 to 45 days in contrary to previous group. Nevertheless, the actual average payment term for purchase invoices also does not have any difference with business performance and financial situation.

Table 6: Actual Average Payment Term Purchase Invoices

	Actual Average Payment Term Purchase Invoices	N	Mean Rank	Chi-Square	Significant
Business Performance	1-15 days	174	226.50	2.439	0.656
	16-30 days	197	235.72		
	31-45 days	63	235.87		
	46-60 days	17	193.88		
	More than 60 days	8	195.88		
	Total	459			
Financial	1-15 days	174	240.32	6.584	0.160

### Critical Success Factor

From the result in table 7, it can be therefore anticipated that most Finnish SME companies are adopting quality factor in their business. This is followed by cost and flexibility factor which is more or less have the same amount of companies adopting it. According to the result as well, business performance was statistically significant different with a mean rank of 162.2 for cost factor, 242.7 for quality factor, 249.9 for time factor and 240.1 for flexibility factor. Similarly, financial situation also indicated to have statistically significant difference among those groups. The mean rank ranged from 164.4 for cost, 246.2 for quality, 246.8 for time and 231.6 for flexibility.

Table 7: Critical success factors

	Critical Success Factor	N	Mean Rank	Chi-Square	Significant
Business Performance	Cost	110	162.18	33.394	0.000
	Quality	179	242.70		
	Time	50	249.93		
	Flexibility	106	240.15		
	Total	445			
Financial Situation	Cost	110	164.14	31.405	0.000
	Quality	178	246.28		
	Time	50	246.87		
	Flexibility	106	231.63		
	Total	444			

### Net Sales Growth

The following table illustrates the expectation of net sales growth for the next year. They are ranging by 10 percent growth from zero percent to 100 percent. As indicated by the result, more than half companies are expecting to have less than 10 percent growth. This is followed by 97 companies who think that they can achieve 10 to 19 percent net sales growth in the coming year. Table 8 has outlined that there was a statistically significant difference between business performance and different group of net sales growth with a p value = 0.00. Likewise, financial situation also seems to have a statistically significant difference with all the groups under net sales growth.

Table 8: Net sales growth

	Net Sales Growth	N	Mean Rank	Chi-Square	Significant
Business Performance	0-9 %	264	181.63	42.474	0.000
	10-19 %	97	248.90		
	20-29 %	29	257.93		
	30-39 %	13	277.19		
	40-49 %	3	351.33		
	50-59 %	6	204.50		
	80-89 %	1	124.00		
	90-100 %	2	368.50		
	Total	415			
Financial Situation	0-9 %	262	195.66	14.109	0.049
	10-19 %	97	227.20		
	20-29 %	30	242.67		
	30-39 %	13	239.35		
	40-49 %	3	288.83		
	50-59 %	6	178.58		
	80-89 %	1	kesä.50		
	90-100 %	2	134.00		
	Total	414			

### Discussion on the Findings

The results from this research study are largely expectant but importantly encouraging. Findings have shown that there is a significant relationship between financial situation and business performance. This is an encouraging result because it implies that the financial situation of Finnish SMEs company does correlate positively with business performance regardless of the industry sector. Financial provider must realize the full potential that they can provide to improve SME companies in order to establish a strong market competition globally among their customer. In other words, the better they understand their customer financial needs the better they can contribute to their customer business performance and Finland's economic growth as a whole.

For that purpose, the second part of the result related to the second objective does contribute to a better understanding in regards to Finnish SMEs. Kruskal-Wallis test was conducted to compare the effect of seven types of group towards business performance and financial situation

accordingly. The following table (9) summarizes the result of Kruskal-Wallis test analysis

**Table 9:** Kruskal-Wallis test analysis.

	Independent Variable	Dependent Variable
1	Position	<b>Business Performance</b>
2	Sales Variation	
3	Payment Term	
5	Average Payment Term Purchase Invoice	
6	Actual Average Payment Term Purchase Invoice	
7	Critical Success Factor	
8	Net Sales to Increase	
9	Position	
10	Sales Variation	
11	Payment Term	
13	Average Payment Term Purchase Invoice	
14	Actual Average Payment Term Purchase Invoice	
15	Critical Success Factor	
16	Net Sales to Increase	

Arising out from the result, three groups were found to have statistically significant difference towards business performance; ÷positionø ÷critical success factorø and ÷net sales to increaseø

This result implies that these three variables have a different effect on business performance. As a financial provider it is crucial to identify which group among each variable to have a positive effect on business performance and focus more to help them finance their business.

On the other hand, the result from the Kruskal-Wallisø analysis (table 9) towards financial situation shows that there are four groups to have statistically significant difference towards financial situation; ÷positionø ÷sales variationø ÷critical success factorø and ÷net sales to increaseø These variables are similar to those towards business performance with an additional of ÷sales variationø

### Impact to Policy Makers and Managers

SMEs are the major source of employment, income and a breeding ground for entrepreneurs (Borsi, et al., 2008). Although more often the policies on SMEs tend to be uniformly distributed over SMEs of different sizes and resources; hence, there is the need for the policy makers to look into such serious challenges by coming up with diverse laws and regulations that will suite various categories of SMEs (micro, small and medium sized). It is therefore important to know that policy does not mean to create disproportionate burdens on SMEs, rather the interests of SMEs are to be preserved (Güner, 2008). In addition, itø clearly known that SMEs are constrained in passing on any increase in costs to their customers as they usually do not directly

influence market prices, because SMEs are generally price takers (Benacek, 2010). This means that, any increase of indirect costs can have a greater impact on SMEs costs of regulations than on large businesses. According to (Harvie & Lee, 2005), there is the need for policy makers to come up with possible changes in the market structure that could particularly affect SMEs accessibility to capital than larger businesses, making investments easier. In other word, realizing that SMEs cannot compete effectively without external support the policy makers should advocates certain interventions aimed at promoting SMEs and mitigate against unfair competition from larger enterprises. Another important aspect that policy makers need to engage into is the issue of co-ordination within the sector, which has been problematic. Thus, recognition of this factor, there is also the need for policy makers to propose the establishment of a SMEs Development Councils/inter-enterprise cooperation, in order to improve co-ordination at all levels. It is expected that once Development Councils/inter-enterprise cooperation is established it will be replicated in other areas and by extention through Development Councils/inter-enterprise cooperation; SMEs could raise to the level of skills with their flexible and innovative nature. Thus, by so doing SMEs can generate important benefits in terms of creating of skilled industrial base, industries, and developing a well-prepared SMEs capable of contributing to GDP through higher value-added. Generally, the major objective for the policy makers is to create a conducive/enabling environment (such as training, quality improvement and development support programmes) for implementation by the SMEs, within which SMEs can thrive, by removing constraints which have hitherto constrained the growth of SMEs (Atherton, & Smallbone, 2013). Hence, it is highly expected that policy makers to be more supportive and forward-looking to SMEs when it comes to financial supports or assistance. It is foresighted that when SMEs financial background becoming strong, there is strong possibility for them to venture into the export market.

As the numbers of SMEs are gradually increasing daily, the strategic impact of SMEs on today's managers is also on the rising capacity. Today, SMEs are contributing to the employment growth at a higher rate than larger firms (Almus, & Nerlinger, 1999). Research shows that, SMEs have become an integral part of a market economy in most of the European countries and is considered to be the future of most business not only in the developing countries but also in the developed world (Rogut, & Piasecki, 2011). At present, SMEs have formed the backbone of the European Union's (EU) economy. In fact, SMEs accounted for 99 percent of European enterprises and have generated about 58 percent of the EU's turnover, while employing two thirds of the total private employment. SMEs have become the drivers of new jobs created, innovation, competitiveness and growth in European countries (ICE & IDG Report 2009).

On the contrary, a typical characteristic of SMEs is that they produce predominantly for the domestic market; hence, SMEs use and develop predominantly domestic technologies and skills. In this regard, an increased in number of SMEs will bring more flexibility to society and the economy and might facilitate technological innovation, as well as provide significant opportunities for the development of new ideas and skills. Therefore, managerial support for SMEs will help the restructuring of large enterprises by streamlining manufacturing sector, services sector and other related sectors. So that, through this process the efficiency of the remaining sector might be increased; so as to be able to compete with the fluctuation of a modern economy.

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## Conclusion

The results of this research should be very beneficial to both academicians, practitioners, policy makers and managers. As suggested by the Kruskal-Wallis and Correlation analyses, an appropriate perspective on the issue could stem from recognition that business performance and financial situation are complex activity affected by a myriad of interacting factors, and must inevitably be undertaken in a holistic manner in smaller concerns. For these reasons, particular concern in those regards will make a huge contribution to the whole task without necessarily standing out to problems that might likely encounter. Hence, future research can focus on improving the business performance, financial situation and other functional capabilities, which may likely lead to more effective and significantly improve the SMEs prospects. Lastly, a potential future research is to engage tri-partisan studies which compare these Finnish findings with other countries, such as among SMEs in Malaysia and Nigeria; representing tri-continental outcomes from Europe, Asia and Africa, respectively.



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