

**Financial And Non-Financial Indicators of Business Success: A Study of
Australian And Malaysian SME Entrepreneurs**

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ABSTRACT

Given the lack of consensus on how to measure success, this paper explores the meaning of business success as perceived by SME business owners in Australia and Malaysia. A qualitative methodology was adopted whereby semi structured interviews were conducted with ten entrepreneurs each from both countries. A content analysis of the interview data identified 20 criteria of defining success; broadly categorised into (1) financial, (2) lifestyle, (3) social responsibility, and (4) customer satisfaction criteria. Interestingly, the answers provided by Australian entrepreneurs were largely similar to the Malaysians. However, slight differences were identified relating to aspects of financial, lifestyle, and social responsibility. Overall, this study finds evidence for the utilisation of multidimensional measures of business success in Australia and Malaysia.

Keywords: Business success, SME, Entrepreneurship, Australia, Malaysia.

INTRODUCTION

The measurement of business success especially among small and medium-sized enterprises (SMEs) is a vexed and controversial issue. The bulk of research on SMEs has focussed mainly on financial indicators (e.g. Chandler & Hanks, 1994; Man & Lau, 2005). But there have been recent studies that have found evidence of the relevance of non-financial aspects in measuring business success (Buttner & Moore, 1997; Simpson, Tuck, & Bellamy, 2004; Walker & Brown, 2004). This paper attempts to reconcile both perspectives in two steps. Firstly, it explores the importance of financial and non-financial indicators of business success in the literature and argues that focussing on either financial or non-financial indicators of success is not helpful. Following that, the paper attempts to generalise the proposition by a reporting the findings of an exploratory qualitative study comparing perceptions of business success between Australian and Malaysian entrepreneurs. The paper finds that entrepreneurs give similar weighting both financial and non-financial indicators of business success. Interestingly, it also finds slight differences in the content of the indicators of business success, as perceived by Australian and Malaysian entrepreneurs.

LITERATURE REVIEW

Business success is considered the ultimate direction of any entrepreneurial efforts. Clear and accurate measures of performance and success especially in SMEs are pivotal for the understanding of business success and failure (Chandler & Hanks, 1993; Murphy, Trailer, & Hill, 1996; Watson, Newby, & Woodliff, 2000). However, there is still lack of agreement among scholars on the accepted method of measuring success. It follows that until we understand clearly what success really means to the SME owners, efforts to identify factors relating to business success in SMEs and efforts to distinguish between successful entrepreneurs and the less successful ones will be inaccurate (Watson, 2003).

Existing literature shows several approaches in measuring business success. One group of researchers advocate the use of traditional financial measures of success such as profitability, sales turnover, and return on investment. For example, Hall and Fulshaw (1993) claim that two important measure of success are profitability and growth because for a business to be considered successful using financial measures, it requires increases in profit or turnover. Growth indicates long-term achievement whereas profitability reflects short-term achievement. Also, Chandler and Hanks (1994) use strictly financial estimators of success such as cash flow, market share, sales growth, earnings, and net worth in their study of venture performance. Perren (2000) states that performance is reflected in some level of growth, as indicated in firms' sales and income. A strong argument on considering financial measure of success is that "businesses are only viable if they are financially solvent" (Marlow & Strange, 1994:9).

On the other hand, there are some who focussed on non-financial measures of success, which includes job satisfaction, flexibility, balance between work and family responsibilities, and career progress (Kuratko, Hornsby, and Naffziger, 1997). For example, Jennings and Beaver (1997) argue that the success is more than money and the pursuit of financial goal; it involves some aspects of intrinsic reward for the entrepreneurs themselves. Explicit in their argument is that the best measure of success for small firms is the attainment of personal objectives such as satisfaction with ones' own personal involvement, autonomy, and balance in life rather than financial outcome. Proponent to this

approach argued that the significant emphasis given by entrepreneurs, especially those in small firms are on non-financial objectives (Kuratko et al., 1997). Beaver (2002) agrees by pointing that to many entrepreneurs, money is not a prime motivator but rather a ‘pleasant by-product’ of having the freedom to take charge of their own future.

This ‘either-or’ approach to looking at indicators for business success has received some criticism for being a poor reflection on reality. Following Buttner and Moore’s (1997) warning to not focus merely on financial performance, Wiklund (1999) suggests that both financial and non-financial measures commensurate each other and provide richer description of actual performance. This view is also reflected by Murphy et al. (1996: 22), who argue, in the context of SMEs that,

“Organizational performance is composed of multiple dimensions. Financial measures are necessary but not sufficient to capture total organizational performance. Thus, future studies should continue to include financial measures, but non-financial measures need to be emphasized as well.”

The difficulty in supporting the more holistic view of business success is that there are few empirical studies conducted. Curran & Blackburn (2001) note that this is a characteristic of small business research whereby access to small business is already difficult to achieve, let alone getting SMEs and entrepreneurs to share openly their financial data and strategies. Among the studies conducted, these tend to be localised and based on a small group of sample in a restricted context. Thus, the danger lies in the suitability of applying the findings to other context. A recent study conducted by Walker and Brown (2004) on identifying business success factors among 290 small businesses Western Australia found that business success criteria could be categorised into three broad categories; (1) financial criteria, (2) lifestyle criteria, and (3) social responsibility criteria. While this provides a useful insight into developing a more viable measure of business success in SMEs, the findings is limited to a single industry sector in Western Australia, with the majority is home-based. This signals for more research to be undertaken in regards to this issue. Also, it is important to probe into the possible emergence of other success indicators arising from cultural or country differences, particularly in developing country, (i.e. Malaysia) where such studies are rare.

METHOD

The research that is reported in this paper was conducted to address the need to cross-validate and extend the application of the multidimensional measure of business success in SMEs and determine whether they are applicable to other cultural contexts, specifically Australia and Malaysia. It is a part of a larger study that relates entrepreneurial competencies and business success in SMEs. Before incorporating the multidimensional indicators of business success into the survey, it is necessary to determine the extent to which both indicators are applicable in the contexts studied. Accordingly, besides providing in-country validation of earlier studies conducted in Australia, it will provide fresh evidence in the context of Malaysia given research in this line of inquiry is scant.

Semi-structured interviews were conducted over a period of 3 months in 2005 and were all conducted on an individual, face-to-face basis. Employing this approach is seen as critical in the sense that it offers rich and localised information on what is viewed as important success indicators by entrepreneurs within Australia and Malaysia. Specifically, the participants were asked to describe how they define business success. As not all the respondents in Malaysia were conversant in English, some of the interviews there were conducted in Malay. In total, eighteen interviews were conducted at the participants' business premises. Two interviews with Australian participants were held at the University of Adelaide's Graduate School of Business's boardroom, at their request.

SAMPLE

The Australian participants were identified based on the recommendation by the director of SA YES program in South Australia. In contrast, due to difficulty with gaining access, the initial Malaysian sample consisted of individuals known to the main researcher, and subsequent members were included by snowball sampling (Patton, 1990). The sample for the present study comprised businessmen/women who had started up their own businesses. The respondents' profile is presented in Table 1 and Table 2.

Table 1. Profile of the Australian participants

Participants	Gender	Current Age	Education Level	Nature of business	No of employees	Firm Age
A	Female	28	Bachelor degree	Handbag designer and manufacturer	14	3
B	Male	63	Certificate	Tailoring and dry cleaning	15	47
C	Male	37	Certificate	Software development and computer service	5	12
D	Male	40	Halfway through university	Computer and related services	2	8
E	Male	42	High School	Air conditioner service	17	15
F	Female	45	Masters degree	Public relations consulting	3	3
G	Male	56	High school	Electrical goods and furniture retailer	15	20
H	Female	23	Masters degree	Website development	4	2
I	Female	32	Certificate	Musical instruments manufacturer	13	3
J	Female	24	Bachelor degree	Business consulting	2	2

Table 2. Profile of the Malaysian participants

Participants	Gender	Race	Current Age	Education Level	Nature of Business	No of employees	Firm Age
K	Female	Malay	45	High school	Cosmetic producer/manufacturer	13	5
L	Female	Malay	40	Diploma	Software development and computer services	8	4
M	Male	Malay	44	Masters degree	Steel trading and retail	15	5
N	Male	Malay	50	High school	Motor trading and insurance services	27	20
O	Male	Indian	43	High school	Transportation and logistics service	17	16
P	Male	Chinese	42	High school	Car trading and insurance services	25	18
Q	Male	Malay	41	High school	Catering service and restaurant	11	3
R	Male	Chinese	35	Bachelor degree	Optometry service	6	9
S	Male	Chinese	36	High school	Printing service	5	7
T	Male	Chinese	45	High school	Ice cube producer	26	15

The entrepreneur's age ranged from 23 to 63 years for Australian sample and from 35 to 50 years for Malaysian sample, with the mean ages of 39 years ($SD = 13.19$) and 42.10 ($SD = 4.43$) respectively. For Australian sample, the start up age ranged from 25 to 42 years with a mean age of 28.60 ($SD = 6.54$) and from 20 to 40 years with a mean age of 31.20 ($SD = 7.04$) for Malaysian sample. Two of the 10 Australian entrepreneurs were involved in the manufacturing sector with the remaining operated in the service sector. The size of the Australian firms varied from 2 to 17 employees with the mean size of 9 employees ($SD = 6.25$). The firms' age also varied from 2 to 47 years and the mean of the firms' age was 11.5 years ($SD = 11.5$). In the case of Malaysia, all but two firms owned by the Malaysian entrepreneurs who participated in this study were service-related businesses. The size of the businesses varied from 3 to 30 employees with a mean of 15.3 ($SD = 8.29$) and the firms' age also varied from the minimum of 3 year old to the maximum of 20 years old, with a mean of 10.2 years ($SD = 6.41$).

DATA ANALYSIS

A number of observations related to how entrepreneurs define business success were extracted from the 20 cases. The answer to the question "how do you define success in business?" was examined for each case. This question was seen as a useful approach to gauge entrepreneurs' perception of criteria for business success. Drawing on classification established by Walker and Brown (2004), the answers obtained from the participants were categorised into (1) financial criteria, (2) lifestyle criteria, and (3) social responsibility criteria. In addition to this typology, another category labelled 'customer satisfaction' was added to reflect the findings of this study. This category has not been covered by the authors.

RESULTS

The results of the interviews are presented in table 3. The findings revealed a common pattern pertaining to ways in which participants defined business success. Success was defined using both financial and non-financial indicators; with non-financial success indicators (lifestyle criteria, social responsibility, and customer satisfaction) dominating the discussion.

Table 3.

Definitions of Business Success Among Entrepreneurs in Australia and Malaysia

Indicators of business success	Australia	Malaysia
(1) Financial criteria	<ul style="list-style-type: none"> • Profitability • Higher income • High sales turnover • Low overheads* 	<ul style="list-style-type: none"> • Profitability • Business growth • Increase in sales • Increase in market share • Low debt levels*
(2) Lifestyle criteria (Non-financial)	<ul style="list-style-type: none"> • Satisfaction • Have control over own destiny • Enjoy doing what one is doing • Balance between work and life • Having freedom • Survival in business • Improved skills and creativity of the owner • Being recognised by others* 	<ul style="list-style-type: none"> • Personal satisfaction • Control own business • Healthy and happy life • Balance between work and family • Survival in business
(3) Social responsibility (Non-financial)	<ul style="list-style-type: none"> • Creating good working environment especially for staff* 	<ul style="list-style-type: none"> • Creating more jobs for local community*
(4) Customer satisfaction (Non-financial)	<ul style="list-style-type: none"> • Customers trust (constantly refer back to us). • Receiving good feedback 	<ul style="list-style-type: none"> • Gain customer trust and confidence • Customer listen to our advice • Have satisfied customers

* Signify areas of differences between the Australian and Malaysian responses

The participants stated,

“Success indicators, you know, in terms of profit and in terms of how many people I employ and the turnover, but for me, it's just the more personal non-tangible indicators ... doing something that's rewarding and get a lot of satisfaction out of it” (entrepreneur A, Australia).

“It's all about self-satisfaction. Money is also important to ensure that we can survive in the business...but as I told you, the most important thing is self-satisfaction (translation)” (entrepreneur Q, Malaysia).

In regards to financial indicators, profitability and sales growths were also highlighted. According to these participants, both criteria, impact on the capability of a business to survive in the long run. As Marlow and Strange (1994) highlight, financial capability is required to ensure that the business remains viable. Some participants clearly indicated that success is a combination of both indicators.

“It’s a combination of both. Money is important because I won’t be in business if I can’t make money but it’s not the driving forces because I spent 2 years without making money I have a big vision that one day we will make money” (entrepreneur I, Australia).

“Of course income is one of the major factors. Actually income is how you measure your performance. It’s the reward that you have. Other thing is like when clients end up being your friends. Then we also look at the percentage of the patients who come back to you. From there you can see where we are. At the end they are actually quite attached to us...I think it’s a mixture of all” (entrepreneur R, Malaysia)

Reflecting a financial indicator of success, low overheads are also seen as an important criterion of success for Australian participants. None of their Malaysian counterparts highlighted this. In addition, while this issue did not seem to emerge in the interviews among Malaysian participant, one participant from Malaysia mentioned that success for him are being independent financially and maintaining low debt.

“Financially we have to be independent. We don’t have to depend on other source of loans. That’s the fundamental thing. Of course we don’t carry a lot of liabilities as well” (entrepreneur R, Malaysia).

Of the non-financial indicators of success, lifestyle criteria were most frequently highlighted by the participants. Participants from both countries stated success means having personal satisfaction with their firms' progress and achievement. Because every individual has different personal goals, satisfaction with the firm's achievement is a very subjective indicator. Some indicated that having control over their destination, enjoying what they are doing, having a balanced, healthy, and happy life, as well as having more freedom gave them satisfaction.

“It's satisfaction and satisfaction with what you're doing and getting to a position where you're able to maintain the lifestyle that you choose, whatever that lifestyle might be”
(entrepreneur C, Australia)

“Even though last year's sale was 4 million, slightly lower than the year before, I'm very satisfied. My lifestyle has changed. I have more time for my family. My time is very flexible. The life is there, with my children and my wife” (entrepreneur M, Malaysia).

Success has also been equated to survival. These indicators may require the firm to generate some level of income but not necessarily growth or expansion. It has been argued that for some entrepreneurs, success simply means survival of the business that they have created (Beaver, 2002). Two comments extracted from the interviews consistent with this argument;

“The failure rate is quite phenomenally scary. If you can survive for a long period of time and make money ... you've achieved something more than what a lot of small businesses achieve” (entrepreneur E, Australia).

“I consider myself successful when the customers actually follow my advice and trust in me. Secondly, I look at profit. Profit is also important to keep my business afloat (translation)”
(entrepreneur K, Malaysia)

Another indicator of success, closely related to personal satisfaction, was the excitement of having the chance to improve skills and learn new things while managing one's own business. However, this theme was extracted in an interview with Australian participants only. In addition, being recognised by others is also considered a criterion to measure success in business. This was highlighted by two Australian participants, yet, none from Malaysia mentioned this.

“For me, true success means being recognised by others and that people know that our service is one of the best...” (entrepreneur E, Australia)

Creating a good working environment for staff (one Australian) and creating more jobs for the local community (two Malaysians) have been mentioned as indicators of business success. Both were categorised as the ‘social responsibility’ success indicator, as reflected in the following exemplars;

“It (success) is about self-satisfaction. And also creating a work environment where I like to work and people around me like to work as well” (entrepreneur I, Australia).

“Success for me, besides making money, is helping the local community to improve their well being by creating more job opportunities especially for the young people who have left school and were unemployed (translation)” (entrepreneur Q, Malaysia).

Also included in the discussion of success indicators was customer satisfaction. Getting good feedback from customers, having customers refer back to their business, and having customers that listen to their advice, were regarded as important success markers. Nine participants (5 Australians and 4 Malaysians) believed that an important success indicator was having satisfied customers. According to entrepreneur C (the owner of a software development company, Australia), “success for me is

having a bunch of satisfied customers who constantly refer back to us". The following excerpts demonstrated emphasis given to customers as an indicator of business success.

"Probably if anything, getting good feedback from people who even want to take interest in us is more important...Having customers constantly refer us and come back to us and be loyal to us. That all, like that's all in our plan but that all pretty much gives us really good feedback" (entrepreneur H, Australia).

"Knowing that the customers are satisfied with my service gives me satisfaction. It means success to me...and also when customers listen to my advice...that is success (translation)" (entrepreneur K, Malaysia).

DISCUSSION

In general, the meanings given to the concept of business success among Australian and Malaysian entrepreneurs are comparable. Participants from both countries had similar attitudes towards defining business success, with non-financial goals dominating the discussion. The dominance of non-financial indicators of success in the interviews supports the findings of earlier studies that both financial and non-financial gains are important success measures (King, 2002; Walker & Brown, 2004). Adding to that, this study found further evidence to include customer satisfaction as an important indicator of business success, replicating Haber and Reichel (2005) study of performance measure of small tourism ventures in Israel. Evidently, this study shows that the non-financial success indicators were not necessarily substitutes for the financial success indicators. Maintaining a certain level of profitability and business growth were also highlighted by participants from both countries (even though in many cases reported as secondary goals), signifying the relevance of financial indicators of success. It may therefore, suggest that obtaining a certain level of financial security is important to guarantee business survival, even if growth is not the prime goal.

Nevertheless, there are slight differences within the content of financial, lifestyle, and social responsibility criteria. On financial category, Australian participants highlighted having low overheads in defining business success. By contrast, Malaysian participants focussed on discussing issue of maintaining low debt level as an important indicator of business success. In the lifestyle category, Australian participants relate success to gaining recognition from others but no such discussion was extracted among the Malaysian participants. In addition, while both Australian and Malaysian participants provided some clues on perceiving success in relation to social responsibility criteria, the content was slightly different. Australian participants saw success as being able to create a good working environment for staff. Malaysian on the other hand, viewed success in terms of creating jobs to the local community.

The emphasis on gaining recognition among the Australians interviewed may well mirror the individualistic culture that most people in the society adhered to because one important element of this cultural dimension is gaining satisfaction through personal achievement and recognition (Hofstede, 1991). In contrast, most Malaysians espouse collectivism values and view attention seeking and self-achievement as secondary to other altruistic value such as helping others (Yusuf & Amin, 1999). This could also possibly explain why creating jobs for local community is equated to success among the Malaysian entrepreneurs. This follows Saffu's (2003) research that found that in a collectivist culture, the ability to meet the community obligations is viewed very highly.

Overall, this study suggests that focusing on a narrow range of success measure may result in a misleading approach to understanding entrepreneurial success. Multiple indicators of success are therefore, important to improve the explanatory power between independent and dependent variables of business success (Murphy et al., 1996). Also, given the complexity in evaluating performance of smaller firms, considering the difficulty in obtaining data on financial performance (Westhead, Wright, & Ucbasaran, 2001), the use of multiple measure of performance is highly recommended.

CONCLUSION

In conclusion, the findings provided evidence that validated earlier studies. Results clearly suggest the applicability of a multidimensional approach to the operationalisation of business success in SMEs. The integration of both 'hard' and 'soft' measures, as some call them, provides a valid index of business success, especially in SMEs, because what success means in business is heavily dependent on the meaning of success to the entrepreneurs. Not solely driven by the financial indicators of success, evidence has shown that entrepreneurs are now looking at the softer indicators especially those related to lifestyle, social responsibility, and customer satisfaction criteria. Accordingly, this qualitative data contributes by providing us with a referencing item pool for modifying and updating the existing instrument pertaining to business success in SMEs. The items identified could be incorporated to enhance the measurement of business success in the context of SMEs in Australia and Malaysia. As mentioned earlier, more evidence of reliability and validity of this measure will be generated in the subsequent quantitative study. The value of this research lies in the application of a cross-cultural approach in understanding the perception of business success among SME entrepreneurs.

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