ACCOUNTING AND FINANCIAL REPORTING

The Missing Numbers: Beyond Financial Statements in Small-Scale Industries

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Abstract

The financial statements are used to evaluate the financial position and performance of the small scale industries. However, financial indicators may not adequately explain operational parameters affecting business performance. This study explores the shortcomings of conventional financial statements and explores non-financial indicators such as customer satisfaction, product quality, employee productivity, and operational efficiency. Secondary data comes from the published studies and literature. The rationale why the funders invited the research is to apply the synthesized understanding derived from the comparative analysis of the non-financial performance and the financial performance measures to a proposed framework of the overall evaluation of a business work. The study argues that the adoption of both types of indicators may facilitate a fuller understanding of business performance and support managerial decisions making. However, the proposed framework is still at a conceptual level and needs to be empirically tested to establish the practical usefulness of the proposed framework in the small-scale industries.

Keywords: Small-Scale Industries; Financial Statements; Non-Financial Indicators; Business Performance; Performance Evaluation

1 Introduction

Small scale industries are very important for economic development because they provide employment, production, entrepreneurship and income. Their success is not only based on their financial resources, but also on their operational efficiency, product quality, customer satisfaction, employee productivity and their ability to respond to changes in the market. Financial statements are important for analyzing company's financial position and performance. For example, the income statement and balance sheet are reports that provide information on revenue, expenses, profit, assets and liabilities. Such information enables the owners of a business to determine the profitability, liquidity and financial stability of a business. But the financial statements are primarily about reporting the financial results of a certain period and do not, by themselves, explain all the operational factors that contribute to business success. For example, a small manufacturing company may experience an increase in sales and profit but these statistics may not indicate a decline in product quality, delays in delivery of orders or a decline in customer satisfaction. Likewise, when sales are flat, a company may see profits eroded by production inefficiencies or an increase in customer complaints. These factors highlight the need to complement conventional financial information with relevant non-financial indicators.

The previous studies on small and medium enterprises have investigated the use of financial and non-financial performance measures. Research has shown that useful dimensions of business per-

formance are customer satisfaction, productivity, innovation, operational efficiency and sales growth. These results suggest that a more broad approach to performance appraisal would provide a more holistic view of the enterprise's performance (Sreenath and Bagodi, 2017; Hendri, 2025).

In this context, the present study discusses the limitations of conventional financial statements for the evaluation of performance of small-scale industries. The paper investigates how selected non-financial indicators can supplement financial information and puts forward a practical framework for a more comprehensive evaluation of business performance. The study is based on secondary sources of data such as published research and relevant literature and aims to develop recommendations which could help small scale enterprises in making better informed business decisions.

2 Research problem, research gap and objectives

2.1 Research problem

Financial statements are key indicators of financial position and performance of small scale industries. However, there are other factors affecting business operations but may not be well captured by financial indicators such as revenue, expenses and profitability. Other non-financial factors such as product quality, customer satisfaction, employee productivity and timely delivery of orders may also drive business performance without direct reflection on the financial statements.

The research problem is to study the ways to overcome the limitations of relying on the financial statements only by combining the relevant non-financial performance indicators with the financial measures. It aims at establishing how these indicators could be combined to offer a broader picture of the performance of small-scale businesses.

2.2 Research gap

Any studies on measures of financial and non-financial performance in small and medium enterprises have been done before. However, the literature review considers internal processes and customer-related measures and employee performance in addition to financial results. However, the relevance of such measures can be influenced by the size, nature and operations of an enterprise.

In this context, the study aims at developing a practical approach to integrating selected financial and non-financial performance indicators for small enterprises. It does not assume that financial statements are incomplete in every situation, but rather explores how other operational information could lead to a more complete picture of business performance. The framework is conceptual in nature and requires empirical testing to determine its practicality in small scale manufacturing industries.

2.3 Objectives of the study

1. To understand the significance of conventional financial statements in assessing the performance of small scale industries.
2. To determine some of the limitations of using financial indicators alone in assessing performance.
3. To explore some of the non-financial indicators that can complement the financial indicators of performance.

4. To propose the practical set of financial and non-financial indicators in business performance measurement.

3 Review of literature

Earlier studies on small and medium enterprises have explored the role of financial and non-financial indicators in the measurement of business performance. These studies lay a foundation of the reasons why financial statements cannot be used in measuring performance in total.

3.1 Performance measurements

Typical measures of business performance include return on investment, liquidity or cash flow, revenue growth, and profitability. These indicators are measures of financial performance and utilization of resources. However, they may not satisfactorily explain the functional causes behind such outcomes.

3.2 Other performance measures apart from financial performance

Sreenath and Bagodi (2017) examined the relationship between the performance measures for SMEs in the manufacturing sector in India. They discovered relationships between employee-related measures, internal processes, customer-related measures, and financial performance. This suggests possibilities of looking at beyond financial performance for greater insight into business performance.

Similarly et al. (2022) conducted a literature review on measuring performance dimensions in SMEs. Accordingly, in this regard, the research indicates that the measurement of performance can be beyond performance as far as finance is concerned.

4 Research methodology

4.1 Research design

The research design has been descriptive and analytical where the researcher has sought to understand how financial and non-financial indicators can help in assessing the performance of business at the small scales of the industry.

4.2 Sources of data

The study makes use of secondary data obtained from published research papers, academic journals, and related reports. These are used to build knowledge of existing performance measurement approaches and indicators for small-scale industries.

4.3 Method of analysis

Financial performance vs. non-financial performance. This involves a comparison of financial indicators (liquidity and profitability) and non-financial indicators (delivery performance, labor productivity, product quality, and customer satisfaction). The analysis takes into account the information provided by each indicator and the limitation of relying too much on one category of measures.

4.4 Scope of the study

The research focuses on performance measurement of small scale industries; in particular, special emphasis has been paid to manufacturing businesses. The study attempts to recommend a framework for integrating selected financial and non-financial indicators within the framework of performance appraisal of a business.

4.5 Limitations of the study

The study is secondary and does not collect primary data from the business. Hence, the framework is conceptual and its practical relevance is unknown without further empirical research.

5 Data analysis and discussion

In this context, a research analysis suggested that the evaluation of small-scale industry should be based on financial results as well as non-financial and operational measures. The financial statements can inform us as far as profitability, liquidity, sales and asset management is concerned, while other non-financial factors give us information regarding the performance of customers, employees, production processes, and product quality.

5.1 Limitations of financial performance measurement

Bahri et al. (2017) proposed a performance measurement and management system for manufacturing SMEs based on NSA of the financial performance and business practices of 108 Canadian SMEs. They found that the effects of business practices on financial results can be short or long term. This means that accounting reports are useful in reporting out-turns, but more information on business practices can be useful in explaining how the out-turns are generated.

5.2 Contribution of non-financial indicators

Sreenath and Bagodi (2017) analyzed a sample of 200 manufacturing SMEs in regards to the association between process, employee, customer, and financial performance indicators. They found that employee-related indicators had an impact on process performance indicators, which in turn affected customer-related indicators, which refracted to financial performance. Similarly, a study of Malaysian manufacturing firms in 2016 found that non-financial measures of internal processes and customers were more common than quality-control measures. Non-financial indicators could therefore be dependent on areas of performance and business contexts. 5.3 Discussion

Hence, the studies outlined here show that financial and non-financial indicators act as complements. Financial indicators show the results of a business, while non-financial indicators may help explain the operational conditions that contribute to those results. For example, a drop in customer satisfaction could be an early indicator of a problem with business before the financial impact is evident.

Yet, each indicator's usefulness will vary according to your business's nature and objectives. Thus, having selected measures would be more useful for small scale industries than a voluminous form of measurement. As such, this study suggests a framework that links financial indicators such as return on investment and other operational and customer indicators that can holistically capture the business performance.

6 Findings

From the external data it can be seen that:

1. Using financial data such as profits, liquidity, increased turnover and costs can give an indication of how well the SME is performing.
2. However if just financial data is considered within an industry, issues may not be obvious. It may not be clear in the financial data that there are problems in production, decreased product quality and low customer satisfaction.
3. Customer feedback, complaints and large numbers of repeat customising can indicate the quality of product, and therefore how well the business is performing.
4. Productivity of employees in an organisation can impact processes. This will then affect customer satisfaction and financial success.
5. If processes within an organisation are efficient (products being delivered in time, little issues in production and less faulty products) performance within the business will be increased.
6. By using both financial and non-financial data a better indication of the performance of a business can be given so better decisions can be made.
7. In SME's performance can be easily measured, however it is important to consider the resources needed and available in order to do this.

6.1 Conclusion

In conclusion it can be seen that in SME's using just financial data to determine a business performance may not be sufficient. However using both financial and non-financial data will provide a better insight into performance in small scale industries.

7 Proposed framework and recommendations

This paper proposes a simple literature-based framework of integrating financial and non-financial performance indicators for a more holistic evaluation of performance of small scale industries. The framework is a simple guide and not validated for measuring.

7.1 Proposed performance evaluation framework

The framework comprises three interrelated components:

- **Financial Indicators:** Profitability, liquidity, growth in revenue, operating costs. They form a basis for measuring the financial health and financial situation of a business.
- **Non-Financial Indicators:** These include quality of goods, customer satisfaction, employee productivity, and timely delivery of orders. They give a deep insight into the state of operations and customer relations.
- **Combined Evaluation:** Both financial and non-financial indicators are considered in deciding where the management should concentrate its attention. For example, quality/defects measures of supplied products or performance in doing the orders can be compared with variation in the cost of operations to make a judgment on the declining profits.

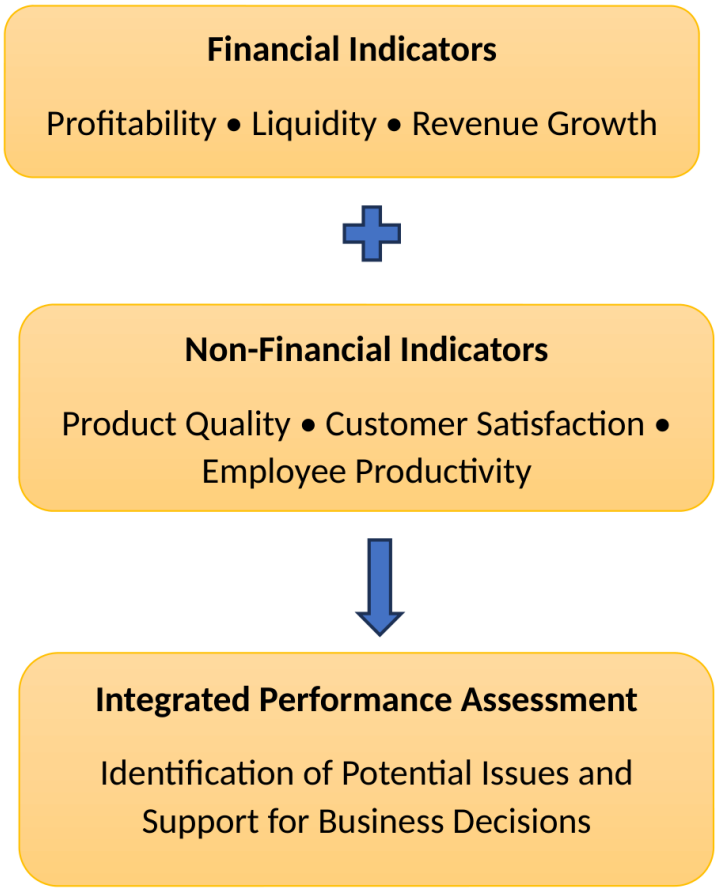

Figure 1. Proposed performance evaluation framework.

7.2 Recommendations

Suggestions for small scale industries could be as follows:

- **Use a balanced set of indicators:** Monitor profits as well as financial results and some operational measures.
- **Monitor customer satisfaction:** Track complaints, repeat business and feedback to identify problems in a service or product.
- **Review operational performance:** Check production lags, defects and orders to fill to identify areas for operational improvements.
- **Conduct regular performance reviews:** Measure indicators regularly to detect trends and improve performance.
- **Keep the framework simple:** Use performance measures that have the availability of resources in the right indicators.

The proposed framework may not be the most effective way of categorizing performance information in micro and small-scale industries. However, its effectiveness and suitability will have to be tested in business scenarios before a clear conclusion can be made on influence.

8 Conclusion

In general, the major purpose of this paper was to review the limitations derived from using the conventional financial statements as the only basis of performance assessment in the small-scale

industries. It was established from the literature review that performance of small-scale industries can be determined through financial measures such as profitability, liquidity, and growth of revenues. However, the non-financial indicators such as customer satisfaction, quality of products, productivity of employees and operational efficiency may offer additional information about determinants of financial results.

It also acknowledges that financial and non-financial indicators can be combined to improve business performance understanding. Accordingly, the study proposes a framework containing chosen financial measures as well as relevant non-financial indicators for performance and business decisions.

The study is however secondary, and the proposed framework was not tested empirically. The researchers could consider including data from companies of other industries in future research and study and apply it in smaller types of manufacturing industries. In general, the study shows the benefits of a wider performance measurement approach involving financial and operational measures.

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