



The application of result-based monitoring and evaluation to improve performance in small business

Prof. NS Matsiliza
Department of Public Management, Law and Economics
Midlands Campus Block, office D-305, Riverside Campus
Durban University of Technology
South Africa
NoluthandoM1@dut.ac.za

Abstract

This paper justifies the necessity to monitor and evaluate a small business with the intention of improving its performance. The primary justification for the monitoring and evaluation (M&E) of a small business originates from a desire to align the business units of a small business with its strategic objectives, by assessing whether the objectives and strategies are achieved and have yielded the expected results. Most small businesses in the world face similar constraints that inhibit them from achieving their targets due to financial and resource shortages. Government policies aimed at improving the performance of entrepreneurs have not yielded results that can be directly linked to the growth and development of SMMEs. Thus, this study argues that M&E could synchronise systems and processes in business units and identify errors that could be reduced and manage information asymmetries. This theoretical paper reviews literature which provides results that contribute to the existing knowledge in small business.

Keywords: business analysis, evaluation, impact, monitoring, results-based, performance.

Introduction

In the present decade, governments of the world pay too much attention to small business growth and development. The South African government, in the post-apartheid era, has improved policies and legislation to support small businesses through various interventions. The intention of such interventions is to improve the growing entrepreneurship that supports tourism and other businesses that can place the country in a better position to grow economically and attract international investors and tourists. The national tourist destinations have attracted other industries and have accommodated small businesses with the intention of enhancing economic growth and investment in the country. However, small and medium sized enterprises must be geared towards a systematic monitoring and evaluation that will provide information on whether their plans and objectives are achievable by monitoring their daily practices and small planning, and thereby evaluating whether their medium-term plans and long-term plans have been achieved. Kotanea and Kuzmina-Merlinob (2017) assert that scholars have contributed many publications on the given topic and there is thus an increase of scientific literature, but there is a paucity in the knowledge area that is concerned with monitoring and assessing business performance measurement.

Monitoring and evaluation should be able to link the strategic plans with the business outcomes. It is imperative for entrepreneurs to know not only their challenges, but also their performance results through various checks and balances. Small business is important in a developing country like South Africa where jobs are created for entrepreneurs to transfer skills to the youth, which could later be hopefully absorbed into industry. Monitoring and evaluation can create a platform for public sector practitioners, entrepreneurs, private sector, non-governmental organisation, and specialists to engage with each other and address issues impacting small business. Business analysis and the mere evaluation of projects conducted



by small business is not enough. Small businesses need to be engaged in an on-going tracking of progress against plans and offer a correction plan before the final activity is completed. Neumann *et al.* (2018) has demonstrated that monitoring and evaluation can be used for the adaptations needed in a business models, organizational structure and provide directions for planning an appropriate infrastructure for Enterprise Resources. The change programme makes particular reference to changes in business models, business processes, and organisation structures as well as Enterprise Resource Planning infrastructure

The private sector and all the major players in this industry have a role to play in terms of having partnerships with the government and supporting the SME's. All these stakeholders participate seriously by partnering in the industry that will have an impact on the growth of the economy. It is fundamental that entrepreneurs be skilled enough to apply M&E and make changes to areas where there is deficient performance. It can be argued that by addressing challenges, small businesses and other stakeholders in tourism and hospitality can curb the high rate of unemployment in South Africa and contribute towards local economic development.

This study intends to critically examine how various tools and techniques can be applied to the monitoring and evaluation of small businesses. Activities and processes that are evaluated in SMME's can use M&E as a decision-making tool that can be incorporated in the performance of the cycle of the business (Matsiliza, 2017). To respond to the problem, this paper will focus on the conceptual and theoretical approach, provide an analysis of tools and techniques for M&E, implications for business performance, conclusions, and recommendations.

Background to the problem

The current slower economic growth in developing countries, such as South Africa, those of sub-Saharan Africa, Brazil, South East Asia, and the Caribbean have attributed to the poor application of entrepreneurial activities. The government in South Africa and scholars have alluded to various constraints that limit entrepreneurs from sustaining their businesses as emanating from global challenges, and some are a result of governments having to internationalise their economic policies to suit their trading partners. Garcia and Capitan (2016) argue that the business environments in various spaces are not favourable to entrepreneurs, hence they continue to struggle in developing their business.

The continuous negative experience of the SMMEs can be improved and avoided by applying a systematic process of tracking their mistakes and barriers with the intention to improve the performance of SMMEs. Moodley (2009) demonstrates that the application of business assessment tools should be able to diagnose what influences SMMEs in the environment where they are based and how they can be able to provide a framework to promote business performance in various reviews of the operations with the intention to improve their performance. Abreu-Ledon *et al.* (2018) is of the view that it is problematic to measure performance that is only expressed in financial terms.

Governments and society expect SMMEs to create jobs in their communities and ignore the well-being of these enterprises. Even though the South African government has institutions in place to support SMMEs, there are still emerging barriers affecting the business of SMMEs and these challenges are limiting them from developing a climate that can induce local economies to address the unemployment and poverty affecting most, especially black African women. Thus, this study aims to assess how M&E can be used as a tool to advance the performance of SMMEs in South Africa.



Conceptual and theoretical framework

Small Business

Small business refers to an independently owned business that employs not more than fifty workers. A medium sized enterprise is a type of a business that employs workers whose number does not exceed 500. It is common that both enterprises are run by entrepreneurs, who bear the financial risks for the liability of debts and operational costs of the business, and are operating with a small revenue. Small and medium enterprises require manageable start-up funds and resources to start a business, hence the lowest income earners can gain access to start their businesses and economic opportunities. Vulnerable groups that have been oppressed during the apartheid era, are also able to access government interventions that provide preferential treatment towards them and start businesses regardless of the unequal distribution of revenue and wealth in South Africa.

Entrepreneurship

Today's entrepreneurs are innovators, economic agents that are driving their businesses by assembling the resources, that includes their personal skills, and seek market opportunities and resources to exploit them. In the last few years their struggle to survive has been noticed, hence government and private sector aid SMMEs through financial support to improve them in addressing their challenges. Many entrepreneurs contribute with their innovative and creative skills towards their businesses to develop and grow their businesses from small to big businesses like Microsoft. Van Aart et al. (2009) differentiate entrepreneurs as basic survivalists, subsistence entrepreneurs, pre-entrepreneurs, small scale entrepreneurs, and micro-entrepreneurs. Entrepreneurship has been considered by various scholars as the driving force behind any country's economic development. Van Aardt et al. (2013), note that entrepreneurship is a, "process by which, entrepreneurs pursue opportunities without regard for the resources that they control. Entrepreneurs on the other hand are relentlessly focused on identifying opportunities in either new or existing business". Wüstenhagen et al., R., (2008) refer to entrepreneurship as a dynamic process of creating incremental wealth. Adenutsi, (2009), also noted that entrepreneurship involves a skillful profit-oriented activity aimed at crafting one's skills and growth in various strategies that involve the fabrication processes or finding new markets that can be exploited. Therefore, SMMEs in which the owner takes charge of liabilities and risks, although not necessarily by fully managing permanently on daily activities of the enterprise, may be deliberated as an entrepreneurial initiative. Samini et al. (2013) are of the view that Small businesses are needed in developing emerging economies, it can decrease the rate of poverty and increase it in the relative welfare level of a nation and many people have contributed a lot on developing small businesses.

Monitoring and Evaluation

Monitoring involves tracking the progress of operational plans whether they are achieved or not. Monitoring does not involve only recording of events and statistics, but also the accountability of those who are involved in the implementation of plans. This continuous monitoring assist managers to provide useful information that is needed for evaluation. Instead of focusing on results, monitoring focus on outcomes. The total amount of daily outcomes contributes towards the assessment of end-results. The advantage of monitoring is that it provides feedback during intervals, which can be used as a yardstick to measure the desired corrections for improving business performance. Evaluation is a systematic assessment of the value or worth of a product or outcome. Evaluation is transdisciplinary. Evaluation is tightly linked to monitoring. The information gathered during monitoring thus greatly assists in pointing out areas of strengths and weaknesses in business performance.

Performance management

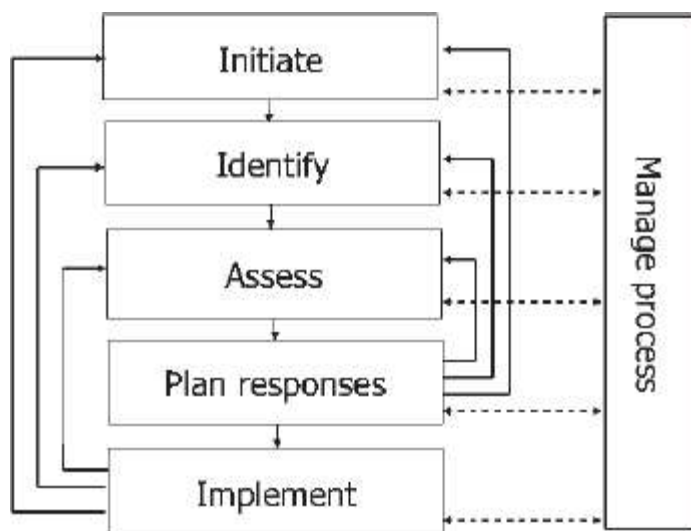
Performance involves the act of presenting or producing a task. Performance can also be measured using the KPIs (Key Performance Indicators), which are linked to the organisation.

Sometimes managers also measure the performance of employees by comparing the work produced by an employee against what is expected of them as agreed between the employee and the organisation. The process of appraisal also involves a continuous assessment of the worth of an employee to the enterprise. Some business enterprises link their performance to the evaluation outcome. During performance management, there is a necessity for clarity around the organisational arrangement, rules, and better-established human resource practices (Ille et al., 2015). However, small business managers or supervisors are also less likely to provide high quality performance monitoring by collecting reports and observing situations and provide feedback to employees. Performance Management is regarded as a strategy that assesses outcomes delivered to sustain the enterprise by improving the performance of employees and developing their capabilities. Performance Management can also be regarded as a continuing process that regulates the planning, managing, reviewing, rewarding, and development of performance. Van der Waldt et al., (2015) assert that performance management can be observed as a cyclical process that jolts with strategic planning and is stimulated through programme implementation and monitoring to improve performance evaluation.

Tools and strategies for results based monitoring and evaluation of SMMEs

Kusek (2004) supports the result-based approach (RB) that has been tested and widely used to measure performance by organisations to ascertain whether the results justify the intended plans (where there are inputs, outcomes, and impact). Therefore, it can also focus on whether outcomes were successfully achieved or not (Ijeoma, 2014), it can provide useful information to the enterprise regarding the existing gaps and how they can be corrected through monitoring and evaluation. It's no doubt that this approach supports the monitoring and evaluation of small business programmes and projects and the identification of outcomes to monitor, once the readiness to conduct monitoring and evaluation is assessed. Organisations can also adopt these strategic outcomes as a way of monitoring their performance based on capabilities and governance systems (Kusek and Rist, 2004). However, monitoring planning for results should include the review of preparedness on whether the pre-requisites to conduct a result-based evaluation are in place, and a plan developed on how outcomes will be achieved.

Figure 1. Monitoring and Evaluation Process



Source: Adopted from Kusek (2001)



Initiation and preparedness

In the above diagram, an M&E result-based process is illustrated. The main reasons behind the use of an RB approach is to identify the outcomes and objectives that need to be achieved during the planning and preparation of monitoring and evaluation. Maw-Der Foo (2010) asserts that SMMEs need to evaluate their ideas in order to survive. The significance of assessing the value of the practicality of business ideas is to determine whether they are commercially suitable, especially for business ventures, and how people outside the team evaluate the venture's ideas to test whether they still achieve their desired goals. The first thing to embark upon is to prepare for the evaluation of small business and create a conducive climate to first initiate M&E and assess the preparedness of the organisation. Some business organisation might not have enough tools and skills to carry out the M&E process. Information is important and forms the cornerstone in the pursuit of entrepreneurial ideas (Shane 2000; Shane and Venkatarman 2000). During M&E process it is also vital for the enterprise to identify knowledge that is embedded in the experiences of team members and (2) participants contribution and participation in sharing of information brings them closer to each other in understanding the dynamics of their core business.

It is required that an organisation must identify what is to be evaluated. In a partnership, you will find that the manager is responsible for the business analysis and monitoring and evaluation. There is a great need to first train and orientate responsible persons for M&E. However, preparedness for M&E is different to preparedness for risk assessment, even though risk preparedness can assist the evaluators in understanding the gaps existing in the organisation. There are a few academic studies on disaster risk management by SMEs and on monitoring and evaluation. There is also paucity of studies focusing on M&E that has been conducted by SMEs. In addition, some of them also need buy-in from the stakeholders and a board in the case of a small and medium enterprises. Organisations must do a need analysis before deciding on the need for M&E. As far as the medium sized businesses go, the analysis must also recommend the framework for monitoring and evaluation. The recommended structure will be responsible for overseeing the process of M&E and a few managers can ensure implementation goes according to the plan. It is important for all the partners to discuss and agree on the scope of the evaluation. Some of the issues to be included and be clarified in the scope include issues such as the time-frame of the exercise. A steering group will be needed to meet from time-to-time and provide report on the progress as well as ensure oversight of the evaluation, identify final evaluation judgements, and make recommendations for minor corrections before issuing results.

Identifying the need for M&E

Moodley (2008) demonstrates that an assessment guide for SMMEs fully involves the small business owner in the preparation, implementation, and monitoring phases of operating his or her business. During evaluation, the business owner and the managers must identify diverse key indicators that can be linked to each business units. There is a need to monitor progress at different intervals in a business operation. Business analysis reports, Annual Year Reports, and auditor's reports can also assist in identifying the strengths and the weaknesses of the organisation and can assist in developing a framework and a plan for M&E. In addition, it is important to assess uncertainty about the basis of estimates resulting from, for example, who produced them and what form they are in, especially in the evaluation of skills (Okubena, 2014), why certain assumptions were made, how and when they were compiled, and from what resources and experience bases.

Managers need to consider the probability of the risk occurring and the magnitude of impact on the project outcome. Uncertainty in a business environment can be posed by external environmental factors such as uncertainty about the economy, political instability, social



factors, globalisation, and technology. Mendicino and Zhang (2018) argue that risk must be assessed to measure the uncertainties and shocks for business cycle fluctuations and for growth fluctuations in emerging markets like small business. Also, internal environmental factors can also affect business risks with reference to resources such as finance, human resources, infrastructure, policies and regulations, inputs, and productivity or performance.

Implementation

The implementation of the M&E depends on what has been agreed upon, and requires the resources and the infrastructure to be successful. Designs and practises for the evaluation of business performance capacity is the main phase: by looking at whether the central purpose of objectives has been achieved or changed; to imagine reasons to improve performance and to manage programme outcomes. The strategies for performance management and client expectations for their satisfaction of products and services in small businesses are receiving a lot of artificial attention since the economic downturn of the current decade. Business enterprises can also use performance-measurement determinations, planning and forecasting, programming, and costing. Each step must be monitored and managed by the evaluator and managers to minimise errors and risk. Salles-Filho et al. (2011) highlight the following evaluation types needed in small business:

- Investigation of quantity research performance (bibliometric, peer review) (Van Raan, 1996; Michelson, 2006);
- Measurement of understudy use efficiency and effective realisation of planned results (accountability)
- Ex-ante and ex-post evaluation of the impact of technology and its improvements on society (impact assessment).

It is argued that the above evaluation types are empirical, hence the results can indicate a clear analysis of verifiable probability. In the process of evaluation, participants can be empowered and there can be an element of skills transfer designed into the administration aspects of the tool as guidelines are included in the tool, where possible. Monitoring starts during planning. It is important to examine business plans and strategies to check how effective they are when implemented. If results after implementation do not yield what was planned, it is advisable that the business managers go back to the drawing board and assess their plans. Additionally, the evaluation of outcomes can be done after the implementation of business plans, and it can also be done after services have been rendered. It is important to know which strategy works better in providing a service.

The measurement of performance outcomes involves the assessment of whether the intended objectives have been fully achieved. Egu and Chiloane-Tsoka (2018) assert that performance implications that are used for measuring SMMEs performance deploy marketing analytics tools from total sales profit, growth, and return on investment. M&E performance will cover an entire range of issues from all units and operations of the enterprise on an ongoing period. Regarding a cost-benefits approach, it is essential that the benefits of a programme evaluation outweigh the costs of evaluation.

Samimia et al. (2013) assert that some business programmes need monitoring since they might have inherited a legacy of challenges from the previous business owners. Controlling a programme involves implementing approved preventive and corrective plans. A programme is implemented primarily through the execution of portfolios/projects, as well as non-programme-related work such as change management. The starting team is responsible for issue monitoring and the evaluation of results. Findings and results must also indicate recommendations for improvement.



Results and Recommendations

Managers and owners must follow up on the findings and recommendations of each evaluation report of the enterprise. This can also be a challenge to small businesses due to their limited resources. It is particularly challenging for the internalization of the findings and the implementation of the recommendations that need to be done ASAP. The other challenge would be the payment of evaluators, if evaluators are not paid in time, they can disband the process regarding the follow-up mechanism that monitors the status of the changes being implemented. After evaluators have consolidated the analysis from various data sources, a report can be written and edited. With such valuable information from M&E results the managers, donors, and partners can then redress the challenges as they appeared on the report. Recommendations should focus on the mission of the organisation and its gaps as well as identify strategies on training, organisational capacity building, and how the sequencing of efforts will be synchronised and designed to construct the necessary infrastructure to produce, collect, analyse, and report relevant performance information. Overall, results must recommend the basis for an action plan to move forward and make improvements.

Justification for M&E in small business

The business analysis conducted on behalf of SMMEs, in accounting and auditing, is not enough to assess their performance and ascertain their business focus in this decade of the Fourth Industrial Revolution. There is a need to monitor and evaluate small business of any type to track the errors and limitations associated with the implementation of their business strategies. Some entrepreneurs have been exposed to constraints that result from their inability to sustain financial viability. The socio-economic challenges facing entrepreneurs in South Africa are attributed to the historical background and the legacy of apartheid, which negatively impacted certain groups in society. The long-term effects of these trials are reflected through the allocation of resources and levels of inequality and poverty among certain groups of entrepreneurs. Vulnerable groups like children and women have not secured good positions or a healthy financial viability in SMMEs, hence they fall short in developing their local communities.

Lambrecht and Pirnay (2005) agree that the evaluation focus of small business should focus on improving its compliance towards government policies and regulations, administrative procedures, and taxation. However, SMMEs M&E can offer more than merely that. The process of M&E can assist SMMEs in avoiding improper gaging of capacities on their success and performance. Monitoring will also prepare them in generating enough information and resources needed for auditing purposes and manage results by comparing them with their plans and objectives. At an individual level, entrepreneurs need constant appraisal of their work to assist them in improving the important decisions they make and take. The information feedback from their reviews can direct them on to areas of improvement and enhance their learning and knowledge. Entrepreneurs have a direct link with their communities, by improving their abilities and skills they can have influence in sharing knowledge with their clients and their broader communities as well as improve their responsiveness and public accountability capabilities.

The evaluation of small businesses can be costly, especially when larger funding is needed due to the number of agencies involved in supporting the M&E and its infrastructure. As a result, diversity of structure, funding, and objectives are imperative for a successful evaluation. Monitoring and evaluation can also assist SMMEs to improve their relations and engagement with their stakeholders by sharing knowledge gained from monitoring and evaluation. Information can provide insight on how they can manage their resources. Entrepreneurs can also use the information feedback to correct their defaults in compliance with the legislation and government policies. By considering all the above conditions, SMMEs can improve their business image, which will later influence clients and stakeholders to have a positive perception of them, especially programme beneficiaries.



Conclusions and recommendations

The overall Result Based M&E can also improve the overall performance and quality of SMMEs and set new standards instead of using laid back ideas that can't sustain the business. Ideas, programmes, and projects evaluated can also set new standards and strategies for future programmes to be better planned. The SMMEs knowledge generated from monitoring and evaluation can assist them in information sharing and networking. In the past, SMMEs were limited in information sharing, but now government has also provided 'one stop shops' and service centres for information sharing. Through M&E the process can be enhanced, and it can be incorporated into the core function of a programme unit through deals with public relations and marketing. This can also assist the enterprise managers to ensure that strategic goals are linked and outlined effectively with targets and baseline data, which are understood as critical. In addition, the assembly of relevant indicators need to be branded in the context of the construction of the M&E system. This theoretical paper may hopefully assist business owners, consultants, and non-governmental organisations to learn some effective and somewhat new strategies

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