

Assessing Potential Performance Proxies in Entrepreneurial Firms

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Principal Topic

This study investigates the association between potentially alternate indicators of performance in small firms. Determination of the best measures of performance continues to be a vexing issue in the entrepreneurship literature. Data availability and accuracy bring into question some of the traditional measures of performance and it is argued that simpler indicators may be equally reliable. Accordingly, the analysis in this paper explores the strength of correlations between alternate performance indicators. The benchmark variables are overall measures of performance expressed in terms of sales and employment growth. A major alternative to these growth based performance measures is a variable that measures growth based on changes in the number of locations at which the business operates. The paper then explores, as potential proxies for performance, a range of other variables that, while not directly recognised as performance indicators, are likely to be associated with improved performance. These include indicators of engagement in innovative activities, growth intentions, major changes in key business processes, and the scale of operations.

Methodology/Key Propositions

The data utilized for the analysis in this paper was obtained from the Business Growth and Performance Survey developed by the Australian Bureau of Statistics. Use of this large unbiased sample (over 3,000 firms) facilitates an analysis from which reasonable generalisations can emerge. Operational proxies for the above variables are able to be determined from the data. Analysis is restricted to correlation analyses appropriate to the nature of the variables.

Results and Implications

On the basis of interim results and previous studies assessing associations between best practice management activities and alternate specifications of performance, a level of association is anticipated between the traditional growth based measures of performance and some of the simpler alternates. These results will provide a reasonable foundation for the use of variables to indicate performance that are easier to determine and are less subject to biases as a result of accuracy in reporting. Future research may be facilitated by being able to source data about firm performance that does not have to be based on financial data.

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