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# Financial Performance of Small and Medium Sized Enterprises: A Systematic Literature Review

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**Abstract**

*This article uses a systematic literature review that aims to summarize several studies on financial performance of small and medium sized enterprises (SMEs). SMEs are very large for the growth of the global economy. This article uses the PRISMA (Preferred Reporting Items for Systematic Reviews) method. Data sources were obtained from Scopus for the period 2014-2023. The results obtained were 926 journals, then data reduction was carried out using exclusive and inclusive criteria so that 18 journals were reviewed. Results for variables related to SMEs Performance, Firm Performance, Open Innovation, Financial Performance, Innovation, managerial ties, big data, digital transformation etc. Overall, the authors hope that this research can be used as learning material and written reflections in the future.*

**Keywords: Financial performance, SMEs, PRISMA.**

## INTRODUCTION

The issue of financial performance is a multifaceted concern that businesses and organizations constantly grapple with to maintain stability, growth, and competitiveness. One significant issue revolves around profitability. While revenue generation is crucial, the ability to translate revenue into sustainable profits is essential for long-term viability (Gartenberg, 2019). Businesses often face challenges such as fluctuating market demand, rising costs of production or operations, and competitive pressures that can erode profitability margins.



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Expense management is another critical issue tied closely to financial performance. Inefficient cost control or unexpected increases in expenses can impact profitability and cash flow negatively. Poor expense management can result from factors like ineffective procurement practices, over-reliance on costly technologies or infrastructure, or inefficient operational processes (Cho, 2019). Cash flow management presents its own set of challenges. Businesses must ensure they have adequate liquidity to meet short-term obligations, fund operational needs, and seize growth opportunities. Issues such as delayed receivables, excessive inventory levels, or unforeseen expenses can strain cash flow, potentially leading to liquidity crises if not managed proactively (Alshehhi, 2018).

Financial health and stability are overarching concerns that encompass liquidity, leverage, and overall solvency. High levels of debt relative to equity (high debt-to-equity ratio) can indicate financial risk, especially if earnings do not adequately cover interest payments (Coelho, 2023). Moreover, insufficient liquidity (low current ratio or quick ratio) can hinder the organization's ability to respond to financial emergencies or capitalize on growth opportunities. External factors also impact financial performance. Economic downturns, regulatory changes, geopolitical instability, and shifts in consumer behavior can all influence revenue streams, costs, and market dynamics, thereby affecting profitability and overall financial health.

Moreover, investor expectations and market perceptions add another layer of complexity. Publicly traded companies, for example, must manage quarterly earnings expectations and market reactions to financial reports. A mismatch between expected and actual performance can lead to volatility in stock prices and impact investor confidence (Okafor, 2021). Strategic decision-making is crucial in addressing these issues. Businesses must implement robust financial planning and forecasting processes, adopt efficient cost management strategies, maintain strong relationships with creditors and suppliers, and continuously monitor and adapt to changes in the business environment (Kyere, 2021). Investing in technologies that enhance operational efficiency, improving working capital management, and diversifying revenue streams can also mitigate risks associated with financial performance.

While financial performance issues are inevitable in the course of business operations, proactive management, strategic foresight, and adaptive responses are key to navigating these challenges effectively. By addressing these issues comprehensively and integrating financial performance into broader strategic initiatives, organizations can foster sustainable growth, enhance competitiveness, and achieve long-term success.



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This review paper sets out to address several critical research questions:

RQ1: What are the trends in publication and citation of research on financial performance in various industrial sectors over the last 10 years?

RQ2: Which articles and outlets (journals) are the most significant regarding financial performance in various industrial sectors?

RQ3: Which authors, institutions, and countries have made the greatest contribution to financial performance research in various industrial sectors?

RQ4: What descriptive trends (via multiple metrics such as authors, words, etc.) exist in the academic field of financial performance across various industry sectors?

RQ5: What are the most important themes (intellectual structure) regarding financial performance in various industrial sectors?

RQ6: What are the future avenues for financial performance research in various industry sectors?

## LITERATURE REVIEW

Financial performance is a critical measure of how effectively a business manages its financial resources and achieves its objectives over a specific period. It encompasses a comprehensive assessment of the organization's financial health and operational efficiency through various key metrics and indicators. One fundamental aspect of financial performance is revenue generation, which reflects the total income derived from selling goods or services (Hannoon, 2021). This figure is pivotal as it forms the basis for calculating profitability and evaluating the overall success of the business's revenue-generating activities.

Profitability, another crucial element, gauges the organization's ability to generate earnings relative to its revenue. It includes metrics like gross profit margin, which indicates the percentage of revenue retained after deducting the costs directly associated with producing goods or services (Barauskaite, 2021). Operating profit margin further refines this by considering operating expenses, offering insights into how efficiently the business manages its day-to-day operations to generate profit. Net profit margin, reflecting the bottom line after all expenses and taxes, provides a clear picture of the organization's overall profitability.

Effective expense management is also pivotal in determining financial performance. It involves controlling costs across various operational areas, including production, marketing, administrative expenses, and interest payments. Efficient cost management not only enhances profitability but also contributes to maintaining healthy


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cash flow, ensuring the business can meet its financial obligations and fund future growth initiatives (Awaysheh, 2020). Cash flow, the lifeblood of any business, represents the movement of cash in and out of the organization. It is crucial for maintaining liquidity, funding investments, and covering operating expenses. A positive cash flow indicates that the business is generating more cash than it is spending, while negative cash flow may signal potential liquidity issues or overextension in expenditures.

Financial performance analysis also extends to evaluating the organization's financial health and stability through metrics such as liquidity ratios (e.g., current ratio, quick ratio) and leverage ratios (e.g., debt-to-equity ratio). These ratios assess the company's ability to meet short-term obligations and manage long-term debt effectively, providing insights into its overall financial resilience.

Moreover, financial performance is not solely internal-facing; it also influences external perceptions and stakeholder decisions. Investors, creditors, analysts, and other stakeholders rely on financial performance metrics to assess the company's growth prospects, risk exposure, and potential returns on investment. Strong financial performance can enhance investor confidence, support access to capital markets, and contribute to a favorable market valuation (Almashhadani, 2023). Evaluating financial performance involves a holistic analysis of revenue generation, profitability, expense management, cash flow, financial health, and their implications for stakeholders. It serves as a critical tool for management to make informed decisions, allocate resources efficiently, and steer the organization toward sustainable growth and profitability in a competitive market environment.

Additionally, Small and Medium Enterprises (SMEs) play a vital role in the economic growth and development of global economy, contributing significantly to the country's GDP, employment, and innovation. However, the COVID-19 pandemic has had a significant impact on the financial performance of SMEs globally, with the government reporting a decline in income of up to 84% for micro and small businesses and 82% for large and medium enterprises (Alabdullah, 2022). The pandemic has disrupted SMEs' access to markets and financial inclusion, leading to a decline in their overall performance. However, the financial performance of these SMEs has faced numerous challenges, particularly during times of economic turmoil. The COVID-19 pandemic has had a significant impact on SMEs indicating sharp declines in income across a range of sectors, including accommodation, food and beverage, transportation and warehouse.


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## METHOD

This research uses sorting methods and analysis methods or can be called methods PRISMA (Ramon-Gonen et al., 2022). This method describes a systematic review and is a review well-defined with systematic tools prepared to identify, select, and analyze and provide relevant assessments to collect relevant data. A systematic literature review (SLR) aims to address concerns within the current body of research by discovering, critically assessing, and combining all relevant studies conducted on a specific topic while also addressing one or more specific studies. The prism method is a way of systematically searching for relevant articles in determining PRISMA (Preferred Reporting Items for Systematic Review and Meta-Analysis) compliant databases.

This research uses journals from Scopus with a publication period of 2014-2023 and a total database 926. in the final stage research method, 18 journals were reviewed based on a cumulative sample of 926.

## RESULTS

Data sources were obtained from Scopus for the period 2014-2023. The results obtained were 926 journals, then data reduction was carried out using exclusive and inclusive criteria so that 18 journals were reviewed. The selected papers underwent a rigorous and thorough screening procedure to incorporate the highest quality research in this study. Only papers with a high number of citations (more than 20) were selected to maintain research quality standards and enhance the understanding of the topic. Paper duplications were strictly managed during the selection process.

This review paper draws from previously published articles. The study eliminated conference papers to maintain quality requirements. Researchers focused exclusively on financial performance of SMEs, excluding all other sectors from their study. The Scopus database was chosen for the article search due to its extensive collection of publications in this discipline, surpassing other databases such as Web of Science (Cordes & Marinova, 2023). Due to the dominance of the English language in financial performance literature, only articles written in English were selected. An additional reason for selecting only English-written papers is their global comprehensibility and wide acceptance. This study includes both open-access articles and papers with restricted access.


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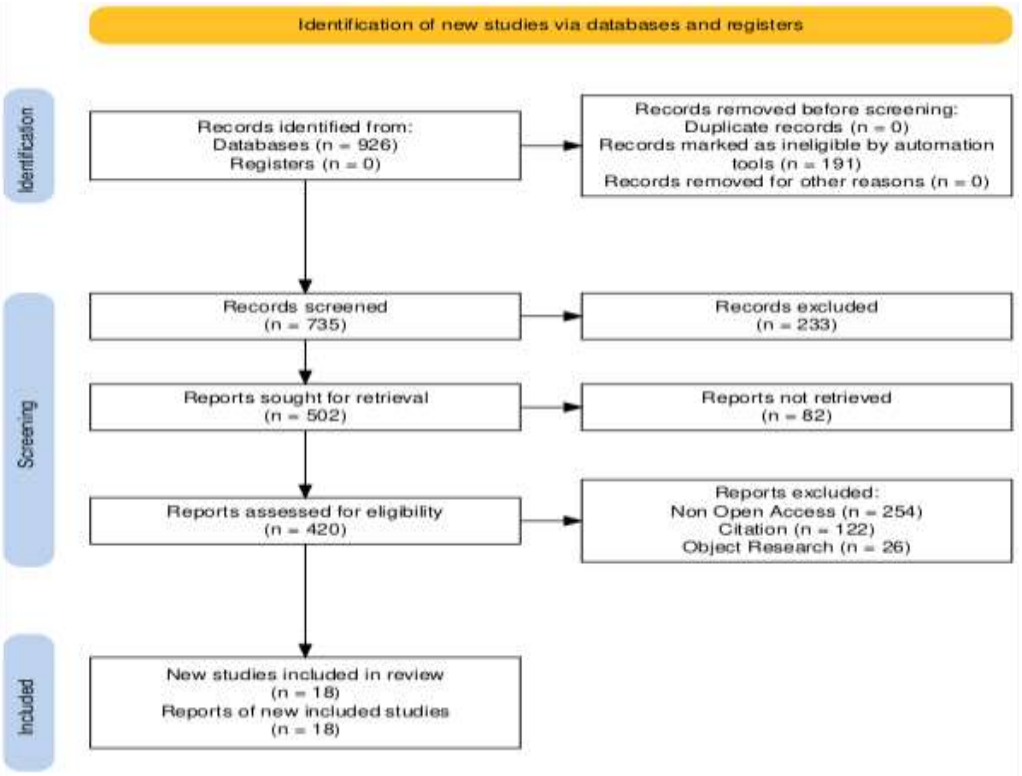



Figure 1. Flowchart of PRISMA

The results of document research with the keyword SMEs Financial Performance on Scopus obtained 926 documents. To get results that are in accordance with the scientific discipline, it is necessary to filter or filtering that can focus on the study to be analyzed, namely in the form of limiting the subject area focus on Business, management and accounting as well as time span (Coelho, 2023). Time period 2014-2023 (10 years) with access type: open access. The growth of publications on the topic of SMEs Financial Performance in the last 5 years (2019-2023) has increased which is quite fluctuating, the most increase occurred in 2020. However, due to the Covid-19 pandemic, the following year experienced a quite sharp decline. This explains that research related to SMEs Financial Performance is an ongoing topic, interesting and continues to develop in the world of research.


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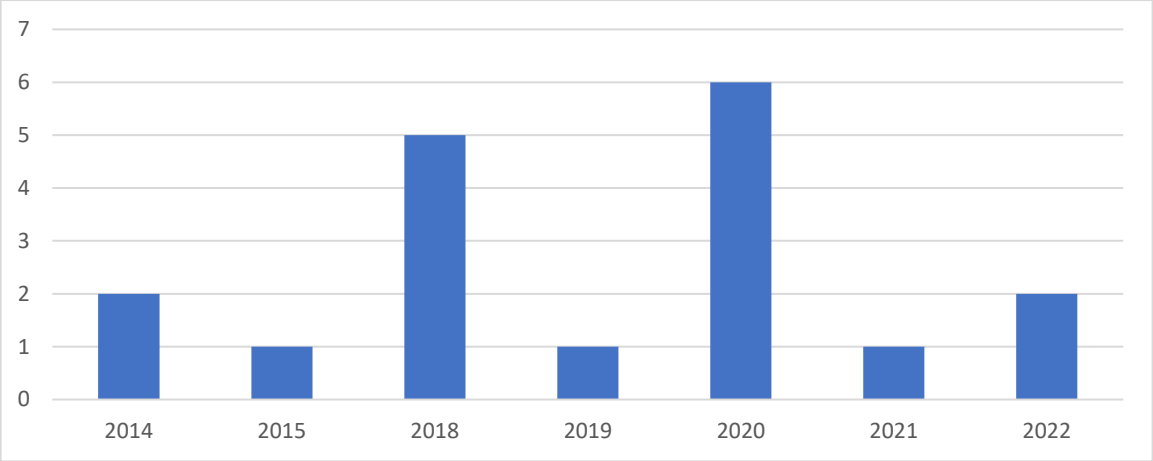



Figure 2. Financial Performance publications in SMEs per year

From a total of 18 journals obtained using SLR analysis, 10 journals will be selected that have a relationship the most and sorted by the most citations. Citation analysis is used to find out how much times someone's work is cited by others (Aini et al., 2019). The more often an article or journal is cited, then the greater the document's contribution to information, and the greater its influence on research results in the citing document.

**Table 1. Top cited journals and its publications**

| No | Journal | No. of publications |
|---|---|---|
| 1 | Business Strategy and the Environment | 3 |
| 2 | Journal of Cleaner Production | 2 |
| 3 | Technological Forecasting and Social Change | 2 |
| 4 | International Journal of Hospitality Management | 1 |
| 5 | International Journal of Production Economics | 1 |
| 6 | International Small Business Journal: Researching Entrepreneurship | 1 |
| 7 | Journal of Advances in Management Research | 1 |
| 8 | Journal of Asian Finance, Economics and Business | 1 |
| 9 | Journal of Business Economics and Management | 1 |
| 0 | Journal of Strategic Marketing | 1 |
| 11 | Oeconomia Copernicana | 1 |


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| | | |
|---|---|---|
| 12 | Small Business Economics | 1 |
| 13 | Technology Analysis and Strategic Management | 1 |
| 14 | Total Quality Management and Business Excellence | 1 |

In table 1 the 15 most cited articles are displayed. The journal refers to existing literature which shows that the influence of network cooperation, innovation, internationalization on company performance. Results of this research shows that network cooperation helps SMEs to penetrate international markets and expand their customer base, which in turn facilitates them to recognize better customer preferences/needs. increasing internationalization performance will improve SMEs' product innovation capabilities, which will further reflect their innovation performance due to increase in the proportion of innovation sales (Peter, 2018). The process of moving from external collaboration to performance improvement internationalization, and then increased innovation performance, which ultimately improves performance SMEs economy.

**Table 2. Most often referenced publications**

| No. | Authors | Source title | Cited by |
|---|---|---|---|
| 1 | Troise *et al*. (2022) | Technological Forecasting and Social Change | 198 |
| 2 | *Bartolacci et al. (2020)* | *Business Strategy and the Environment* | 185 |
| 3 | *Sardo et al. (2018)* | *International Journal of Hospitality Management* | 151 |
| 4 | *Ukko et al. (2019)* | *Journal of Cleaner Production* | 126 |
| 5 | *Saunila (2014)* | *Journal of Advances in Management Research* | 113 |
| 6 | *Malesios et al. (2018)* | *Business Strategy and the Environment* | 87 |
| 7 | *Herzallah (2014)* | *Total Quality Management and Business Excellence* | 81 |
| 8 | *Exposito et al (2018)* | *International Small Business Journal: Researching Entrepreneurship* | 77 |
| 9 | *Malagueño et al. (2018)* | *Small Business Economics* | 74 |


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| | | | |
|---|---|---|---|
| 10 | *Popa et al. (2018)* | *Technological Forecasting and Social Change* | 57 |
| 11 | *Tajeddini et al. (2020)* | *Journal of Strategic Marketing* | 57 |
| 12 | *Boakye et al. (2020)* | *Business Strategy and the Environment* | 51 |
| 13 | *Nasiri et al. (2020)* | *Technology Analysis and Strategic Management* | 49 |
| 14 | *Boakye et al. (2021)* | *Journal of Cleaner Production* | 39 |
| 15 | *Yang et al. (2020)* | *International Journal of Production Economics* | 35 |
| 16 | *Ključnikov et al. (2022)* | *Oeconomia Copernicana* | 29 |
| 17 | *Hindasah et al. (2020)* | *Journal of Asian Finance, Economics and Business* | 28 |
| 18 | *Majocchi et al. (2015)* | *Journal of Business Economics and Management* | 21 |
| Source: Scopus | | | |

The table 2 above presents the most frequently referenced publications in the field of financial distress, sourced from Scopus. It lists ten key articles along with their authors, source titles, and the number of citations they have received. The most cited publication is by Troise et al (2022) in Technological Forecasting and Social Change journal with 198 citations, followed closely by *Bartolacci et al.* (2020) in Business Strategy and the Environment journal with 185 citations. Other notable publications include Sardo et al. (2018) in the International Journal of Hospitality Management with 151 citations, *Ukko et al*. (2019) in the Journal of Cleaner Production with 126 citations, and Saunila (2014) in the Journal of Advances in Management Research with 113 citations. The table highlights the significant impact these studies have had on the academic discourse surrounding SMEs financial performance, with each contributing valuable insights into various aspects of the field, such as business strategy, information technology, management knowledge, and organizational innovation. This frequent citation underscores the importance and influence of these works in shaping current and future research directions in financial performance.



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## CONCLUSION

In essence, this article dealt with a particular form of entrepreneurial behavior of SMEs, aiming at deepening the knowledge of financial performances. It delivered some insights on this research issue through a systematic literature review on articles published in the last decade. Most analyzed articles empirically verified a positive relationship between practices that related to corporate sustainability and SMEs' performance and competitiveness. This research examines and explains SMS performance based on period 2014-2023 analyzed using the PRISMA method. This method includes 3 main points, namely co-authorship, co-occurrence and citation. Quotes from this article are taken from the Scopus database with periods 2014-2023. The articles were then extracted and based on keywords and categorized into 18 special journals. Excerpts from existing journals describe and discover variables related to the financial performance of SMEs.

The growth of publications on the topic of SMEs Financial Performance in the last 5 years (2019-2023) has increased which is quite fluctuating, the most increase occurred in 2020. However, due to the Covid-19 pandemic, the following year experienced a quite sharp decline. This explains that research related to SMEs Financial Performance is an ongoing topic, interesting and continues to develop in the world of research.

Results of this research shows that network cooperation helps SMEs to penetrate international markets and expand their customer base, which in turn facilitates them to recognize better customer preferences/needs. Increasing internationalization performance will improve SMEs' product innovation capabilities, which will further reflect their innovation performance due to increase in the proportion of innovation sales (Malagueño, 2018). The process of moving from external collaboration to performance improvement internationalization, and then increased innovation performance, which ultimately improves performance SMEs economy.

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