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EVALUATION OF NON-FINANCIAL PERFORMANCE INDICATORS IN SMEs IN BOSNIA AND HERZEGOVINA

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Abstract

This paper explores the measurement of non-financial performance (NFPM) in small and medium-sized enterprises (SMEs) in Bosnia and Herzegovina (BiH). The study outlines the fundamental theoretical aspects of non-financial performance, as well as the most significant performance measurement systems based on non-financial indicators. Additionally, it presents the advantages and disadvantages of using non-financial business indicators in measuring the performance of SMEs. The results of empirical research on NFPM measurement in SMEs in BiH are also presented. A questionnaire survey was conducted with 102 SMEs in BiH, aiming to ascertain whether and how SMEs in BiH assess non-financial business indicators, and which indicators are evaluated. The results indicate that the majority of surveyed SMEs do not systematically and methodically approach the monitoring of qualitative data. Even 65% of surveyed enterprises do not have a written vision and mission statement, and 70.60% do not have defined business objectives. 20.3% of enterprises track and evaluate quantitative business indicators exclusively. Among the qualitative indicators that enterprises track, importance is given to cost management control, product/service quality, as well as relationships with customers and suppliers. The conclusions of the study provide insight into the current state of NFPM measurement in the SME sector in BiH, while emphasizing the need for further research. Suggestions for future research include analyzing the impact of NFPM on SME profitability, developing standardized methodologies for NFPM application, and developing an integrated system for measuring SME performance that incorporates key financial and non-financial business indicators.

Keywords: measuring, organizational performances, non-financial indicators, measuring performance systems, SME in BiH

INTRODUCTION

In addition to traditional business analysis based on the examination of financial, quantitative business indicators, the contemporary approach to measuring corporate performance emphasizes the analysis of qualitative, non-financial business indicators. As the traditional approach to measuring business success has proven unsatisfactory in modern business conditions, a significant number of systems for measuring the performance of non-financial business indicators have been developed, such as the Business Excellence Model, Performance Prism, and so on. In order for enterprises to operate successfully in the modern dynamic environment, a shift from solely relying on financial indicators to a holistic assessment of business performance encompassing non-financial aspects is necessary. This is particularly important in the small and medium-sized enterprise (SME) sector, where a comprehensive understanding of performance is crucial for sustainable success.

Despite the increasing significance of non-financial business indicators in contemporary conditions, considering the influence of media, non-profit organizations, and the growing focus on ESG (Environmental, Social, and Governance) business practices, enterprises often do not collect data on non-financial indicators for various reasons. Some of these reasons may include: insufficiently educated management, difficulties in performance measurement, need for additional resources, unclear responsibility areas for measuring non-financial performance, fear of leaking undesirable information about established performances, and so forth.

The objectives of this paper are:

- To present the fundamental theoretical concepts of non-financial business indicators;
- To introduce the most significant systems for measuring performance in SMEs, which integrate non-financial business indicators;
- To analyze the advantages and disadvantages of incorporating non-financial indicators into the evaluation of SME performance;
- To present the results of empirical research on measuring non-financial indicators in SMEs in Bosnia and Herzegovina.

NON-FINANCIAL INDICATORS FOR MEASURING ENTERPRISE PERFORMANCE

In the context of analyzing qualitative business indicators, let us first clarify the concept of "*performance.*" Primarily, literature defines "performance" as the ability of a subject, such as an individual, group, or organization, to achieve results in line with specific and established objectives. Additionally, performance refers to the actual work or *output* produced by specific units or entities. In other words, the concept of performance pertains to measurable achievements (Zeglat et al., 2012, p. 441).

According to recent literature, performance measurement is mainly used to (Susilawati et al., 2013, p. 58).

- Monitor and record actual performance.
- Identify and close the gap between expected performance and actual performance.
- Identifying performance improvement opportunities.
- Providing information in making a strategic decision.
- Enabling internal communication across processes and stakeholders.
- Encourage continuous improvement.

Considering the definition of non-financial performance metrics as indicators that do not have an official financial (accounting) reporting system as their informational basis, a distinction can be made between (Krstić, 2006, p. 278):

- Non-financial performance metrics used to quantify and evaluate an enterprise's economic activity (capacity utilization, production volume, customer satisfaction, product quality, product innovation, flexibility of production processes, and such), and
- Non-financial metrics related to monitoring the non-economic dimension of an enterprise's business activity, such as environmental responsibility, social responsibility, employee health and safety, ethical behavior, and such.

It is interesting to note here the evident impact of adequate corporate behavior in the areas of ecology, ethics, social responsibility, as well as health and safety on long-term business success, that is, enterprise profitability. The relationship between the non-financial performance of corporate social responsibility and its financial performance is the subject of study in several studies, from which several interesting views have emerged. Primary, socially responsible enterprises are financially more successful, that is, more profitable. In other words, corporate social responsibility performance drives financial performance and ultimately its reputation in the public eye. According to another viewpoint, an enterprise's financial performance drives its corporate social responsibility performance. The third perspective emphasizes the interactive relationship between corporate social responsibility performance, financial performance, and corporate reputation (Krstić, 2006, pp. 278-279):.

A global study titled "In the Dark II: What Many Boards and Executives Still Don't Know About the Health of Their Businesses," conducted by *Deloitte* in collaboration with the *Economist Intelligence Unit* in 2007, revealed that many board members and senior executives are still in the dark about the overall health of their organizations and have a lack of high-quality non-financial data that they can act upon. Corporate leaders believe that it is extremely important to monitor non-financial indicators such as customer satisfaction and employee commitment, but many admit that their firms do a much poorer job at measuring these indicators than at gathering and analyzing financial data. Over three-quarters of CEOs of the world's largest enterprises believe that financial indicators alone do not provide a comprehensive picture of the strengths and weaknesses of an enterprise. More than half of the respondents believe that future-oriented information (that is, non-financial indicators) is more valuable to management than past-oriented information (such as financial indicators). Many board members and senior managers still "grope in the dark" due to the lack of quality non-financial information when assessing the overall condition of their enterprises. Managers participating in this *Deloitte* study are aware of the need for non-financial indicators, with key ones being highlighted as customer satisfaction, innovation, and employee commitment. Sales results, cash flow, profit, and other financial outcomes are inevitable indicators of business success and reliable means for developing business strategies. Nonetheless, experts are constantly seeking new, more "sensitive" ways to assess the comprehensive state of an enterprise based on which they will gain a competitive advantage. The research further showed that almost nine-tenths of directors rate their ability to monitor financial results as excellent or good, while only one-third of respondents think the same for non-financial indicators (Deloitte, 2007).

BUSINESS PERFORMANCE EVALUATION SYSTEMS BASED ON NON-FINANCIAL INDICATORS

From the foregoing, it is evident that besides the financial aspects of determining business success, non-financial aspects also emerge, which are assessed by systems such as Value-Based Management, Balanced Scorecard Concept, Total Quality Management (TQM), Activity-Based Costing (ABC), Key Performance Indicator (KPI), and many others (Vrdoljak Raguž, 2010, p. 108).

In the following sections, we will present the basic theoretical aspects of the most important systems for evaluating corporate performance, which incorporate non-financial business indicators.

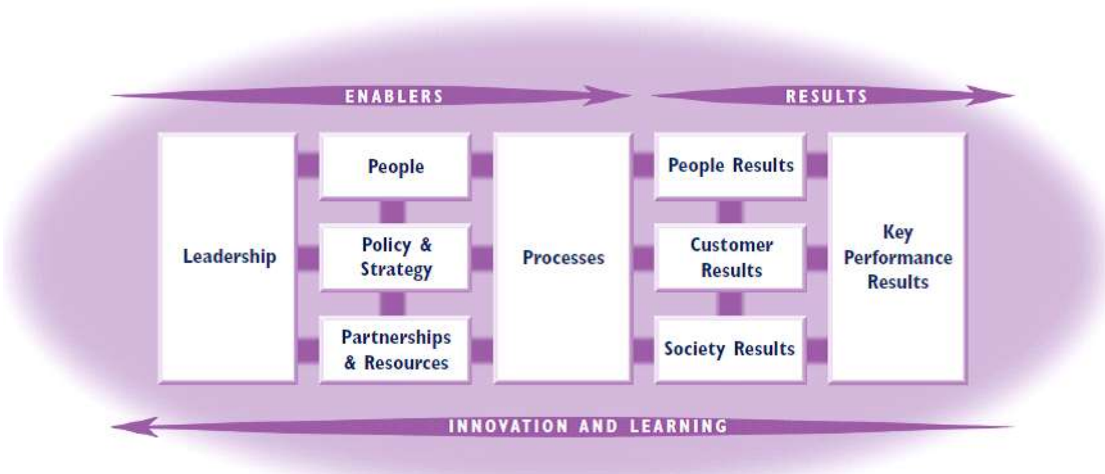
EFQM Business Excellence Model

EFQM (*European Foundation for Quality Management*) was established in 1994 as a quality management model. Although the term "*business*" was later replaced by "*excellence*," the original model was based on TQM principles for *for-profit organizations* and has recently been strongly advocated (Vukomanović et al., 2008, p. 774).

The EFQM Excellence Model serves as a tool for organizations to assess their progress in excellence and continuous improvement. It is based on eight fundamental concepts of excellence: results orientation; employee development and involvement; customer focus; continuous learning; innovation and progress; leadership and continuity of purpose; partnership development; process and fact-based management; and public responsibility (Striteska et al, 2012, p. 5).

EFQM evaluates excellence based on these concepts and includes nine excellence criteria, as shown in the following figure. (Figure 1.)

Figure 1. Excellence Model Overview (EFQM)



Source: The EFQM Model, 2015, p.6

Based on the above figure, it may be observed that through leadership, which influences people, policies, and strategies, as well as resources, certain processes are carried out, resulting in outcomes such as employee satisfaction, customer satisfaction, and impact on the community, ultimately determining business results or organizational performance. The arrows in the model emphasize its dynamism, indicating that innovation and learning affect the improvement of drivers, which then lead to enhanced outcomes (Bakotić, 214, p. 379).

The EFQM model demonstrates that customer, employee, and shareholder satisfaction are achieved through leadership, policies, and strategy, followed by the management of employees, resources, and processes, thus enabling excellence in business operations.

The EFQM model has several strengths and weaknesses, which are systematically summarized in the Table 1.

Table 1. Strengths and weaknesses of the EFQM Business Excellence model

Strong points	• systematic and non-prescription model • using of self-assessment approach in order to organization excellence • strengthen the sense of quality • recognition of strong and weakness points of organization • consist of criteria hierarchy • allow shortlist of indicators based on "Good example" of practice • creating conditions for comparative analysis of business processes with external business • feedback from results helps to improve enablers
Weak points	• no focus / priorities - no links • criteria are not specific within the company – no possibility for differentiation • is not strategic management tool (systematic setting and achieving goals) - therefore, is not instrument for strategy implementation • is not suitable for enterprise communication • tendency to bureaucracy • did not give quidelines how to design and conduct effective performance measurement

Source: Striteska et al, 2012, p. 6

The application of the EFQM model involves continuous verification of all business processes to identify strengths and weaknesses, areas requiring improvement, development of continuous improvement programs, enabling external, independent assessment, and establishing a database with information on best practices in the domain of one's own business activities.

Performance Prism

The Performance Prism emerged as an attempt to incorporate as many dimensions and stakeholders into the study of organizational performance. The Performance Prism introduces five elements into the analysis (Arifeen et al, 2014, p. 42)

- Satisfaction of stakeholder. It means there is a need to who are the shareholder, what their wants and need are.
- Strategies What strategies are required to meet the stakeholders' wants and needs?
- Process. In order to permit firms strategies to be delivered, what process must put in place?

- Capabilities. It is combination of personnel, practices, the technology firm used and the structure firm possessed. They all together make the execution possible of the firm's business process
- Contribution of stakeholders. To maintain and develop the capabilities, what is need and wanted from these stakeholders?

Stakeholders include investors, customers and intermediaries, employees, government and the social community, suppliers, and others. In stakeholder analysis, it is necessary to define their satisfaction, which involves analyzing how well the enterprise meets their needs and requirements. Each stakeholder has specific desires and needs and expects the enterprise to meet them to the highest degree possible (stakeholder satisfaction dimension). Nevertheless, each stakeholder to a certain extent influences the satisfaction of the enterprise's needs and requirements, as an economic and social system (stakeholder contribution dimension). Consumers seek quick and relatively easy access to cheap and quality products, and their loyalty enables the enterprise to continuously meet their needs, generate profit, and grow. Employees demand that the enterprise provide for their existential needs, ensure a high level of protection and safety at work, enable training and acquisition of relevant experience, and, of course, provide adequate compensation. The enterprise in turn, primarily requires full commitment from employees to satisfy their needs to the greatest extent. Suppliers emphasize trust in relationships with the enterprise and achieving satisfactory profit and growth of their business in their needs, while the enterprise, as a customer in relation to its suppliers, demands from them what its customers demand from it: prompt and timely delivery of cheap and quality production factors. The social community, through its institutions (regulators), regulates the enterprise's operations in accordance with applicable laws and expects it to behave legally and fairly (operations), which can only be achieved if it prescribes understandable rules of conduct and assists in their implementation. Finally, investors require the enterprise to create value based on the funds invested and to timely and regularly report on their use since they provide funds for business activities in the form of loans and ownership shares and therefore take on a certain business risk. From the above, it is entirely logical that the bottom of the Performance Prism consists of the contribution of key stakeholders to the enterprise, as their satisfaction and the degree of realization of their desires and needs depend on it, which, as a separate dimension, forms the top of the prism. Transforming stakeholder contributions into their satisfaction is done through a set of business activities, primarily through the strategies, processes, and capabilities of the enterprise, as separate dimensions of the Performance Prism. Like other models for measuring business performance, this model also has its strengths and weaknesses, which are listed in the following Table.

Table 2. Strengths and weaknesses of the Performance Prism

Strong points	• Reflects new stakeholders (such as employees, suppliers, partners, or intermediaries) who are often neglected when forming performance measures. • Considers the contribution of stakeholders to performance. • Ensures that performance measures have a strong foundation.
Weak points	• Offers little insight into how performance measures will be implemented. • Some measures are not effective in practice. • Short of logic among the measures, no sufficient link between the results and drivers • No consideration is given to the existing PMSs that companies may have in place

Source: Striteska et al, 2012, p. 8

ADVANTAGES AND DISADVANTAGES OF ASSESSING SME BUSINESS PERFORMANCE USING QUALITATIVE INDICATORS

The goal of every performance measurement is improvement. In this regard, Armstrong believes that to improve organizational performance, it is necessary to create a culture of high performance throughout the entire enterprise, which has the following characteristics (Bakotić, 2012, p.60):

- The link between strategic goals and the goals of each sector, including individual goals, should be clearly defined.
- Management must clearly explain the methods of measurement or performance monitoring and define requirements for performance improvement.
- Leadership must clearly indicate the need for continuous improvement.
- Management must focus on promoting positive attitudes that will result in organizational commitment and motivation.

It is evident that all the mentioned characteristics are, in fact, non-financial aspects of business operations. The main advantages of all non-financial aspects of business operations can be summarized as follows (Vrdoljak Raguž, 2010, pp. 113-114):

- Focus on the end-user.
- Focus on organizational units, not just the entire organization.
- Improved resource allocation.
- Setting effective goals and tasks.

- Improvement of decision-making processes.
- Highlighting managerial priorities.
- Ability to quantify results.

The main limitations of all non-financial aspects of business operations are as follows:

- Large financial support for concept implementation.
- A lengthy implementation process requiring a large number of resources and changes in organizational culture.
- Increased costs of training and educating employees.
- Slowness in obtaining specific measurable results.
- Rivalry and disruption of teamwork.
- Insufficient focus on human resources.

Taking all of the above into account, the most important advantages of using NFPMs in SMEs can be highlighted:

- NFPMs enable small and medium-sized enterprises to conduct a holistic assessment of their own performance, taking into account factors beyond traditional financial metrics. This comprehensive approach helps identify organizational strengths and weaknesses and encourages strategic decision-making.
- Better relationships with stakeholders, as NFPMs assess aspects such as customer satisfaction, employee engagement, and social responsibility. Among other things, satisfied customers and motivated, dedicated employees are crucial for SME success.
- NFPMs assist small and medium-sized enterprises in better strategic planning, as these indicators reveal areas for business improvement and innovation. By tracking innovation metrics, organizations can adapt more quickly to market changes, ultimately ensuring long-term sustainability and growth.
- NFPMs related to employee performance and engagement can serve as motivational tools. Recognizing and rewarding employees based on NFPMs can improve morale, employee productivity, and overall SME performance.
- Non-financial indicators provide better insight into the future of business operations, as financial performance indicators provide a picture of SME performance from the past, while NFPMs are focused on the future and achieving long-term enterprise goals.

The disadvantages of non-financial performance indicators in small and medium-sized enterprises include:

- Subjectivity and lack of standardization: Unlike financial measures, which are often standardized, NFPMs may lack a universally accepted framework, leading to interpretation challenges.
- Challenges with measuring NFPMs: Quantifying NFPMs can be challenging, especially when dealing with abstract concepts such as innovation or employee satisfaction. Small and medium-sized enterprises may have trouble establishing reliable measurement methodologies, affecting the accuracy of performance assessments.
- Significant additional resource expenditure: Collecting and analyzing non-financial data may require SMEs to allocate additional financial and time resources needed for comprehensive data collection and analysis.

In light of all this, it is clear that evaluating the business performance of enterprises in modern business conditions cannot be based solely on the analysis of financial indicators, however, it requires non-financial data on enterprise operations for an adequate assessment. The aim of this study is to determine whether and to what extent non-financial business indicators are measured in small and medium-sized enterprises in Bosnia and Herzegovina.

OBJECTIVE AND METHODOLOGY

The aim of the research was to determine whether and how small and medium-sized enterprises in Bosnia and Herzegovina assess non-financial business indicators and which specific indicators are evaluated.

In this regard, within the framework of primary research (*field research*), a survey of legal entities was conducted. Using a table of random numbers, 130 legal entities were selected. The planned sample size was 100 enterprises, which constituted the primary list of legal entities for surveying, while an additional 30 legal entities were selected as reserve enterprises for surveying in case the surveyors were unable to survey some of the legal entities from the primary list.

Data were collected using a survey questionnaire through face-to-face interviews with directors or financial directors of enterprises. The questionnaire used for data collection was self-designed by the author of the paper. Ultimately, 102 completed survey questionnaires were collected. Below is a brief overview of the characteristics of the surveyed legal entities.

Table 3. Characteristics of surveyed legal entities

Registered activity	**% percentage**	**Number of employees**	**% percentage**
Transport	4.9	1-5	41.2
Trade	39.2	6-10	19.6
Manufacturing	21.6	11-15	12.7
Service (hospitality, tourism, IT, maintenance)	29.4	16-20	12.7
Construction	3.9	Over 20	12.7
Media	1.0	No answer	1
Sales revenue in the last financial year	**% percentage**	**Years of operations**	**% percentage**
Up to 500,000 BAM	51.0	1-5	18.6
500,001 BAM − 1,000,000 BAM	15.7	6-10	21.6
1,000,001 BAM − 2,000,000 BAM	11.8	11-15	21.6
2,000,001 BAM − 3,000,000 BAM	6.9	16-20	18.6
3,000,001 BAM − 4,000,000 BAM	1.0	Over 20 years	16.7
4,000,001 BAM − 5,000,000 BAM	1.0	No answer	2.9
5,000,001 BAM − 6,000,000 BAM	1.0		
6,000,001 BAM – 7,000,000 BAM	3.9		
No answer	7.8		

The majority of enterprises in the sample listed trade as their registered activity, accounting for 39.2%, followed by services at 29.4%, and manufacturing at 21.6%. Regarding sales revenue in the last financial year, companies with annual sales revenue of up to 500,000 BAM dominate, numbering 52 (51%), followed by enterprises with annual sales revenue ranging from 500,001 BAM to 1,000,000 BAM, totaling 16 (15.7%), and 12 (11.8%) enterprises with sales revenue ranging from 1,000,001 BAM to 2,000,000 BAM. Enterprises with up to 5 employees are the most represented, at 41.2%, followed by those with up to 10 employees at 19.6%. Based on the provided data on the number of employees and achieved sales revenue, we may conclude that small and medium-sized enterprises are covered in the sample.

EMPIRICAL FINDINGS

As already noted, non-financial indicators are indispensable in modern models for measuring business performance. However, these indicators pose a problem of measurability, that is, the lack of a classical scale for their assessment. Additionally, it is not clearly determined which qualitative indicators need to be measured. Considering all of the above, questions arise regarding whether, how, and to what extent SMEs objectively monitor key non-financial business indicators. We attempted to find answers to some of these questions through surveys, and below we present the obtained results.

One aspect that particularly interested us was to determine whether enterprises have defined a vision, mission, and business strategy, or if they have a defined direction for development, serving as the basis for deriving enterprise goals, plans, and strategy. According to the results obtained, 33.33% of enterprises have all of the above defined in written form, while 46.08% claim to have a defined vision, mission, and business strategy, but have not presented them in written documents. Only 2.94% of enterprises have defined only a vision, while 17.65% of enterprises do not have a defined vision, mission, or strategy.

It is interesting to note that only 26.5% of surveyed enterprises have a developed written business plan, while 55.9% of enterprises claim to have a rough business plan but it is not in document form. 14.7% of enterprises do not have a developed business plan, while 2.9% did not provide an answer to this question.

A similar situation exists regarding the business strategy, which is documented in written form by only 24.50% of enterprises. 5.9% of enterprises claim to have a roughly devised business strategy but it is not in written form, while 15.7% of enterprises do not have a developed business strategy.

As for defined business objectives, 29.4% of enterprises have them in written form, while 64.7% of enterprises only have loosely defined business objectives, with 5.9% of enterprises having no defined business objectives.

Most surveyed enterprises typically monitor the achievement of set performance measures at the end of the year, with 26.50% of them doing so, followed by monthly monitoring at 25.5%. 19.6% of enterprises perform this control quarterly, 12.7% semi-annually, while 15.7% of enterprises do not conduct this monitoring at all. It is also noteworthy that the majority of enterprises track their financial indicators on a monthly basis, accounting for 40.2% of them.

Of the total number of surveyed enterprises, 60.8% stated that they use systems for measuring business performance/indicators, while 39.8% do not. Furthermore, 20.3% of enterprises use systems to measure only quantitative/financial indicators, while 79.7% measure both quantitative and qualitative business indicators.

Enterprises most commonly collect data on qualitative indicators through discussions with employees, customers, and suppliers, accounting for 76.5% of them. Qualitative indicators are also evaluated based on management assessment (10.8%) and observation (5.9%). 6.9%

of enterprises did not respond to this question, and none of the surveyed enterprises collect data through questionnaires, although this option was provided.

The survey results showed that enterprises primarily measure the quality of cost management, with 68 of them doing so, followed by the quality of their own product/service (63 enterprises). 57 enterprises monitor the quality of their relationship with customers, while 49 monitor their relationship with suppliers. The least attention is paid to the quality of the accounting function (27 enterprises). It's worth noting that it was possible to select multiple answers. Additionally, it is important to note that the quality and training of employees receive little attention, as this indicator is measured by only 37 enterprises in the sample.

Enterprises monitor the quality level of the products/services they provide by seeking feedback from customers about quality (52) or based on discussions with customers (47). 18 enterprises assess the quality of their own products/services, while one enterprise stated that it does not collect this data. Here, also, multiple answers were possible.

It is positive that as many as 93.1% of enterprises monitor the quality of suppliers (delivery deadlines, quality of delivered goods/services, and so on).

A fairly high percentage, 21.6% of surveyed enterprises, have several (up to 5) customers from whom the enterprise generates more than 80% of its revenue. It is important to emphasize that dependence on large customers poses a significant risk in business. Namely, if large customers become insolvent or terminate business cooperation with the enterprise, the enterprise's operations would suffer a significant blow, and the very survival of the enterprise could become questionable.

Regarding rewarding the most significant customers, 37% of enterprises offer a discount on the amount of each purchase to their customers, 27% of enterprises organize business lunches for their most significant customers or give them appropriate gifts, 15% of enterprises offer annual discounts, while 21% of enterprises do not have a custom of rewarding their customers.

It is positive that as many as 93.1% of enterprises monitor the quality of suppliers (delivery deadlines, quality of delivered goods/services, and so on). However, the majority of enterprises (38.2%) state that they have a specific activity and do not have a large number of suppliers, while 32.4% of enterprises are focused on developing a supplier base and have a large number of suppliers. 18.6% of enterprises find it difficult to find quality suppliers, while 10.8% do not need to develop a supplier base.

Finally, 56.9% of enterprises have several suppliers (up to 5) who supply 80% of the required goods/raw materials/services. Here again, the risk of business dependency on a few suppliers or one supplier arises, such as: unforeseen circumstances may occur with suppliers, making them unable to deliver goods/services; suppliers may dictate the price of goods/services or payment terms and methods; more favorable suppliers are not sought, resulting in the enterprise losing the opportunity for better earnings or not offering its products at favorable prices, and so forth.

Figure 2 illustrates the percentage and method by which enterprises measure customer satisfaction. The majority of enterprises (51%) determine the level of customer satisfaction based on conversations with them, 35.3% seek feedback from customers, 8.8% assess customer satisfaction themselves, 3.9% do not collect this data, while 1% of respondents did not provide an answer.

The survey results indicate that 88.2% of enterprises monitor the level of employee satisfaction, while 11.8% of enterprises do not have this data. Additionally, while 78.4% of enterprises invest in employee development/training, 21.6% of enterprises do not feel the need to further educate their employees. Furthermore, 98% of enterprises consider cost control important and actively monitor it, while 2% of enterprises do not share this view.

CONCLUSION

To adequately evaluate an enterprise's business performance, it is necessary to assess both financial performance indicators, which show historical data and are focused on the past, and non-financial business indicators, which are future-oriented. However, to evaluate non-financial performance indicators, it is first necessary for the enterprise to determine which key indicators to measure and then establish appropriate models and processes for obtaining the necessary data. Qualitative business indicators, such as management quality, customer satisfaction, employee motivation and loyalty, innovation, and such, provide more insight into an enterprise's future business operations. Modern performance measurement systems go even further by linking quantitative and qualitative business indicators with the enterprise's vision, strategy, and goals to determine whether the enterprise is moving in the right direction and to enable continuous improvement in business operations. However, this complexity affects the construction and implementation of modern business performance measurement systems, as each enterprise should develop and apply a method tailored to its specific needs, goals, and business operations. In practice, there is not significant use of modern performance measurement systems due to the lack of clearly defined rules or guidelines for selecting an appropriate performance measurement model. Additionally, problems arise when selecting methods for measuring organizational performance and evaluating qualitative indicators.

The survey results indicate that the majority of surveyed small and medium-sized enterprises (SMEs) do not approach monitoring of qualitative data in a systematic and organized manner. Even 65% of surveyed enterprises do not have a written vision and mission statement, and 70.6% do not have defined business objectives. Furthermore, 20.3% of enterprises only monitor and evaluate quantitative business indicators. Among the qualitative indicators that enterprises monitor, cost management control, product/service quality, and relationships with customers and suppliers stand out. However, conclusions in this regard are drawn quite subjectively, mainly based on conversations with customers, suppliers, or employees, and based on management assessment. As assessments of qualitative indicators largely rely on subjective assessments by enterprise management, questions arise about their quality and the extent to which they truly reflect the actual situation in enterprises. Based on the above, it can be concluded that SMEs in Bosnia and Herzegovina do not understand the importance of evaluating non-financial indicators for the future of their business operations, and the collection and assessment of these indicators are not approached systematically and responsibly; instead, subjective assessments and unfounded conclusions are made.

Based on the research results, the following recommendations can be given for improving business operations and measuring non-financial performance in small and medium-sized enterprises in Bosnia and Herzegovina:

- Formal documentation of vision, mission, and strategy: Encourage enterprises to document their vision, mission, and business strategy in written form as it enhances clarity and alignment within the organization.
- Developed business plans and strategies: Advocate for the development of comprehensive business plans and strategies, preferably in written format, to facilitate structured decision-making and goal attainment.
- Defined business objectives: Emphasize the importance of clearly defined business objectives to provide a clear direction for the organization and improve strategic alignment.
- Regular monitoring of performance measures: Encourage enterprises to monitor performance measures regularly, preferably on a monthly or quarterly basis, to ensure timely adjustments and effective performance management.
- Utilization of performance measurement systems: Promote the use of performance measurement systems that encompass both quantitative and qualitative indicators to gain a holistic view of business performance.
- Data collection methods for qualitative indicators: Encourage enterprises to collect data on qualitative indicators through various methods such as discussions with stakeholders, management assessments, and observations, to ensure comprehensive evaluation.

- Focus on quality management: Highlight the importance of monitoring and improving quality management aspects such as cost management, product/service quality, customer relationships, and supplier quality.
- Diversification of customer base and supplier network: Advise enterprises to diversify their customer base and supplier network to mitigate risks associated with dependency on a few key stakeholders.
- Customer and employee satisfaction monitoring: Stress the significance of monitoring customer and employee satisfaction levels to identify areas for improvement and enhance overall organizational performance.
- Continuous investment in employee development: Encourage enterprises to invest in ongoing employee development and training to foster a skilled and motivated workforce.

By implementing these recommendations, small and medium-sized enterprises (SMEs) in Bosnia and Herzegovina can enhance their strategic planning, performance management, quality assurance practices, and stakeholder relationships, leading to improved competitiveness and sustainability.

Limitations of our research mainly related to data availability and sample size. The study did not analyze the impact of non-financial indicators on enterprise performance. Also, the sample of respondents was limited to SMEs operating in Bosnia and Herzegovina, which may affect the generalizability of the results. Suggestions for future research, which would be beneficial to conduct on a larger sample of SMEs, include:

- Analysis of the impact of NFPIs on SME profitability: Conduct a detailed analysis of the impact of various elements of NFPIs on SME profitability to identify key success factors;
- Development of standardized methodologies for assessing NFPIs: Develop standardized methodologies for assessing and measuring the implementation of NFPIs to enable comparison of results between different studies;
- Development of an integrated performance measurement system for SMEs that includes key financial and non-financial indicators and that could be relatively easily used and adapted to the specific needs of SMEs, depending on their industry and business environment.

Although we have identified important facts about the application of NFPIs in the SME sector within the framework of our research, we emphasize the need for further research to gain a deeper understanding of the specifics of this concept. The limitations of our research provide guidelines for future academic efforts, and research suggestions can serve as a basis for further developing theoretical and practical understanding of NFPIs in the context of SMEs.

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