

# The Impact of the Entrepreneurial Behavior, the Governmental and Financial Supports on the Performance of Moroccan SMEs

<sup>1</sup>Farah BENSALAH, <sup>2</sup>Asst. Prof. Cihan TINAZTEPE

<sup>1</sup>Research Scholar, Department of business management, Istanbul Aydin University, Turkey

<sup>2</sup>Supervisor, Department of business management, Istanbul Aydin University, Turkey

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**Abstract:** Recently, many are the researches done about the performance of business as well as the factors leading the enterprises to fail or to succeed. If we ask experienced entrepreneurs they will definitely say that making their company succeed was a huge challenge and took a lot of hard work. In this current article, we will dig deep to find what are the principle internal and external factors of success and failure of SMEs (small and medium enterprises) and what are the factors that have a direct impact on the business performance, we will have to answer many questions related to the enterprise itself, its system, its owners as well as their competencies, managerial skills and other abilities to guaranty the continuity of the firm. The study will be done on Moroccan SMEs and entrepreneurs.

**Keywords:** entrepreneurs, entrepreneurship, managerial skills, performance, performance measurement, small and medium enterprises.

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## 1. INTRODUCTION

One of the hot topics nowadays is how to enhance the performance of businesses especially the one of micro, small and medium enterprises. According to literature, there are many factors that can help in increasing the performance level within an entity, starting with the owner or the manager himself, who must have a certain level of education, knowledge in business, enough professional experience, necessary managerial skills and others. From another perspective, the initial planning, marketing strategies and other procedures may also affect the performance of a firm as well as the governmental and social support that may increase it.

It is known that the creation of SMEs has a huge positive impact on the economical growth of the societies, as it decreases the unemployment rate by creating job opportunities depending on the demand, these opportunities can also be created by introducing new technologies to the entity, eventually, the SMEs are ‘the engine’ of the economical growth and are considered as the most important component of job creation [1]. Morocco, as all the countries is trying to develop its economy by encouraging the installment of new SMEs and by according facilities to new entrepreneurs who are ready to invest their money, inputs and knowledge to start their own business. It is important to every entrepreneur to have a well organized business plan as well as technical, conceptual and human skills to be able to manage a company effectively, the manager must also have a well framed marketing strategy that will help in the business market position and its relationship with the consumers, by following these steps, the entrepreneur will be taking his first steps toward success. Not only the internal factors impact the performance of a firm but also the external ones such as the government support by implementing fair regulations and lowering taxation, the infrastructure will help the firm in several ways: transportation, telecommunication, export and import and many others, the support of the financial institutions is also crucial, as all SMEs are in need of funds in case of crisis. All of these factors and many more are contributing either in the success or the failure of SMEs. In this research we are trying to list the different internal and external factors that are impacting the performance of Moroccan SMEs as well as their common challenges, solutions and suggestions that may help them prevent crises situations. We will empirically test whether the formal and work experience of the entrepreneurs

are impacting the performance of the business, as well as their managerial skills and business knowledge as the main internal factors while the government and the financial supports are considered as external factors having a significant influence on the performance of the Moroccan SMEs.

#### **A. DEFINITION AND CHARACTERISTICS OF THE MOROCCAN ENTREPRENEURS AND SMES**

In 1983, the first legal definition of SME was revealed, inspired by the international organizations' needs, more details were clarified in July 2002, they were related to the legal number of employees depending on the size of the company and the legal working hours. The new definition was published by the 'Chart of SME' in 23 July 2020 [2], and according to law 53-00, the report clarified that the capital of a SME must be less than 75 MDH and the number of employees shouldn't exceed 200 employees, and they were defined as firms managed by their owners or co-owners. In order to get more information about the situation of SMEs in Morocco, the High Commission of Planning in Morocco (HCP) conducted a research in 2019 on a sample of 2101 SMEs, 82 researchers participated and 10 professionals were supervising the research, interesting data were collected and are presented as follow:

Geographical distribution of SMEs: Most of the SMEs are operating in industry, construction, commerce and other services and are basically located in big, developed and industrial cities such as Casablanca and Tangier but are less centered in small cities.

Distribution of SMEs based on age: According to the results of the HCP, 97% of enterprises newly created (less than 10 years) are mainly very small, small and medium firms.

Entrepreneurship skills of the Moroccan entrepreneurs: the study of Mr. Guerraoui and Mr. Affaya in 2009 [3] was done on hundreds of Moroccan entrepreneurs showed that they have high level of instruction, their training is adequate to their entrepreneurial activity, they also choose proper entrepreneurial activities taking into their consideration the strategic choices of Morocco, they have clear and transparent definition of the concept of globalization, but have as a weakness the limited participation in politics.

#### **B. PERFORMANCE MEASUREMENT**

Many are the authors who defined the concept of Performance; the performance is a relevant element that helps the investors reach their interest and defined it as '*how well the organization is managed*' [4]. Neely and Adams defined the concept of performance as meeting the needs required from the entrepreneurs as well as the effective use of the firm's resources, in fact, this definition was directly related to the concepts of efficiency and effectiveness [5]. It is important to bear in mind the company's capacity while determining its performance some factors must be taken into consideration such as the business flexibility, strategies of pricing, delivery speed and reliability [6].

When talking about measuring performance, we are then describing a long and continuous process whose main objective is to enhance the level of performance within the company as well as motivating the employees. In seventies, it was seen that the financial data of the companies were not enough to judge the level of profitability and performance, so researchers developed a brand new strategy called performance management grouping the different activities of collecting data, analyze and interpret them as well as categorizing the results found. This helps the firm follow its performance and enable the entrepreneurs predict their firm's future performance.

#### **C. MEASURING PERFORMANCE IN THE MOROCCAN SMES**

The SMEs in Morocco represent more than 95% of the Moroccan economy; so basically, the SMEs are living in a strong and fierce environment of competition. Some of the Moroccan SMEs are adopting the system of performance measurement but others don't simply because they don't have enough information about it since the performance measurement system is usually used in large and big companies, so we can say that Moroccan SMEs are facing issues in adopting PMS to measure their own performance. They are divided into three categories, the ones using PMS system which are rare, others aren't using any model to measure the performance or are using them but incorrectly as they don't know how to specify they needs and wants.

#### **D. THE INTERNAL AND EXTERNAL FACTORS IMPACTING THE PERFORMANCE OF MOROCCAN SMES**

Many factors, internal and external, are affecting the performance of Small and Medium Enterprises, some authors injected the managerial skills of entrepreneurs as an essential element for the success of SMEs and that a poor

management can affect negatively the performance of the company. Some others developed theories to show the impact of other factors such as financial aids and supports, marketing campaigns, production systems, social support, system of information, competition and many others as main factors defining the success or the failure of an organization. In the Moroccan context, the lack of essential elements such as the financial and technical resources, skills, capital and bureaucracy can be considered as main factors of the Moroccan SMEs deficiency.

#### **a. Internal success factors in the Moroccan SMEs**

Managerial aspects: according to the declaration done by HCP Morocco [7], the Moroccan entrepreneurs have the necessary educational level, skills, knowledge and experience to manage a SME, it also showed that they manage over 96.3% of Moroccan SMEs while 3.7% are managed by foreign managers, it was also declared that a total of 26% of enterprises were providing a relevant training to their employees in order to enhance the internal performance.

Internal finance: it was declared by the same study that one Moroccan firm per five is financing itself using external funds. We distinguish different types of financing in Moroccan SMEs: auto-finance (64% of the firms), asking help from the family (8%) or getting funded by the financial institutions.

Employees' engagement: the Moroccan firms are aware of the importance of the employees as well as their crucial role in the development of the company, that is why there is no difference between women and men, they both participate in the firm's activity equally: the same study showed that 10% of the big companies and 13% of SMEs are managed by women. The managers are leading some brainstorming meetings in order to exchange employees' ideas, they also offer salary raise and promotions as motivation tools depending on their competencies as the managers' incompetency is the principal reason for either success or failure of the SME [8].

#### **b. External success factors of Moroccan SMEs**

External markets: the Moroccan firms are in fact having good relationship with other countries in terms of exportations and importations, we see that 6.8% of the Moroccan firms are exporting goods and services to the international markets, the proportion of MSMEs that are exporting is 56% and the majority of them are occasional exporters.

External environment: it is important to protect the environment for the firm's own good and for the society's good too, the HCP study showed the following results: 19.4% of the CEO of enterprises in Morocco are engaged in actions related to minimizing the use of water resources, 15.2% are fighting against pollution, 15.4% are treating wastes and 6.6% are encouraging the use of the renewable energies.

External finance: the Moroccan SMEs are externally financing their activities and that differs according to the sectors of activity: 26.8% of SMEs are using external finance in the industrial sector, 31.5% in construction sector, 38.6% in the commercial sector and 17% in the sector of services. It shows that the sector of construction is the one who's using more external finance either from banks or other financial institutions. The MSMEs operating in export got some financial funds from government depending on the age and the sectors.

#### **c. Internal failure factors of Moroccan SMEs**

Recruitment: more than 43% of the Moroccan firms affirm that the main difficulty in the stage of recruitment is the lack of experience of applicants especially when searching for profiles of engineers and specialized technicians. Generally, the Moroccan SMEs are facing different problems in this step due to the applicants' inappropriate training, high salaries and due to labor shortage. They also declared that the procedure of firing isn't easy, 33.5% of the firms find difficulties while firing due to the labor code dispositions, 24.1% due to the difficult and complex procedure of firing and 29.8% due to negative impact on the financial situation of the firm.

Human resources and marketing strategies: most of the Moroccan SMEs have an informal hierarchical structure, there is a lack of structural communication between the internal partners and they are facing many difficulties in providing a continuous training to their employees [9]. When talking about Marketing, fewer are the enterprises who are conducting analyses of consumers and doing market diagnostics. In fact, the strategies of segmentation, targeting and positioning products according to consumers in the market aren't strategies followed by the Moroccan SMEs as well as the 4P theory (Marketing Mix) that is often incoherent with the reality.

#### **d. External failure factors of Moroccan SME**

External Environment: in Morocco, 44% of the firms ignore that they are benefiting from a public encouragement offered by the Moroccan government in order to protect the environment from which 50% are Micro firms. For the companies who know about this program, 30% of them declare that the aids and funds aren't sufficient.

Tax issues: more than 95% of the Moroccan enterprises affirm that the tax issues they are facing are the main factors that are discouraging their investment, 69% of them declared that tax issues can guide the enterprise to informal practices and actions.

Administrative aspects: more than 56% of SMEs agree that the monopolies are standing between them and the public offer and that more than 65% see the procedures of the public administration as complex and difficult and declare that the quality of its services are the main obstacles decreasing their performance and 57% of them declare that they saw non ethical practices inside the public administration.

## **2. METHODOLOGY**

### **A. RESEARCH APPROACH**

We conducted the study using the quantitative descriptive approach in which we described the Moroccan SMEs: their characteristics, factors of success and failure as well as the entrepreneurs (their education, experience, skills and managerial abilities). This descriptive analysis enabled us to find very relevant and useful information about the SMEs and their situation.

### **B. POPULATION AND SAMPLE**

The data were conveniently collected from 177 Moroccan entrepreneurs operating in different sectors. As the main goal of this thesis is to study the factors impacting the performance of the SMEs, we only contacted entrepreneurs who are owners of micro, small and medium business in terms of size. The study is more effective when it is done on SMEs as we can truly get important information from the owners, they can tell the factors that helped them make steps forwards and the ones who took them backward.

### **C. RESEARCH INSTRUMENT**

The exact number of questions that were asked to participants is 52 with 6 demographic questions including gender, age and level of education, previous experience, sector and the number of workers in the company. They were ordered in 7 sections which are: the participant's formal education, business education, work experience, managerial skills, government support, financial support and the manager's own SME performance. The items related to the formal and business education, work experience and the managerial skills were responded according to a 5 points Likert scale while the SME's performance was measured on a 6 points Likert scale.

### **D. THE PROCEDURE**

A survey was distributed and was created before using "Google form" the electronic surveys' platform. It contained firstly a quick prescription where the main aim of the research was clarified, then the participants had to answer the questions which were ordered according to sections, and each section was presented in an individual page, starting with the demographic questions, others related to the participants' formal and business education, work experience, managerial skills, government support, financial support and finally questions related to the performance measurement. The created link of the survey was forwarded to the participants' email addresses. When opening the link, the participants had to choose the answers according to their opinions and beliefs. Their answers were automatically registered and saved bearing in mind their confidentiality.

### **E. DATA ANALYSIS**

In order to analyze the data collected, SPSS (Statistical Package for the Social Science) program version 22 for Windows was used, starting with the descriptive analysis, reliability analysis, factor analysis for each variable, correlation and regression analyses were done as well as normality tests. In order to perform the difference tests, the non parametric ones were taken into consideration as the sample size wasn't large enough. While conducting all these analyses and tests, the coefficient alpha was fixed on 0.05.

## F. THE RESEARCH HYPOTHESES

The internal factors in this study were focused on the entrepreneur's education, previous work experience and his managerial skills, the hypotheses are as follow:

**H1: The entrepreneur's educational background affects positively the performance of his business.**

**H2: The entrepreneur's experience in business affects positively the performance of his business.**

**H3: The entrepreneur's managerial skills affect positively the performance of his business.**

The external factors impacting the performance of the company in this study were defined as the governmental and the financial supports, we conclude the following hypotheses:

**H4: The amount of the governmental support directly affects the performance of the SME.**

**H5: The amount of financial support has a direct effect on the performance of the SME.**

## G. FINDINGS

The first analysis done was the descriptive one, the results are as follow:

From a sample of 177 entrepreneurs, 48% were female while 52% were men; this comes to confirm that the Moroccan society is encouraging women entrepreneurship.

The age of the responded was varying between 25 and 60, in fact, 49.2% were less than 30 years old and 50.8% were more than 30 years old. This shows that the Moroccan entrepreneurs are interested in entrepreneurship in an early age, and that they have enough skills and managerial abilities to continue in the same domain. Other information were revealed about the years of experience of the managers, it was seen that 72% had less than 10 years experience while 28% had more than 10 years experience. In terms of the firm's size, 49% were micro enterprises, 29% were small enterprises and 22% were medium enterprises, we can see that the entrepreneurs chosen in this study are just starting their business but they have as a main target expanding them. Also, it study revealed that the Moroccan entrepreneurs are educated, as 30% had their Bachelor, 52% had their master degree and 5.6% had their PHD.

### *Formal and business education:*

The factor analysis was done in order to decrease the number of variables using the Principal Component Analysis (PCA), the formal education and the business education were found as whole factors as the KMO value was 0.895 and the Bartlett's test of sphericity was equal to 0.000, both values respected the rule and enabled us to conduct the analysis. When the analysis was done, two components were taken into consideration, and they were giving about 70% of overall information about the population, these two factors were at the same time the two variables analyzed: the formal education and the business education. **H1: The entrepreneur's educational background affects positively the performance of his business is then accepted.**

### *Work experience:*

To measure the sample's adequacy we used the KMO which was equal to 0.922 and the Bartlett's test signification was equal to 0.000. These results made us conduct the factor analysis as the two important rules were respected. Nevertheless, when the analysis was conducted it was seen that this factor was meaningless. **H2: The entrepreneur's experience in business affects positively the performance of his business is not accepted.**

### *Managerial skills:*

In the literature, 3 components were found which is perfectly matching the types of managerial skills cited by Wilson (Wilson's skill profile classification): technical skills, teambuilding skills and drive skills, but when the Cronbach's Alpha of the last two components was measured in our study, it was shown that they had low internal consistency. The factor analysis was done again, in which all the three components were combined, the internal consistency then was satisfactory high, so we took into consideration the managerial skills as a whole factor ( $p = 0.903$ ). **H3: The entrepreneur's managerial skills affect positively the performance of his business in then accepted.**

We can say that only two factors were taken into consideration and showed a high impact on the performance, the results are presented in the table below:

**Table 1: Results of the Hierarchical Regression Analysis**

<b>Dependent variable:</b> performance			
<b>Variables</b>	<b>Beta</b>	<b>T</b>	<b>p</b>
<b>Model 1</b>			
Managerial factor	0.559	8.919	0.000
R = 0.559 , R <sup>2</sup> = 0.313 , F= 79.550 ,p= 0.000			
<b>Model 2</b>			
Managerial factor	0.451	6.845	0.000
Business education	0.265	4.032	0.000
R = 0.609 , R <sup>2</sup> = 0.371 , F= 51.371, p= 0.000			

In addition to these variables, there are two others that are nominal and three demographic variables, it was necessary then to conduct the non-parametric difference tests as the distribution of the sample wasn't normal and the sample wasn't large enough (n= 177).

**Gender:** the results of the study showed that women are performing better than men but the according to the test, the results are not significant (p=0.220).

**Age:** the analysis revealed that people under thirties are performing more than the people with more than 30; the test showed that the results are significant.

**Years of experience:** the study showed that people with less experience are helping more in increasing the performance level within the company and that people with more than 10 years experience are not that effective. The test showed that the results are not significant. (p=0.409).

**Government support:** 130 of the respondents are convinced that the government support is helping in enhancing the performance level of the SMEs but the tests showed that the results are not significant (p=0.366). **H4: The amount of the governmental support directly affects the performance of the SME is not accepted.**

**Financial support:** 145 of the respondents admit that getting funded by the financial institutions has a positive impact on the performance level of the SMEs, but the test showed again that the results are not significant (p=0.166). **H5: The amount of financial support has a direct effect on the performance of the SME is not accepted.**

### 3. CONCLUSION

The new definition of SMEs in Morocco is taking into consideration some criteria that differ depending on the region, sector and other socio-economical criteria such as the minimum wages and the cost of living. "We opted for a simplified definition and flexible, taking into account only revenues", Salah Eddine Kadmiri, ancient Chairman of the Committee SME/CGEM [10]. Morocco was always supporting the establishment and the continuity of SMEs as he could implement many well developed policies in their favor. An operational law was revealed in 2002, it was about installing associations supporting the activities of the SMEs at different levels (national, regional and local) [11], the HCP was also interested in the situation of the SMEs as it was publishing several reports in which they revealed some demographic and economic data after conducting a study for months. The MSME observatory created by the collaboration of different big Moroccan agencies, for instance, the HCP, the CGEM (National Confederation of Moroccan Enterprises), the BAM (Central Bank) and others, they had as main aim supporting the SMEs and guaranty their continuity. The Industrial Acceleration Plan 2014-2020 was implemented in order to enhance the SMEs' level of competitiveness as well as encouraging the entrepreneurs to invest [12]. We can see the fruitful and positive results of the efforts made by Morocco in developing the SMEs economical situation as well as strengthening their performance with emphasis on the entrepreneurs' role in managing them as the current chairman of the committee of MEs and SMEs in Morocco Abdellah El Fergui admitted that the country is a phase of negotiation, and the government is insisting on financing the MEs-SMEs as well as the auto-entrepreneurs in the maturity position and those facing difficulties [13].

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