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Success Factors of Lebanese SMEs: an Empirical Study

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Abstract

This study attempted to identify factors that are affecting business success of small and medium enterprises (SMEs) in Lebanon using the contingency approach. The independent variable is perceived SME performance, by measuring the satisfaction of managers about previous results. This satisfaction was measured by checking two criteria: Financial (the evolution of profitability, turnover and the cash flow) and marketing (evolution of customers' satisfaction). Based on literature review, we examined factors that influence the SME business success. These factors are: SME characteristics, manager characteristics, and ways of doing business (as internal factors affecting the performance). The external factors were divided in two measures. The proximity environment which consists of market share, customer, suppliers, competitors, relation with employees and banks. The investment environment which is related to the national environment.

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Keywords: Financial analysis, SMEs, Business success, SMEs, External environment, Management know-how, SMEs characteristics

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1. Introduction

The survival of the SMEs during the latest economic crisis pushed Collins, in 2010, to find out why some enterprises declined while others persisted. (Aliouat and Nekka, 2011) also conducted research to find out the reasons that “make some SMEs operate properly, against all odds, in these environments”.

We are interested in this article, in exploring the success factors of Lebanese SMEs in the Lebanese instable environment.

Lebanon is a developing country and since 1975 has moved from one conflict to another. During the period 1990 until the assassination of Prime Minister Rafik Hariri, the country was busy with reconstruction. This tragic death has created a recession due to political instability. The Israeli war in 2006 destroyed in a large part of what had been rebuilt. Moreover, fiscal and monetary policies adopted in the postwar period resulted a large debt. The preservation of an efficient banking system that carries considerable national savings is a major asset to big business performance. But as the Lebanese productive sector consists of small and medium enterprises, the recession becomes more important. This sector is weakening by the day. Debt policy that has been followed since 1990 by the governments of former Prime Minister Hariri increased the interest rates on debt. On the other hand, the Beirut Stock Exchange, re-opened in 1996, does not have an effective role in the financing of Lebanese firms. The funding comes primary from commercial banks that are more interested in short-term financing. The difficulty of obtaining access to credit by Lebanese enterprises further intensified by the lack of transparency of financial records of SMEs (Koldertsova, 2006).

Additionally, fiscal and monetary policies of the postwar highlight an enormous debt. The Central Bank persevered an efficient banking system that carries considerable national savings, a major asset to big business performance. But as the Lebanese productive sector consists of small and medium enterprises, the recession becomes more significant. This sector is weakening by the day. Debt policy that has been followed since 1990 by the governments of former Prime Minister Hariri made the interest rates relatively high on debt.

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Lebanon is also ranked among the countries where corruption levels are alarming (Abdallah, 2010). In addition, the infrastructure has not been built since the War of 1975. The electricity is distributed at a rate of 8 to 12 hours a day by region. Generators have become a symbol of the power crisis in Lebanon and even the illustration of the resourcefulness of the Lebanese in living without the state.

In Lebanon, there is no official definition for SMEs, or their contribution to the Gross Domestic Product. Estimates from the World Bank show that 90.2% of SMEs have less than 5 employees. (Koldertsova, 2006).

2. Literature Review And Hypotheses

Prior research on success factors of big firms relied on financial and accounting data (Pasanen, 2003). The accounting based measures from the financial statements typically begin with the calculation of a set of financial ratios to identify the strengths and weaknesses of a company relative to its competitors operating in the same industry. These ratios show whether the financial situation of a company has improved or deteriorated over time (Brigham, 1999). These ratios had, of course, the advantage of providing a relevant measure of the financial performance, but they have the disadvantage of being susceptible to managerial manipulation (McGuire et al, 1988). The main reason for using non-financial performance measures is that they are better indicators of future performance than accounting measures (Banker et al., 2000). The implicit assumption, on which this causal

relationship, is based that managerial actions produce results such as quality, innovation and customer satisfaction, lead to the path of financial performance. Therefore, the qualitative data identify explanatory determinants of performance, while the financial approach focuses more on the detection of symptoms (Lelogeais, 2004).

The explanation of performance determinants has been the subject of several studies. Research under the contingent approach distinguish between internal and external determinants (Khiari, 1997). We develop this research project under this approach.

- SMEs characteristics'

According to Guilhon and Weill (Guilhon and Weill, 1996) in an SME, the objectives of the company are confused with their managers and come directly from their perception of the environment. They have a flexible and changing structure and look into the quality, image and vis-à-vis legitimacy of potential customers. Saporta (Saporta, 1997) identifies four strategic specificities for small businesses: limited resources, a narrowness of the business portfolio, important personal considerations at quarterback leader, a problem in the application of strategic choices and staff collaboration.

As for Torres (Torres,1999), the main characteristics of SME can be summarized in six points: A limited market, often local, producing a single product, a complete lack of expectations or standards, an informal structure that strengthens the weight of interpersonal relationships, a strong integration at the regional assembly, and a capital divided among a small number of owners which increases the confusion between the ownership of capital and managerial power.

- SMEs in Lebanon

SMEs play a particularly important role in developing countries. They are a major source of employment, income and export earnings. (OECD, 2004). In the MENA region, SMEs constitute 99% of companies and provide 2/3 of workstations (Koldertsova, 2006). In Lebanon, there is no official definition for SMEs, or their contribution to the Gross Domestic Product. Estimates from the World Bank show that 90.2% of SMEs have less than 5 employees. (Koldertsova, 2006).

- Factors affecting SMEs performance

Previous studies have tested the impact of a large number of variables in order to reach a pertinent explanation of the performance. Empirical studies of factors affecting SME success can be divided into two groups according to whether they focus on a quite limited set of variables or try to capture more holistic profiles of successful SMEs. This seems even more essential and is generally accepted that the performance is the result of a complex and multidimensional process.

In Bangladesh Islam (Islam, 2011) found that success factors are correlated to the manager (age, education level, specialty and risk-averse affect performance. The results of the study reject the effect of the characteristics of SMEs (size, age and capital structure) on performance.

In Algeria, the study explored the determinants of growth of SMEs (Lassasi and Hammouda, 2006). Using official databases, and an ordered logistic regression, they found that the level of education, work experience in the same industry and affiliation to social security had a positive effect on the growth of SMEs. For drivers related to the company, the measure is not significant except the field.

Woldie and al studied the contributing factor of the perceived growth in Nigeria (Woldie and al, 2008). They selected as explanatory variables for the characteristics of leaders. They integrated more objectives pursued by the leaders. For variables relating to the characteristics of SMEs, they retained the age, size (measured by number of

employees), legal status and sector of activity. The results of the study showed that these variables had positive effects on growth except the sex of the leader.

Chuthamas et al, explored the contributing factor of perceived performance by managers of SMEs in Thailand (Chuthamas et al, 2011). The results of this study show that only the characteristics of SMEs, determinants related to customer and market share, the financial environment and the external environment are determinants of the perceived performance.

In Jordan, Al-Mahrouk classified, through the perception of the leaders the success factors in order of importance are: capital structure, product innovation, employees and marketing strategy. (Al-Mahrouk, 2010)

For Lebanon, we propose a three parts model to explain the perceived : internal factors relating to SMEs and its manager, external factors relating to the local environment (customers, suppliers, competitors, employees and banks) and related factors to the national environment (political stability, security, the macroeconomic environment and infrastructure).

3. Methodology

3.1. Research Goal

In this survey we aim to identify the factors affecting the perceived performance. To test the propositions, a self-administrative questionnaire was conducted. In order to check the plausibility of our conceptual framework, we chose a quantitative approach.

3.2. Sample and Data Collection

We conducted 150 interviews with managers who had agreed to receive us over all Lebanese territory. Of the 150 completed questionnaire only 135 were acceptable because some responded to the questionnaires while the company's foundation date was not older than 5 years. Our investigation lasted from September to December of 2012. Data obtained from those questionnaires were analyzed through the SPSS statistical package program and three proposed relations were tested through ordinal regression analyses.

3.3. Analyses and Results

The performance measure is the dependent variable. The managers were asked to score the perceived business success on a Five-point Likert scale by ranking three assumptions on the evolution of profitability, sales, cash flow and the evolution of customer satisfaction. The independent variables are divided into 7 categories: the characteristics of SMEs, the profile of the manager, the management mode, competitive measurement variables (customers, suppliers and competitors), the relationship with the financial environment, the relationship with employees and the investment climate in Lebanon. Responses were collected for the majority of the issues through the perception of the managers on a Likert scale of 5 points.

Results of the survey show that 42.2% of executives believe that the level of income is low. About the evolution of sales, 36.4% of our sample felt the evolution of sales below their expectation. 62.6% found the cash flow level low. For customer satisfaction, 65.9% found it average. The only performance indicator that posted a Cronbach's alpha greater than 0.7 is the perceived evolution of financial profitability. We used the perceived financial profitability as success measurement.

We used correlations analysis to find out whether internal factors relating to SMEs and its manager, external factors relating to the local environment (customers, suppliers, competitors, employees and banks) and related factors the national environment (political stability, security, the macroeconomic environment and infrastructure) are correlated. The correlation matrix between the variables of the model identified a correlation between several variables. Nonparametric correlation coefficient tau-b Kendall value is 0.5.

Three ordinal regressions were conducted on a 5% level significant rejecting the null hypothesis stipulating the nullity of all beta coefficients.

For internal determinants Pseudo R^2 indicates that 38.8% of the performance perceived by the managers of the Lebanese SMEs is explained by all the internal determinants introduced in the model. Determinants of perceived performance related to SMEs which are found to be statistically significant are the age of SMEs and the business area. Regarding the characteristics of the leader, his or her age, and risk aversion are statistically significant.

For external determinants related to the local environment for SMEs, the regression explained 77% of the performance (the pseudo R^2 is 77.7%). The results of this regression indicate that, except for drivers related to employees and the region, all other determinants of perceived performance related to the local environment are statistically significant. The market share held by the SME has a positive effect on performance.

Three factors were used for the external determinants related to the Lebanese national environment had explanatory power of 22.7% of the perceived performance: macroeconomic factors, the right of employees and the availability of skilled labor. These determinants have a harmful effect on the perceived performance.

4. Conclusion

This survey was conducted on Lebanese SMEs that survived in a continuous crises environment. We tried to find out the most significant factors that affect SMEs success. The results of this study have primarily demonstrated that the analysis on the determinants of performance that result in identifying the strengths of a small business can be made from an efficient blend of qualitative data instead of traditional financial data. We found that the relation with the environment (Customers, suppliers, competitors and banks) is the most important success factors for Lebanese SMEs.

However, in spite of insecurity in Lebanon, we found that macroeconomics factors and government politics' regarding the employees' rights had a negative effect on Lebanese SMEs performance. Regarding internal factors, managers' risk aversion and his or her age had a positive effect on SMEs performance.

We propose to extend the study by making comparisons between the Lebanese economic sectors to better identify sectorial specificities.

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