



## Study on reasons of Failure of Small and Medium Enterprises: Looking into Egypt case

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### Abstract

Globally, Small and Medium Size Enterprises (SMEs) are considered the main contributors to economic activities. In the European Union, SMEs account for around 67 percent of the overall employment by the private sector and were considered the cushion that protected the economy during the recent financial crisis in 2008 [2]. While in the USA, and according to the Small Business Administration and Small Business House, SMEs are responsible for more than half of the private sector non-farm GDP of the nation. In the Middle East and North Africa (MENA) region, a recent study by the World Bank revealed that SMEs employ around 40 percent of the workforce in the formal sector (non-agriculture). This number would increase if the informal sector were included. Generally, SMEs are seen as the potential for economic development and a significant source for jobs creation, especially when looking into developing countries. In Egypt, with the declining role of the government being the primary employer until the nineties of last century, and the private sector taking over this role, and the fact that SMEs are the significant portion of the private sector, it is significantly essential to support SMEs for the creation of new jobs, and overall social stability. Constrains facing SMEs are many and are usually different from those facing large businesses. It is also observed that rates of business failure within SMEs are generally higher than with large corporates. This paper aims to seek to identify the reasons behind the failure of SMEs, with a look into the Egyptian and Middle East situations.

**Keywords:** Small and Medium Enterprises, Egyptian stock market, failure of SMEs

### 1. Introduction

Economic growth rates in the MENA region are on average 3 - 4%, which is still behind the average of most other developing countries in another region which is around 5 – 6%; this results in an increasing unemployment rate in the region. In Egypt only, approximately 450,000 young graduates enter the labor market every year seeking jobs (World Bank), and the official estimation of the unemployment rate in Egypt is around 12.8 percent (2014), with a total working force of about 29 million people. In contrast, some of the unofficial estimates go up to 23 percent. In the MENA region, SMEs are the backbone of the economy for most countries, representing the bulk of the private sector entities. They can create new jobs faster and at a lower cost compared to large corporates.

In Egypt and based on the recently adopted definition of SMEs by the Central Bank of Egypt (CBE), around 2.5 million entities can be considered SMEs, representing about 98 percent of all private sector entities in the country. Approximately 750,000 are considered minor and medium, while the remaining 1,750,000 are considered micro establishments. The SMEs sector contributes around 25 percent to the GDP of the country. Overall, SMEs in Egypt is a major contributor to the economy, creating many jobs, and are playing a significant role in the country's economic development.

This doesn't include SMEs operating in the informal sector, which CAPMAS estimates to be around 700,000 establishments; all of them are not registered and are generally working with a low number of poorly skilled laborers and only witness low sales turnover.

SME Definition   Arab Republic of Egypt, 12/2015		
Type	Paid Capital* (EGP)	Workforce**
Micro	<50.000	<10 employees
Small	<3 million ( <i>non-industrial</i> ) <5 million ( <i>industrial</i> )	<200 employees
Medium	<5 million ( <i>non-industrial</i> ) <10 million ( <i>industrial</i> )	<200 employees

\*during the first year, a company is categorized according to its paid capital with no regard to its type of business.  
\*\*the number of workers is provisionally and not unified to identify companies.

Source: cbe.org.eg

Figure 1: SMEs by the Central Bank of Egypt

Recently, the government, jointly with the Central Bank of Egypt, has launched a program for extending credit lines to SMEs. Under this initiative's terms, banks must allocate at least 20 percent of their portfolio to SMEs at a declining interest rate of 5%.

This new initiative aims to reduce the finance cost for the SMEs, encourage start-ups, and the existing SMEs to grow.

As per the below chart, around 51 percent of these SMEs are in manufacturing, followed by 40 percent in the field of trade and services. These SMEs already employees around 75 percent of the labor force of the country.

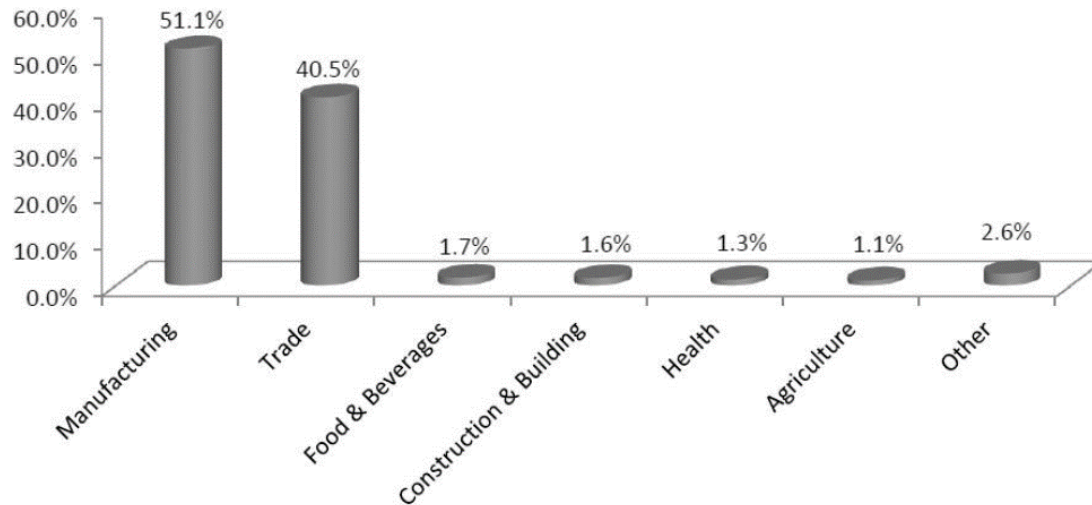


Figure 2: Distribution of SMEs in Egypt by sector

As mentioned earlier, the definition of SMEs varies widely between countries and even within the same country by different agencies. For example, in India, the government represented by the ministry of micro, small and medium industries define SMEs based on the investment size, including plant, machinery, and not including the land cost. The limits vary according to the type of business, either industrial or services.

There are many initiatives and supporting programs targeting SMEs in Egypt. The government has been working on this regard by slightly facilitating the process of establishing a new business and minimizing the legal requirements in this regard. The donors' community in Egypt has implemented several projects to support SMEs in different sectors, technically and financially. Additionally, many large private sector entities engage with SMEs either from a corporate social responsibility point of view or integrate them into their supply chains.

However, coordination between activities is still missing to a large extent. The idea of providing a complete package of services that would support the sustainability and growth of SMEs is still missing.

## 2. Challenges facing SMEs:

Some challenges may face any business entity in general and limit its ability to succeed. However, there are other challenges explicitly related to SMEs, which in many situations limits their ability to grow, and eventually leads to business failure.

Challenges that affect the SMEs, specifically in the MENA region, can be grouped under two main components:

### I. Internal challenges:

These are constrained rising from the establishment itself and affect its level of performance. Generally, owners of SMEs don't enjoy high business management skills that sometimes enable them to make the right decision regarding operating the business and do proper planning. In addition to that, most SMEs lack an excellent human resources plan to improve the skills of their employees and motivate them.

Most of the SMEs in Egypt and the MENA region don't give high weight to adopting innovative business practices such as the development of a reliable IT system for the business.

### II. External challenges:

These are challenges beyond the control of the SMEs and are usually related to the legal framework of the country, policies, and procedures, and most importantly, access to finance. Usually, SMEs are treated similarly to large corporates concerning registration, tax, and customs requirements.

Combined, these internal and external challenges in many cases limit SMEs' ability to maintain their presence in the market, grow, and even lead to its failure.

### **3. SMEs challenges in Egypt:**

Looking into Egypt specifically, SMEs face these challenges as with the situation in the region; also, there are other specific challenges. For example, under the tax law, SMEs are treated equally with large corporate, without considering the huge social role they play in the economy in creating jobs and securing income for millions of households. On access to finance, it is estimated that there is a funding gap for SMEs of around USD 1 billion, with only 15 – 20 percent of the SMEs in the market being able to access finance through the formal channels, while the rest use informal sources of financing through personal saving, family, or friends, or just struggling with the finance deficit.

Even with the minority of SMEs that can apply for formal finance, by being able to develop solid financial statements and business plans, they are usually faced with the requirements from banks and financial institutions, including collateral. They follow the same process of large corporations in obtaining credit, which on the other hand, makes it not attractive for banks to engage with SMEs compared to large corporate considering the transaction cost and the economies of such small loan agreements.

Although the recently launched credit program for the SMEs by the government aims to facilitate its access to low-cost finance, these lines of credit still must be linked with the provision of technical and managerial support to the SMEs to ensure optimum utilization of funds. In parallel, the banks themselves need to work on building the required skills to deal with SMEs. Banks also need to review their lending requirements to be based more on providing a solid business plan rather than collateral.

### **4. Failure of SMEs:**

As with any other form of business, there can be many factors that may lead to decline and eventually failure. However, with SMEs, the ratio of failures is generally high compared to large corporates, which can be attributed to SMEs-specific factors.

In the USA, it is estimated that half of the newly established SMEs survive until the fifth year, and only 35 percent survive until the tenth year (Small Business Administration, 2014).

In the MENA region, and Egypt specifically, there is no precise data about the failure ratio of SMEs, as the number of businesses bankruptcy and closure doesn't consider the type of the scale of the business. This is mainly due to the absence of a clear definition for the SMEs that can differentiate it from large corporates. However, observing the market in the region and Egypt gives a clear idea that failure ratios for SMEs are higher than it is for a larger firm.

Several reasons lead to the failure of SMEs, and most of these reasons are familiar. Still, there are region/country-specific factors that the paper will also seek to address.

#### **Main reasons for SMEs failure:**

We start by presenting the globally recognized “**Lussier Model**,” developed by Prof. Robert N. Lussier in 1995. Then investigate the main reasons identified generally for the failure of SMEs, then in Egypt, and the MENA region.

The Lussier Model consisted of 15 variables that are considered determinant in deciding on the possibilities of success or failure of an SME. The variables covered factors within the establishment and those related to the environment where it operates.

Variable # 1: Capital:

Businesses that start undercapitalized have a greater chance of failure than firms that start with adequate capital.

Variable # 2: Record Keeping and Financial Control:

Businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that do.

Variable # 3: Industry Experience:

Businesses managed by people without prior industry experience have a greater chance of failure than firms managed by people with prior industry experience.

Variable # 4: Management Experience:

Businesses managed by people without prior management experience have a greater chance of failure than firms that people with prior management experience manage.

Variable # 5: Planning:

Businesses that do not develop specific business plans have a greater chance of failure than firms that do.

Variable # 6: Professional Advisors:

Businesses that do not use professional advisors have a greater chance of failure than firms operating professional advisors.

Variable # 7: Education:

People without any college education who start a business have a greater chance of failing than people with one or more years of a college education.

Variable # 8: Staffing:

Businesses that cannot attract and retain quality employees have a greater chance of failure than firms that can.

Variable # 9: Product / Service Timing:

Businesses that select products/services that are too new or too old have a greater chance of failure than firms that select products/services in the growth stage.

Variable # 10: Economic Timing:

Businesses that start during a recession have a greater chance to fail than firms that begin during expansion periods.

Variable # 11: Age:

Younger people who start a business have a greater chance of failing than older people starting a business.

Variable # 12: Partners:

A business started by one person has a greater chance of failure than a firm started by more than one person.

Variable # 13: Parents:

Business owners whose parents did not own a business have a greater chance of failure than owners whose parents own a business.

Variable # 14: Minorities:

Minorities have a greater chance of failure than nonminorities.

Variable # 15: Marketing:

Business owners without marketing skills have a greater chance of failure than owners with marketing skills.

Looking into the model, it is evident that most of its variables apply to the SME's status in the MENA region and Egypt.

Analysis of reasons that leads to the failure of SMEs reveals the following set of factors:

1. Poor planning:

Although it is not a formula for success, good planning at the start of the business activity usually leads to sustainability and growth, and vice versa; poor planning mostly leads to failure. Many SMEs start as entrepreneurship that may have a sound business concept but still need to be well planned. Additionally, a considerable number of SMEs are established replicating another successful model without considering the surrounding factors and the overall environment where it operates.

The main objective of developing a solid business plan is to assess the available recourses, make sure that they will be allocated in the best of the company's interest, identify possible challenges that may face the company in the future, and develop mitigation plans accordingly.

The business planning should also provide in-depth analysis for the market, potential opportunities, weaknesses within the company, current and future competition, and the selected marketing strategy the company should consider in conducting its business.

When developing a business plan at the start, it is essential to assess the supply of inputs for the SMEs and conduct supplies analysis to ensure that the selected suppliers can comply with the business requirements of the SMEs and become partners. Working closely with the suppliers is equally important as working closely with clients, and many SMEs don't develop this long-term partnership with their suppliers.

2. Limited access to credit:

This is a significant challenge for almost all types of new businesses and start-ups. However, it is more noticeable when it comes to SMEs.

In academic literature, it is widely recognized that SMEs struggle with access to finance (Mason and Kwok, 2010). Firms, including SMEs, go through two stages, where access to finance is critical: start-ups and during expansions (Oakey, 2007). At the start-up phase, the entrepreneur may only have the concept and would require the capital to transform it into an actual operating business, absence of funds at this stage will mean that the idea wouldn't move any further and freeze, or an immediate downfall of the SME if it had started.

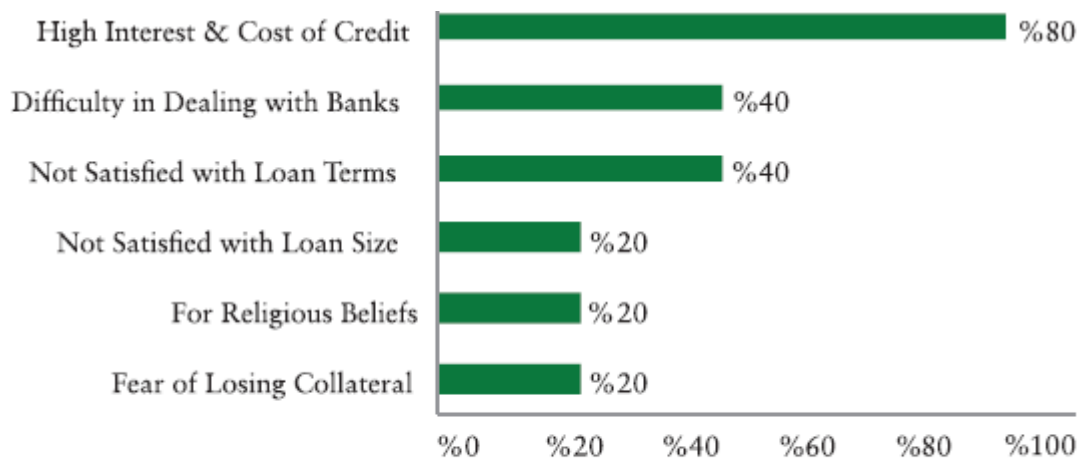
Later on, as the SME is operating, the need to grow and expand beyond the current scale of the business appears; at this stage, a shortage in obtaining the required funding may represent a real threat to the existence of the business itself, or at least will affect the long-term sustainability of the SME.

Generally, funding sources for new companies are self-financing, in which funds are injected into the business by the owners/partners, represent the equity, and possibly loans obtained from financial institutions like banks or through the issuance of debt instruments bonds. For SMEs, the options are pretty limited the self-financing by the owners is usually the most common source of funding; still, in many cases, it remains limited. Also, the possibility of obtaining bank loans is minimal as banks require collateral to secure the loans provided to the borrower; this is usually in the form of fixed or moveable assets. In most cases, these types of collateral are not available for SMEs, leading to rejection by banks. Additionally, the cost of the transactions to extend loans to SMEs on the bank's side are high, as most of the banks treat SMEs as other business entities, accordingly for a bank, the loan to SMEs consumes the same time and effort as large corporate lending, while the return is very low. On top of that, most of the banks don't have the right tools to deal with SMEs, and the credit officers are not trained on the specific conditions of the SMEs. Accordingly, SMEs are usually treated similarly to large corporates in terms of requirements and guarantees.

In Egypt, in 2012, a World Bank study revealed that lending to SMEs through commercial banks represents only 7–8 percent of its portfolio, loans extended to SMEs reached around USD 5.5 billion, out of total loans of USD 69.5 billion, extended to all business entities. The Islamic bank lending to SMEs is only USD 443 million, less than 10 percent of lending to SMEs.

Banks fall short of engaging with SMEs, seeing them a risky sector on one side, with usually no collateral or solid cash flow projections. On the other hand, they are not an attractive client, considering the law size of loans requested by SMEs. Generally, 83 percent of SMEs have a capital less than EGP. 250,000.

On the SMEs side, as shown below, an assessment conducted by the SME unit of the Central Bank of Egypt in 2010 showed that around 80 percent refrain from applying for credit from the bank because of the high transaction cost, 40 percent see the terms of banks loan agreements are not fair, while 20 percent have religious opinions on commercial banks' loans.



Source: Central Bank of Egypt (Egyptian Banking Institute)-SME Unit Publication (2009/2010)

Figure 3: Why customers refrain from applying for credit from the bank?

Additionally, lack of access to funding is limited to the start-up cost of the new business, but it also includes working capital finance which is another challenge for SMEs. The availability of sufficient working capital gives an excellent opportunity for the company to respond to demand from its clients and engage with large firms as a reliable supplier. At the same time, lack of work working capital and eventually lead to failure of the business.



SMEs operating in the informal sector is another dimension to be considered. Since these SMEs are not registered, there is not

### 3. Highly debt business:

Although this is not a typical situation, especially with SMEs and start-ups, it exists and may lead to the failure of the business.

Obtaining loans in large amounts at the beginning of the new business can be blessed and can become a curse. The availability of lots of funds enables developing the right business set up, purchasing required equipment, and ensuring the availability of inputs. However, if the nature of the business is risky or volatile, this would impact sales, and accordingly, the ability of the SMEs to pay back their financial obligations to their creditors.

In Egypt, this is obvious with SMEs activities linked to the tourism industry. Many of these activities were badly affected by the sector's sharp decline; those high in debt were in the worst situation. They were obliged to settle their debt while the business was generating low or even no income.

Specific types of business based on fashion or luxury products and services can be another example of this situation and business activities based on seasonal trends.

Accordingly, for any business, and more specifically for SMEs engaging in large scale debts, has to be very well assessed along with studying its applicability to the type of business, clients, competition, and the projected future performance to ensure that these debts will be well utilized leading to maximizing the revenues and accordingly the value of the company.

### 4. Weak financial planning and management:

Weak financial planning and management is a crucial issue, which can be considered a major factor in the failure of SMEs. The weak financial planning and management may lead SMEs to overspend on some business areas or underspend on others. This weakness may also lead SMEs to underestimate or even neglect the cost of funds and the consequences. Poor liquidity management practices can create significant problems for SMEs; this includes managing and balancing between receivables and payables, ensuring that dates and planned schedules for both transactions match. The mismatch between accounts payable and accounts receivable can lead to serious consequences for an establishment if its payables are due to be paid while receivables are still to be collected later.

With weak financial planning, SMEs tend to increase the profit dividend on account of retained earnings; this results in limiting the ability of the SME to grow and scale up and even in some situations to respond to unplanned situations such as changes in exchange rates, increase in the cost of input, or decline in sales. At the same time, SMEs need to honor their obligations.

### 5. Poor execution of plans:

Developing a solid business plan at the start of a business is not a guarantee for success by itself. Implementation of the business plan is, to a large extent, the way to achieve success, starting with offering good services to clients, compliance with what is being promised, and have a highly skilled and committed staff helps in achieving success. Unfortunately, most of the SMEs lack an excellent implementation process of plans; owners emphasize the staff and the importance of building their skills and ensuring consistency in the services/products offered to clients.

### 6. Absence of dedicated advisory services to SMEs.

Generally, in the MENA region and Egypt specifically, governments and donors have always been working on developing technical support programs for SMEs; the overall impact of these initiatives is much less than what is anticipated.



Most development programs addressing SMEs focus on one or two areas while not considering other important factors. These activities aimed at helping SMEs sustain and grow, help achieve their expected role in developing jobs, and increase people's income should consider offering a complete package of services. A program to support SMEs should be holistic in a way that it looks into regulations governing the start-up of an SME, facilitation of access to credit for capital expenditure, and working capital requirements as well, the possible tax holidays to help inject more resources into the business, to be able to grow, and accordingly create more jobs, support programs should aim to help SMEs adopt and comply with international business and technical standards related to quality assurance specialist for the SMEs targeting to export to the global market. SMEs should be supported in assessing the market conditions and assessing the opportunities and threats in the environment around them.

The advisory services programs should include a large-scale introduction of relevant financial tools, making them more applicable to SMEs, such as fortification, factoring, and economic / capital leasing.

Altogether, if advisory services programs expand in terms of a service offering package, this would eventually lead to higher success rates for SMEs.

#### 7. Flexibility and agility:

Because today's markets are always changing, customers' preferences, access of new entrants to the market, and the impact of globalization so that products and services move around the world, companies need to be well-positioned to respond quickly to changes.

SMEs need to understand their competitors' position and how the SMEs should work on differentiating themselves, making use of the possible opportunities around it, and minimizing the impact of risks. However, since most SMEs have limited human and financial resources, this limits their ability to analyze the market where it operates, forecast changes, develop mitigation plans, and be flexible to move quickly to act on the revised action plan.

However, because many SMEs don't seek to develop a business plan at start-up time, they also don't consider the importance of being flexible and quickly responding to changes going around them.

#### 8. Suppliers' relation management:

Many SMEs tend to give full attention to their clients while dedicating much less time to managing their suppliers' relationships. This is a very risky situation, as suppliers are one of the major determinant factors in the success of any establishment, and they need to get an equal level of attention from SMEs.

Identifying suitable suppliers is an integral component of a solid business plan; selection should be based on their history in the market, ability to comply with requirements, provide consistent quality, and work as partners.

During the start time of a new business, agreements with the suppliers have to be very clear and specific regarding required standards, delivery schedules, and settlement of payments. Failure to specify details at the beginning can be seriously affecting the business later on.

Related to this, SMEs sometimes neglect the importance of adopting good stock management practices, ensuring that it maintains the optimum quantity of inputs in its warehouse, avoids running out of stock at some point, or overstock inputs that would represent a financial burden on the SMEs.

#### 9. Uncontrolled growth:

Growth and development is the ultimate goal for any business, and even more important for SMEs. It results in an increase in shareholders' wealth, which is the objective of any business. However, uncontrolled growth can lead to severe consequences for an SME.

A rapid growth in an SME through expanding sales dramatically, or a geographical expansion for comprehensive coverage, can jeopardize the quality of output, relations with clients, and even internal management practices related to financing and human resources.

It is significantly important for an SME at start-up time to plan for its growth and be clear on what it wants to achieve over the short, medium, and long term, and consider the recourses that will be required to at least maintain the same level of quality and control measures.

#### 5. Recommended actions:

Considering the high weight of SMEs in the economy of developing countries and Egypt specifically, several actions can be adopted, aiming to support SMEs' development and growth and accordingly increase their contribution to the community. However, an approach to help SMEs should be comprehensive so that it develops a package of services to be offered with various components supporting each other.

The proposed actions may include:

##### 1. Enhance business environment:

According to the World Bank annual report "Doing Business," in 2015, Egypt was ranked 132 in facilitating new business start-ups. Although this applies to all new businesses, the challenge is even higher for SMEs, as they usually lack the human resources required to facilitate the start-up process or the funding.

The process of obtaining official approvals, building permits, tax cards, and registration is lengthy and complicated, this result in increasing start-up costs for SMEs. Additionally, the complicated process pushes SMEs to be established and work in the informal sector, avoid the registration process and escape from paying tax rates like large corporate and other fees to the authorities. With the estimated 700,000 SMEs established and working in the informal sector, the government is partially losing its contribution to the economy effectively. Suppose a simplification process is considering, with tax deductions for SMEs, plus packages of services and support in access to credit. In that case, this may encourage at least a portion of the informal SMEs to become officially registered.

There is a pressing need to simplify starting a new business, especially for SMEs, and plan to improve the support provided to them, considering its role in the economy, and hopefully to encourage those operating in the informal sector to move into the formal sector instead.

##### 2. Expand on the utilization of Islamic finance for SMEs:

Globally, Islamic banking is increasing dramatically; it represents around 43 percent of the overall banking sector in the MENA region.

Although Egypt has a long-standing experience in Islamic banking, the penetration rate is very low (around 8 percent, World Bank, 2012) compared to other countries in the region.

As mentioned earlier, 20 percent of SMEs in Egypt refrain from approaching banking services (whether they are eligible) due to religious reasons. While in 2012 the Islamic finance represented only 10 percent of total lending to SMEs.

The potential for Islamic banking in Egypt only for SMEs is estimated at around USD 1.3 – 2.4 billion within the coming few years. Currently, the utilization ratio (deposits/loans) in Egyptian banks, including the Islamic banking sector, is very high, indicating that banks are not fully utilizing the deposits.

There are several forms of Islamic banking, which SMEs can benefit from. *Ijara* is a common form like leasing, which can be a tool for SMEs to obtain capital assets such as machinery. *Murabaha* is another standard tool, like working capital finance. In contrast, the bank buys the required inputs from the supplier and then sell it to the SMEs at a profit, and payment by the SME is made in installments in this case.

There is a need to improve the related regulatory framework, facilitate the engagement of interested banks in Islamic finance. At the same time, efforts should be made to raise awareness of SMEs on Islamic banking and its different options.

### 3. Expand options for access to finance:

Over the last several years, many financial tools have been developed to enhance access to finance for the private sector and the SMEs sector. There is a pressing need to strengthen the utilization of these tools in Egypt to increase access to finance by the under-served SMEs sector.

Financial leasing has been one of the tools in the Egyptian market for several years now, but its penetration rate is still very low. Given its limited requirements in terms of collateral, leasing can be one of the optimum solutions for SMEs for capital expenditure at start-up time. Today, leasing is very costly for businesses as it is not treated correctly under income tax, sales tax, and customs duties.

Factoring is one of the relatively innovative financial tools, which has not been yet fully utilized in Egypt. However, it can be a perfect solution for SMEs' lack of access to working capital finance. Reverse factoring is also an optimum tool, especially for developing countries. It allows the factoring company (the lender) to collect and consider credit information from the main company buying a larger number of SMEs, without the need to engage the SMEs themselves directly; this also minimizes the potential for fraud and when access to credit information is limited.

Equity finance is becoming a widely used financial tool, whereas banks may not be the only funding source for SMEs. Venture Capital provides an opportunity for SMEs to gain access to finance through the entrance in a venture capital agreement. This is emerging in the MENA region. Currently, in Egypt, two main private funds carefully assess SMEs and select those with the highest potential for growth to engage with through equity finance deals. However, this also requires the SME to develop an excellent business plan, possibly including an exit strategy for that private equity fund at some time in the future.

### 4. Support packages to SMEs:

As mentioned earlier, there are many initiatives aimed at supporting SMEs in the Egyptian market. However, these activities work independently with a minimum level of coordination. There is a need to adopt a holistic approach for supporting SMEs in Egypt by addressing main challenges together.

SMEs support programs by government, donors, and NGOs should focus on offering a package of service that includes from the government side the required amendments to the regulatory framework of the country, on facilitating the establishment and registration of SMEs, and tax and duties treatment.

Parallel to this, SMEs support programs should cover providing support in developing business plans, technical support at start-up, staff skills enhancement programs, and support on the compliance with globally recognized quality standards such as ISO22000 and HACCP (Hazard Analysis and Critical Control Points), for SMEs in the agribusiness and food processing for example. Adopting these standards by SMEs help them get better market opportunity local and in export markets as well.

Access to finance should be an integral part of these support programs offered to the SMEs to obtain funding at start-up, and during operations.

It is widely discussed now in Egypt to establish SMEs specialized governmental agencies to support this sector. It is very important that such an agency include all relevant stakeholders such as donors, banks, and the large private sector. The programs developed under this agency should be based on actual market requirements.

Along with large consulting firms in Egypt, it is equally important to have small-scale consulting offices that are primarily focused on working with SMEs. These small consulting firms should have the knowledge and be able to provide reasonably priced technical services to the SMEs as much as needed in the future.

##### 5. Support access to markets through clustering and supply chain approach:

It goes without saying that successful access to markets is the eventual goal for any business, including SMEs, and usually, business entities exert much of their efforts and recourses in this regard. However, SMEs many times face serious difficulty in this regard, due to their limited availability of resources, which hinders their ability to establish a good network of clients, or because sometimes it is not economically feasible for them to engage with large buyers, or for the large buyer on the other side to work with individual small-scale supplier. This is even more obvious today, with the trend of globalization and international trade.

The concept of clustering is becoming more and more common to overcome such challenges; according to the United Nations International Development Organization (2012), clustering is defined as "the sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products and who also face common challenges and opportunities."

By grouping SMEs together, they can source their inputs jointly at better prices, address their challenges with authorities as a group rather than individual small firms, and, more importantly, deal with large potential buyers on a feasible economic basis. Integration of SMEs into the supply chain of large buyers is a sustainable solution, as all government and donor-supported programs will eventually end. The main driving power for the success of these SMEs will be market conditions. Linking SMEs with large buyers through supply chains as a process for knowledge transfer to those SMEs will facilitate their access to finance, based on the supply contracts they have with these large corporates. At the same time, SMEs should receive support on how to fit into the supply chain structure successfully; there is a need to build their skills not only on technical aspects but also on IT solutions, adoption, and implementation of a control system within the establishment, and quality assurance measures.

#### **Conclusion**

In Egypt, with the declining role of the government being the primary employer until the nineties of last century, and the private sector taking over this role, and the fact that SMEs are the significant portion of the private sector, it is significantly essential to support SMEs for the creation of new jobs, and for overall social stability. Constraints facing SMEs are many and are usually different from those facing large businesses. It is also observed that rates of business failure within SMEs are generally higher than with large corporates. This paper aims to seek to identify the reasons behind the failure of SMEs, with a look into the Egyptian and Middle East situations.

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