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## **THE DIFFICULTIES OF SMES : A BENCHMARK STUDY BETWEEN MOROCCO AND TURKEY**

### **Abstract:**

SMEs have a high rate of disappearance, an SME in the course of its life may face the risk of failure. This failure is due to several micro or macro-economic factors.

The objective of this article is to address the positioning of Moroccan small and medium enterprises in relation to Turkish SMEs. As such, we have chosen Turkey, as it is among the best economic powers in the world.

The comparative analysis will focus on Turkey's strengths and advantages, notably in terms of the means to solve problems and difficulties related to R&D, competition from informal enterprises, access to finance, lack of managerial and entrepreneurial skills and the capacity of SMEs to participate in the exportable offer.

### **Keywords:**

SMEs, Benchmarking, Managerial skills, Informal enterprises, R&D, Morocco, Turkey.

**JEL Classification:** A10

## 1. Introduction

The status of SMEs in Morocco is still poorly known, as most of their structures fall outside the formal sector, and some SMEs have disappeared soon after their creation, others develop slowly and passively, and there are others that develop rapidly on a respectable scale.

In this article, we will discuss the positioning of Moroccan small and medium enterprises in relation to other emerging and comparable countries in the Kingdom. As such, we have chosen Turkey, based on several factors. The choice of this country for this comparative study is not accidental. Turkey is ranked among the top 20 economic powers in the world and its young and dynamic demography allows it to increase the number of its small and medium enterprises (OECD).

SMEs have an important role in the countries economic growth, as they account for a large share of the total number of enterprises and total employment. The comparative analysis will focus on the country's strengths and advantages, especially in terms of addressing the problems and difficulties faced by Turkish SMEs.

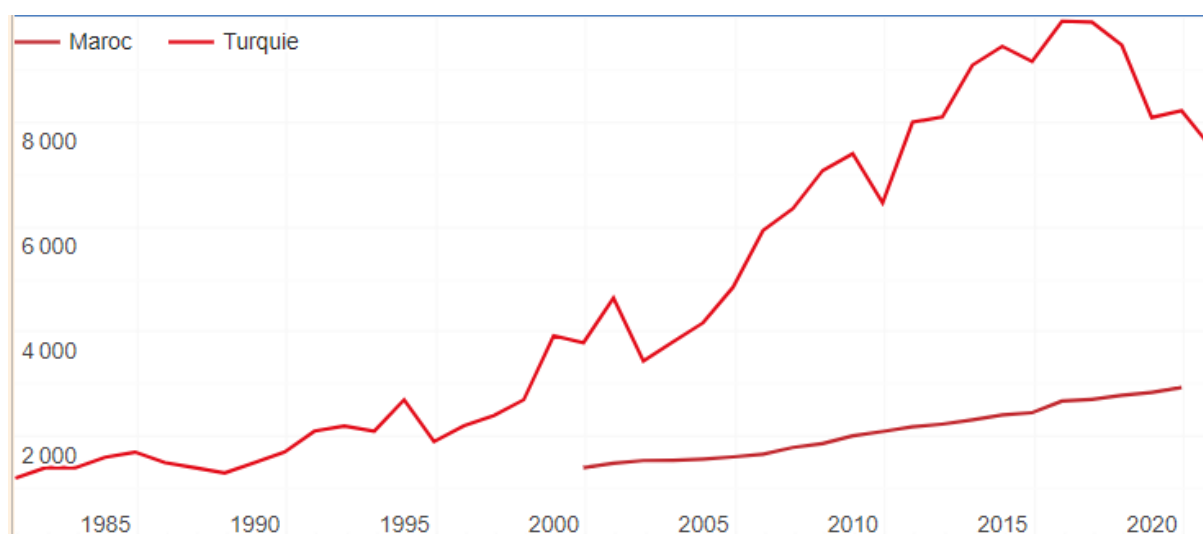
## 2. Positioning of Morocco in relation to Turkey

Morocco has a strong performance in terms of investment rate (34% of GDP/year since 2005). Despite this effort, Morocco is unable to translate this situation into economic growth.

The weakness of the Moroccan SME fabric is reflected in its inability to create sustainable employment and to win new markets, especially internationally. There are also several problems related to Moroccan entrepreneurship the lack of institutional support, sufficient financing, the necessary human capital and better quality skills to meet the needs of a modern workforce.

Comparison with other emerging economies shows this chronic deficit of Morocco to take off economically, like Turkey, the Philippines or Colombia which outperform Morocco in terms of GDP/ha growth (+4%) while the Kingdom's average annual rate is 2.9% between 2000 and 2017.

**Figure 1: Comparison of GDP per person in euros (Turkey vs Morocco)**



Source: (countryeconomy, 2020)

Real GDP growth is expected to reach +3.94% in 2016, giving Turkey the highest growth among European OECD countries and the 4th highest growth in the world. Turkey plans to be among the 10 largest economies in the world in its 2023 targets.

In Turkey, SMEs are a driving force in the Turkish economy. Small and medium-sized enterprises are of great importance, socially, economically and even politically. The state has implemented several projects to support SMEs.

### 2.1 Classification of SMEs in Turkey

According to KOSBEG, the Turkish economic fabric is composed of 99.83% small and medium enterprises with a number of 3,645,469 enterprises. 93.8% are micro enterprises, 5.3% are small enterprises and 0.9% are medium enterprises.

**Table 1: Classification of SMEs**

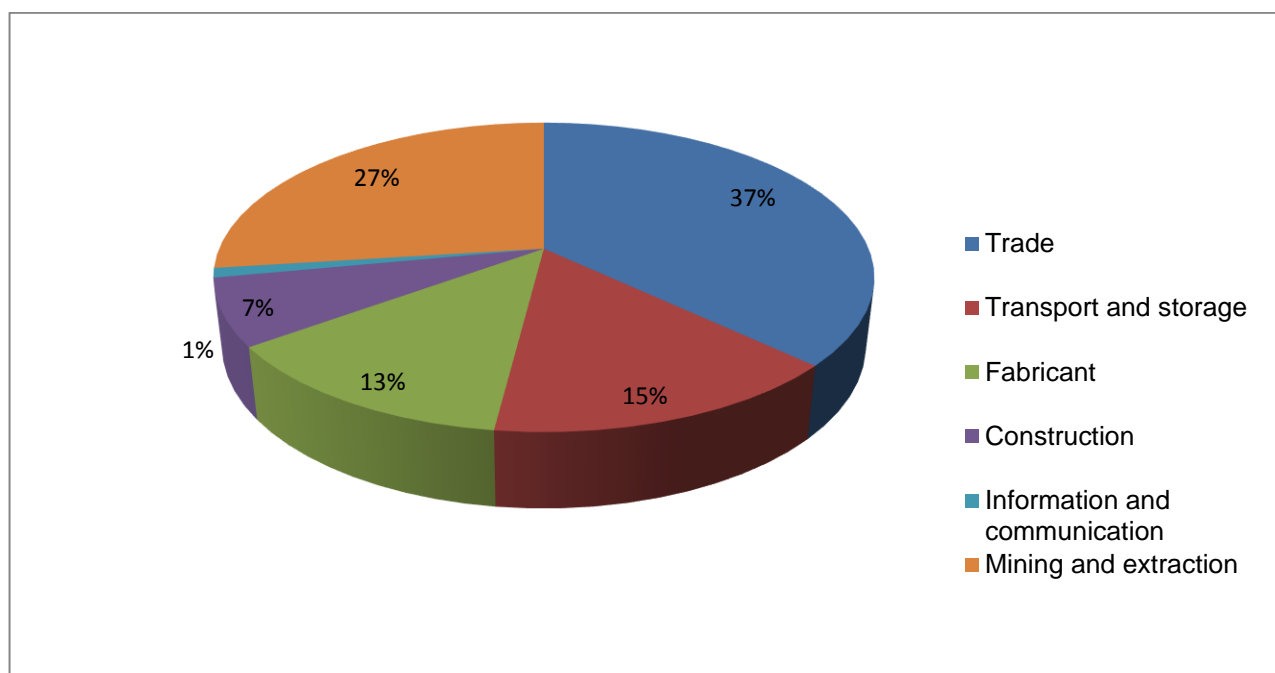
Types	Effectif	Revenues (Million TL)
Micro	≤ 10	≤ 3
Small	≤ 50	≤ 25
Medium	≤ 250	≤ 125

Source : (KOSGEB, 2020)

### 2.2 The sectoral distribution of SMEs in Turkey

Small and medium enterprises account for 56.2% of the country's total exports. The majority of Turkish SMEs operate in the trade sector with 36.4%.

**Figure 2: Sectoral distribution of SMEs in Turkey**



Source : (KOSGEB, 2019)

### 2.3 Share of SMEs in the Turkish economy

Turkish SMEs have made a significant contribution to wealth and job creation. According to OECD data, Turkish small and medium enterprises provide a total of 72.7% of employment, accounting for 50.6% of the country's total value added and an investment share of 58.3%.

**Table 2: SMEs in the Turkish economy**

<b>Total companies</b>	99,8 %
<b>Share in employment</b>	72,7 %
<b>Share of total value added</b>	50,6 %
<b>Share of sales</b>	61,7 %
<b>Share of investments</b>	58,3 %
<b>Share of exports</b>	55,1 %
<b>Expenditure on R&amp;D</b>	35,3 %

Source : (KOSGEB, 2019)

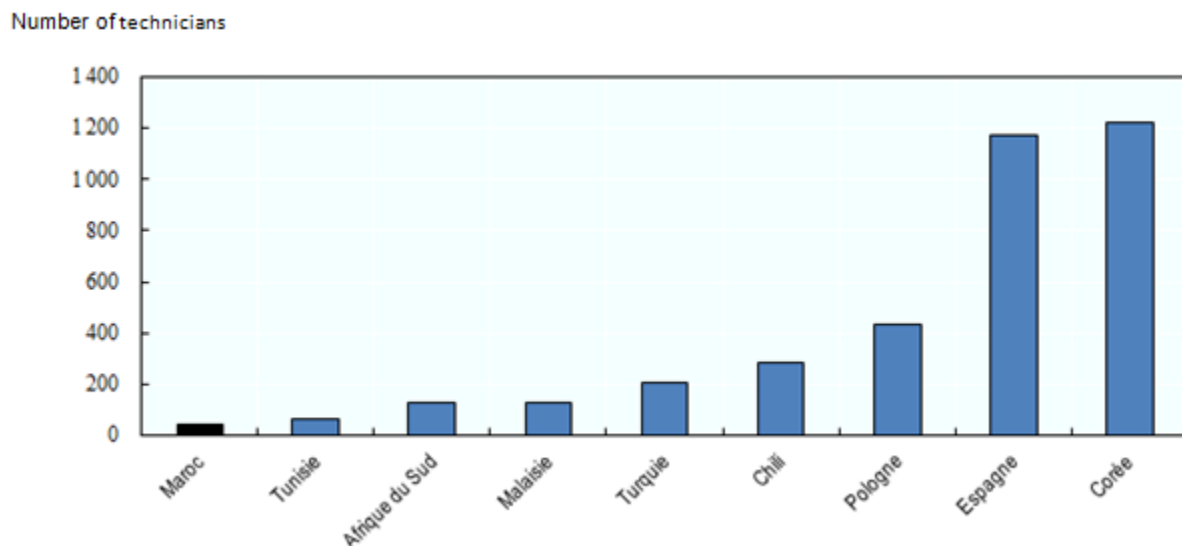
### 3. Results

#### 3.1 Turkey's efforts compared to Morocco to address the lack of managerial and entrepreneurial skills of SME managers

Most Moroccan SMEs are managed in a traditional way. Neglect of people management, poor financial management and weak marketing orientation in the Moroccan SME lead to a number of management deficiencies and difficulties. Moroccan SMEs need more qualified human resources to support development.

The high salary level in the public sector prevents a large part of the qualified Moroccan workforce from venturing into the private sector. The public-private wage gap in Morocco is higher than in other countries. For example, in Turkey, young Turkish graduates who study abroad prefer to return to their home country to work. In contrast, Moroccan graduates rarely do so or prefer to work in public.

**Figure 3: Number of technicians per million people**



Source : (Unesco, 2017)

In Turkey, the authorities have put in place public policies to improve the training of entrepreneurs. To address the lack of managerial and entrepreneurial skills of SME managers.

The 11th Development Plan, published in July 2019 by the government, determines the state's will to strengthen entrepreneurial training, and the "Action Plan and Strategy for Turkish Entrepreneurship 2015-2018" adopted by KOSGEB. This plan describes the steps to be taken to develop entrepreneurial culture (OECD, 2018).

The KOSGEB and the Ministry of Education and İŞKUR (Turkish Employment Agency) have signed protocols to provide trainings throughout Turkey. The trainings will enable the manager to move away from traditional management methods to a more modern and rational approach.

#### 3.2 Financing in Turkey: a modern system to help SMEs

Young SMEs find it difficult to obtain loans on affordable terms. The guarantees required by Moroccan banks are still very high, and the most requested guarantee for a bank loan is the real estate guarantee, sometimes involving their personal property. However, for SMEs, these requirements are an obstacle to access to financing. The conservative attitude of the Moroccan Bank towards SMEs and the lack of information sharing explain to some extent the importance of bank requirements, and therefore also the rationing of certain types of SMEs.

The World Bank shows that the Moroccan financial market, with its lack of long-term financing instruments, equity financing and capital markets, affects not only SMEs, but also young innovative companies and large companies that are not immune to financial problems. On the other hand, Turkish banks actively contribute to the financing of the economic fabric. The banking and financial system in Turkey plays an important role in supporting SMEs. It is considered a modern system that was able to avoid systemic shocks during the global financial crisis.

The conditions for access to finance have been developed since 2015 in Turkey, especially through the Credit Guarantee Fund (KGF). Between 2015 and 2018, the total amount of loans provided by banks to SMEs almost doubled.

There are several financial and non-financial institutions that have been established to support small and medium enterprises, for example, the Development Bank of Turkey is a state-owned bank whose objective is to support the strategic objectives defined by the government by providing long-term loans to large companies and small and medium enterprises, especially in its development plans.

A partnership between the Union of Chambers and Commodity Exchanges of Turkey (TOBB), Bank Ziraat, Denizbank and the Guarantee Fund Credit (KGF), has implemented the "SME Life Credit Project". Through this project, taking into account the current market interest rates, SMEs will be able to use loans at interest rates, 15% of the risks related to the credits will be insured by the banks and the remaining 85% of the risks by the Guarantee Fund Credit. Therefore, in a first step we will have secured a financial source that will give breath and ensure the need for 80,000 SMEs.

### **3.3 Turkey and Morocco, the major role of institutions in supporting SMEs**

In Morocco, there are support institutions such as the CGEM and Maroc PME which defend the interests of Moroccan companies with the public and social authorities. Its aim is to act in favour of a prosperous and optimal environment for the Moroccan economy through the promotion of private initiative, but this remains insufficient.

In Turkey, on the other hand, the state has proposed an agency that is specialised only in supporting SMEs. It has created financial and extra-financial institutions to develop the culture of entrepreneurship and support small and medium enterprises.

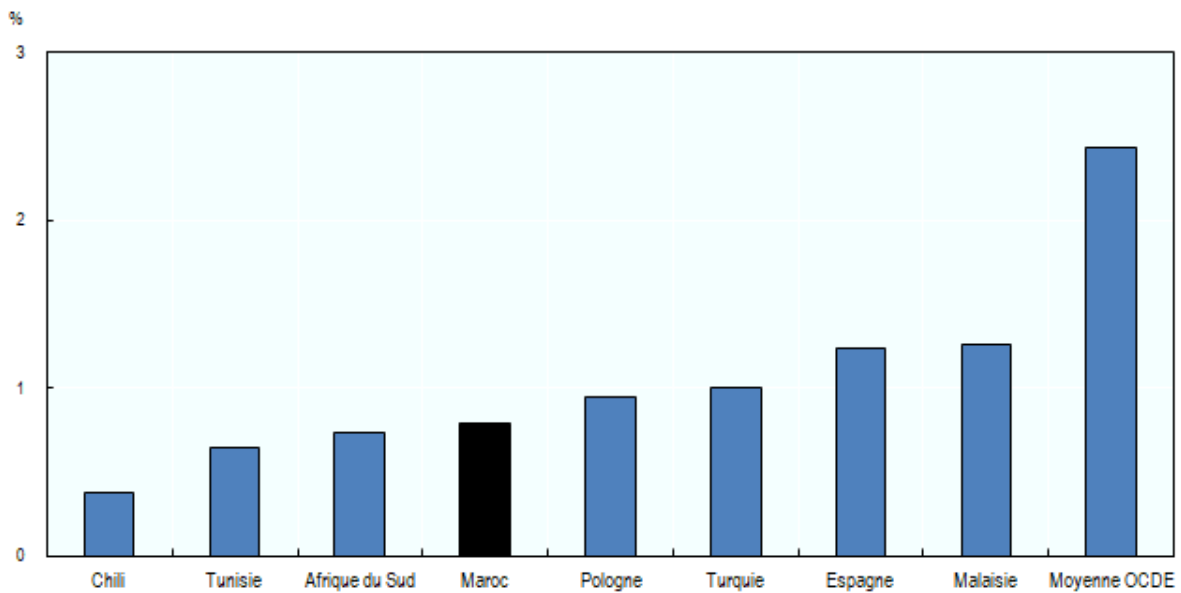
The KOSGEB (the Support and Development Agency for Small and Medium Enterprises), "is an organisation dedicated to the development of small and medium enterprises, in particular to provide qualified services to SMEs, to encourage them to produce goods and services with new technologies and high quality standards at the lowest cost, and to help SMEs solve all the problems they face when competing in domestic and foreign markets, improving SME training as well as SME management, supporting SMEs either in business start-up, advertising support, marketing service, quality control, equipment and tooling support, training, patent registration.

The objective of KOSGEB is to encourage SMEs to compete and to take charge of their financing without the help of public authorities" (Yafes Uyarci, 2014).

### 3.4 Morocco and Turkey's efforts to develop R&D in SMEs

Collaboration between SMEs and universities is not sufficiently developed in Morocco. Red tape blocks the funding of university research by companies. The salaries offered to researchers are not competitive with European salaries.

**Figure 4 : countries expenditure on R&D as a percentage of GDP**



Source : (World Bank, 2017)

The business support mechanisms in place in Morocco consist of direct support with bonuses and subsidies (Imtiaz, Innov'act), tax incentives oriented towards innovation expenditure (Intilak, Tatwir, PTR) which concern two types of companies (start-ups, SMEs) or specific sectors (industrial, information and communication technologies) but these expenditures are still insufficient and limited.

In contrast, in Turkey, tax incentives to support business R&D activities reached almost 50% of government support in 2013. In the 1990s, Turkey provided support in the form of zero interest loans and grants up to 50% of R&D expenditures (OECD, 2017).

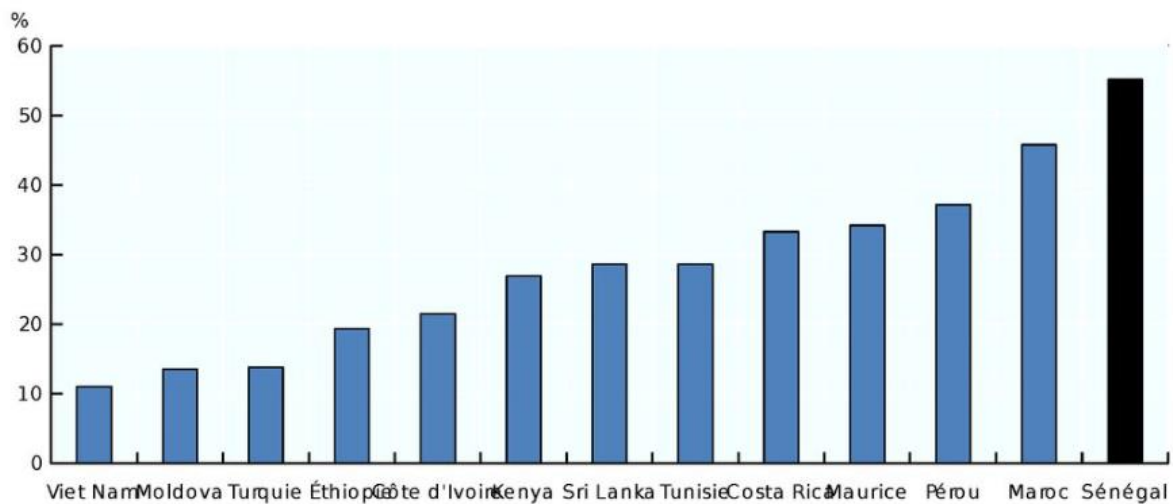
In Turkey, the most innovative SMEs are located in Teknokent and they have many advantages. In addition to being integrated into a science park where the best universities and students in the country are located, the hosted companies benefit from tax advantages. The public authorities have therefore adopted a series of measures to support the development of innovative companies in their development and to encourage the entrepreneurial dynamic.

### 3.5 Turkey and Morocco: Competition from informal enterprises is an important constraint

In Morocco, the informal economy represents more than 20% of GDP, excluding the primary sector, and 10% of formal imports. The informal economy has a direct impact on the sector of

activity: 54% of the weight of the informal economy in textiles and clothing, 32% in road transport of goods, 31% in construction and 26% in the food and tobacco industry, excluding the primary sector (CGEM, 2018) . For the CGEM, the State must strengthen the attractiveness of the formal sector by improving the competitiveness of small and medium enterprises.

**Figure 4: Companies identifying competitors' practices in the informal sector**



Source : (World Bank, 2016)

The Turkish government has managed to reduce the weight of the informal sector by 20%. It has recently implemented fiscal measures to support the development of small and medium enterprises, such as the exemption of employer's contributions for new employees and a tax reduction of up to 55% of the corporate tax, in order to reduce the informal economy. To combat unfair competition, the control of imported products has been strengthened.

Within the framework of the Support and Prevention Programme for Small and Medium Enterprises (SMEs), several measures have been adopted:

- SMEs that register patents, trademarks and designs will receive a 25% reduction (according to the notification published in the Official Journal);
- simplification of administrative and tax procedures for VSEs and SMEs;
- reducing the social contribution of employers and remuneration of employees on a mandatory account;
- reducing the value added tax of several sectors of activity.

### **3.6 Turkey, an example of dynamic support to increase the capacity of SMEs to participate in the exportable offer**

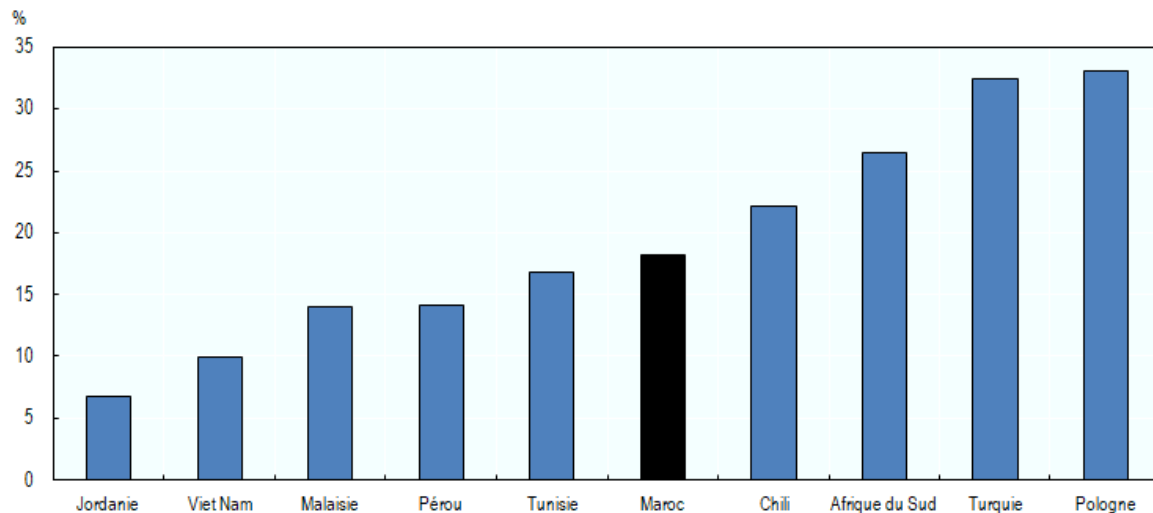
The integration of Moroccan exporting SMEs into the international economy is blocked by several constraints. These include lack of fair competition, availability of human capital and skills, barriers to accessing global value chains and high costs for SME certification.

In Turkey, the government has made available to SMEs various sets of educational programmes and substantial financial support in the form of direct subsidies. To increase the number of exporting SMEs. It also plans to put a strong emphasis on product quality and



manufacturing processes so as to enable more Turkish products to meet international standards.

**Figure 5: The share of manufacturing companies with internationally recognised quality certification**



Source : (World Bank, 2017)

In Turkey, the number of certified SMEs is increasing, but in Morocco it is still low. The demand for standards and certifications by Moroccan companies is increasing, but remains limited. In 2016, 5,500 standards were sold to companies, compared to 2,876 in 2012 (MIICEN, 2017). The proportion of manufacturing firms with an internationally recognised quality certification is about 18% in Morocco, compared to over 30% in Turkey or Poland (World Bank).

#### 4. Conclusion

The comparative study of Moroccan SMEs with Turkish SMEs has shown that in Morocco small and medium enterprises face several obstacles that block their development. We can explain the flagrant number of failures of Moroccan SMEs each year through the numerous difficulties that these entities suffer.

This comparative study has allowed us to identify the solutions taken by these countries to solve the problems related to the lack of managerial and entrepreneurial skills of SME managers, access to finance and support for SMEs, R&D in SMEs, competition from informal enterprises and the development of innovation in Moroccan SMEs.

Moroccan SMEs need to improve their business climate and ensure the right climate for the development of their activities, so that they can perform better.

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