

The Lebanese Perception of the Impact of Small & Medium Enterprises (SMEs) on the National Economy

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Abstract

Over the years, Small and Medium-Sized Enterprises (SMEs) have been very significant to the economic development of most developing and developed countries. It is a major form of business and a major employer with a strong positive impact on the economic growth and labor market in Lebanon. This paper researches the impact of SMEs on the Lebanese labor market and Lebanese economy. Furthermore, the importance of SMEs, and the challenges facing the sector and makes recommendations as to how to resolve these challenges.

The data was collected through a questionnaire, and several literature, publications and reports.

Based on past researches and studies there is a relation between SMEs and job creation in addition to the vital role they play in a nation's economy.

This is a basic study to show the impact and importance of SMEs. Recommendations are made for governments to encourage the entrepreneurial spirit and in collaboration with banks to facilitate access to credit to ensure the growth, development and continuation of SMEs. Furthermore, owners and employees of SMEs should be provided with a skill acquisition program to boost their skills, and to ensure the development of both employees and the business.

Keywords

SMEs, job creation, economic growth, training, unemployment, Lebanese economy

1. Introduction

There are about 200 million people unemployed around the world. In the Middle East, high unemployment particularly among youth—has increased that lead to social turbulence and inhibited politicians from implementing the much-needed change to set the stage for sustained economic growth. Governments in countries of the Middle East witness protests on a regular basis; their citizens express anger over what they see as the failure of their governments to take care of their interests and enable

them to secure a better life for themselves and their children by having a steady monthly pay check.

Current development literature has come to accept a correlation between job creation and economic growth (IFC, 2013; World Bank, 2012). Consequently, poor economic growth in the aftermath of the global financial crisis and the Arab Spring has pushed job creation to become a sensitive issue in many countries, including developed ones.

The private sector is responsible for 90 percent of job creation in the global economy. Sustaining and increasing support to private enterprises is seen by many politicians and economists as the best way to drive job creation and economic growth. What is clear is that businesses need expansion opportunities to create more job opportunities. However there are constraints that prevent the private sector from growing and generating jobs (World Bank, 2012).

1.1 Lebanon Overview

Lebanon faces significant challenges coming from the war in Syria, including hosting the largest number of Syrian refugees, in proportion to the country's population.

The Syrian crisis has led to an arrival of more than 1.2 million refugees into Lebanon over the last four years creating severe economic, political, and social strains (UNHCR, 2015),

Based on current data, over 300,000 Syrian refugees have settled in the governorates of Beirut and Mount Lebanon (UNHCR, 2015). Before the arrival of the Syrian refugees local Lebanese communities were already struggling with high unemployment rates and a weak economy. With the displacement of refugees and their socio-economic vulnerability, Lebanon as a host country is faced by a downward pressure and the economy in turn is squeezed by the crisis.

1.2 Definition of SMEs

Throughout the years, Lebanon lacked a formal unified definition of small and medium enterprises. Public and private sector entities developed definitions that as they see fit. For example the Central Bank of Lebanon defines SME as an establishment that generates less than 15 billion USD annually. As for KafaLat (Kafalat is a Lebanese financial company with a public concern that assists Small and Medium Enterprises-SMEs) an SME is an enterprise with less than 40 employees.

Today, most benchmarked countries use a combination of financial indicators and employees. For example, the European Union uses a mixture of headcount and either of annual turnover or assets on the balance sheet. The United States adopted a more detailed statistical approach that takes into account industry specificities and standard sizes within each.

1.3 Need for Study

SMEs play an important role in the economic development of Lebanon. Their role in terms of production, employment generation, contribution to exports & facilitating fair distribution of income is very critical.

It is estimated that there are over 225,000 Micro-Small and Medium Enterprises (MSMEs) in Lebanon, two-thirds of which are concentrated in the economically dominant regions of Beirut and Mount Lebanon (International Rescue Committee, 2016). SMEs are important for potential economic growth,

particularly in sectors such as agriculture, construction and services.

1.4 Problem Definition

It is important to understand that small businesses play a major role in Lebanon's economy. They are providing employment, goods and services. In addition to that, they balance large businesses by doing what large firms either cannot or will not do due to time and financial constraints considering it is not worth their investment or time.

Research in numerous literatures has found that small businesses create a large percentage of new jobs. In any economy jobs are being created via births, development and expansion of small businesses. On the other hand, jobs are being lost through downsizing and the closures of these small businesses. The effect of these births and deaths can impose instability on the labor market.

1.5 Scope of the Study

This paper assesses the impact of SMEs on the Lebanese economy, labor market, and job creation. SMEs are important to all developing as well as developed economies of this challenging world. They contribute to productivity and job creation (Palma & Gabriel, 2005). SMEs tend to be essential for job creation as they are labor intensive, and employ more labor per capita than larger enterprises. In addition, SMEs provide people with the opportunity of a second job creating more income. Furthermore, SMEs also provides investment opportunities, professional training and skills, and are a source of tax revenue to the government (Mensah, 2004).

1.6 Research Objectives

The primary objective of this paper is to explore the challenges faced by SMEs and their impact on the Lebanese economy.

2. Literature Review

The majority of companies today began as SMEs. SMEs globally have a very significant contribution to the supply of goods and services to the society. Without SMEs, big companies may not be able to meet the demand for goods and services in an expanding customer base, because it can be time consuming and at times not worth their time and attention. Nowadays, there is no consensus regarding a worldwide definition of SMEs (Omar, Arokiasamy, & Ismail, 2009; Hooi, 2006). Governments and banks define SMEs the way they see it fit. According to Garikai (2011) SMEs are defined by a number of personnel, capital engaged, and sales turnover. Hence, SMEs are defined by the number of employees and/or by the value of their assets.

The classification of SMEs by size is relevant to the industry. A firm of a certain size could be considered small in one industry where the market is large and there are many competitors; whereas a firm of similar size may be considered large in another sector with fewer competitors or generally smaller countries. It may be suitable to define the size of a company by the number of employees in some sectors, but more appropriate to use turnover in others, where the company doesn't require a lot of labor, but has a very big turnover.

2.1 Role of SMEs in Economic Growth

A study by Kongolo (2010) concluded that globally small business owners have the same characteristics, face the same obstacles but differ in their thoughts of how small businesses contribute to economic growth. SMEs have the ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovation. According to Beck, Kunt and Levin (2005) SMEs increase competition and entrepreneurship and produce external benefits on economy wide efficiency, innovation and aggregate productivity. They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations (CACCI, 2003). There is a global agreement that SMEs hold the key to economic growth of companies and have a dynamic role in job creation.

SMEs dominate the world economies in terms of employment and number of companies, yet their full potential remains remarkably untapped (Schlogl, 2004; Omar, Arokiasamy, & Ismail, 2009). This is due to many factors amongst them legal, cultural and societal factors.

Several researches have shown that SMEs and startups are an important indicator of entrepreneurial activity and economic development (Fritsch & Mueller, 2004; Venesaar & Loomets, 2006). Generally, scholars, and policy makers have agreed that the major advantage of SMEs is its employment potential at low capital cost.

According to EU, SMEs are socially and economically important. They represent 99% of all enterprises in the EU. They provide around 90 million jobs and contribute to entrepreneurship and innovation.

2.2 Role of SMEs in Job Creation

SMEs are key factors of competition and innovation. The SME sector has stayed very innovative and adaptable in order to survive the recent economic downturn and recession. Empirical studies show that new firms play a significant role in employment generation (e.g., Garikai, 2011; Baptista et al., 2005; Stel & Suddle, 2005), innovation (e.g., Fritsch & Mueller, 2005), economic growth and reduction of unemployment (Garikai, 2011).

Job creation occurs as companies grow by developing new products, by increasing trade to enter new markets, and by devising technologies and developing processes to reduce their operating costs and boost their production, taking advantage of increasing economies of scale.

3. Challenges Facing SMEs

SMEs face a lot of challenges that significantly delay their progress, growth and eventually their contribution to economic development. SMEs face the unique problems of uncertainty, innovation and evolution. The most frequent problems are: political instability, law and order conditions, financial constraints, taxation problems, labor issues, lack of coordination and regular information exchange mechanisms.

According to a study conducted by the Lebanese Ministry of Economy and Trade in 2013, access to finance is considered to be one of the top constraints faced by SMEs, in spite of the significant

improvements in the last decade. SMEs share of total loans amounted to 16% in 2010, significantly lower than 26% in developed countries. SMEs have very limited venture capital deals, equity and angel investments. This is due to the lack of exit strategies for these investments due to weak capital markets, and lack of an efficient insolvency framework for businesses and bankruptcy law. Furthermore, women entrepreneurs have limited access to finance. 51% of female business owners sought loans but only 17% were granted (IFC survey, 2011).

4. SMEs in Lebanon

In Lebanon, the exact contribution of SMEs to the GDP and employment is difficult to estimate, due to the lack of a clear and accepted definition of what represents an SME. Like the rest of the world a variety of definitions are adopted in Lebanon. As of July 2014, information on SMEs in Lebanon has been collected to better understand their distribution. The proposed definition combines both the number of employees within the company and the annual turnover (Ministry of Economy and Trade, 2014). Adopting this definition, SMEs in Lebanon constitute between 93 to 95% of all enterprises in the country. Moreover, the following classifications are adopted in Lebanon as well:

- Micro Enterprise: Less than \$300 thousand and less than 10 employees
- Small Enterprise: Less than \$3million and less than 50 employees
- Medium Enterprise: Less than \$30million and less than 100 employees

The World Bank's MSME database estimates that before the final war in Lebanon, approximately 192,569 SMEs were operating in Lebanon, which effectively translates into a rate of 47.2 MSME per 1000 people (MSME database, World Bank, 2006).

In Lebanon, SME Support Program created in 2004, lies with the Ministry of Economy and Trade and is coordinated jointly with the Ministry of Finance. The Program objective is to assist the government in developing and implementing an integrated approach to SMEs development combining national policy formation, enhancing business development services, and accessing appropriate financial support instruments.

5. Methodology

Quantitative research method is utilized in this paper where a sample survey was developed and adopted.

The main approach is exploratory research with the main aim to identify whether SMEs and economic growth are related and whether SMEs play a role in job creation. Moreover, this paper presented the respondents with nine statements to figure out the real economic impact of SMEs on the Lebanese economy. The nine statements are the nine Likert items on a four point Likert scale where respondents had to choose between strongly agree, agree, strongly disagree, and disagree as follows:

- 1-The economy depends on its working population for economic growth and development.
- 2-Sustainable employment generation solve socio-economic problems existing in the Lebanese

Economy.

3-The youth should be encouraged to develop and nurture entrepreneurial spirit in order to start their own businesses.

4-Small Business Enterprises and Startups reduce poverty and improve standard of living.

5-Unemployment increases anti- social behavior in a society especially the youth.

6-Small Business Enterprises can promote industrial and technological growth.

7-SMEs and improvement in employment generation are related.

8-Unemployment is dangerous to economic growth and development.

9-Small and medium enterprises and sustainable development and growth of the Lebanese economy are related.

5.1 Population and Sampling Procedure

Since it is almost impossible to study all the unemployed youths and SMEs owners in Lebanon, a random sampling technique was adopted to select samples for this study. A total of 700 questionnaires were administered out of which 500 copies representing (71%) of the questionnaire were properly completed and retrieved, while 200 copies representing 29% were incomplete.

5.2 Data Collection

Secondary data were collected from a wide array of literature including scholastic and journal articles. Primary data were collected from a questionnaire based on randomly chosen individuals working in SMEs.

The SMEs selected for this paper were printing businesses, advertising agencies, restaurants, retail shops, Logistics businesses, supermarkets with employment capacity ranging from 2-15 employees.

6. Results and Discussion

Figure 1 indicates that 300 respondents representing 60% of the sample size were males, while 200 respondents representing 40% of the sample size were females. Thus, majority of the respondents were males.

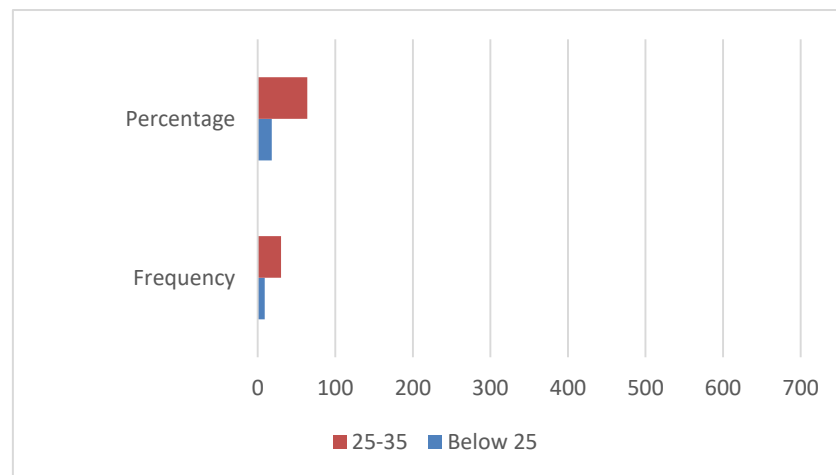


Figure 1. Gender Distribution

Figure 2 indicates that 90 respondents representing 18% of the sample size were of the age group below 25 years, 300 respondents representing 64% of the sample size were of the age group 25-34 years, 90 respondents representing 18% of the sample size were of the age group 36-45 years, while 20 respondents were above 45 years. Thus, majority of the respondents were of the age group 25-35 years.

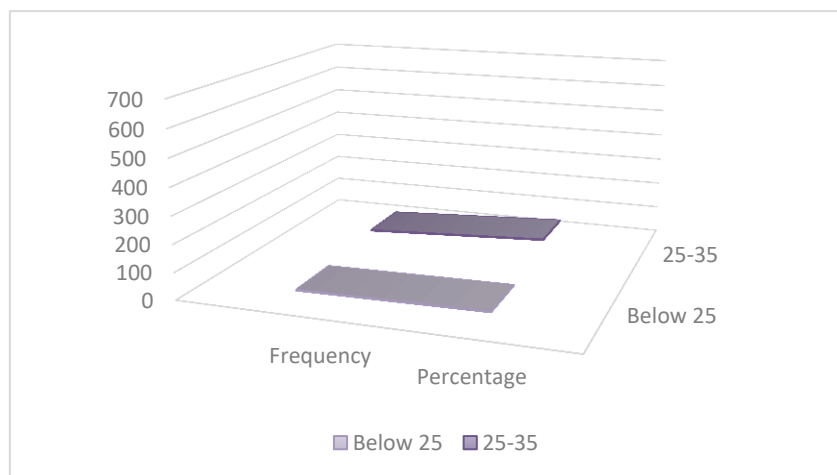


Figure 2. Age Distribution

Figure 3 shows that 90 respondents representing 18% of the sample size completed secondary school education, 140 respondents representing 28% of the sample size went to vocational schools, 200 respondents representing 40% of the sample size were BA/BS holders, and 70 respondents representing 14% of the sample size were MBA holder. Thus, majority of the respondents were BA/BS holders.

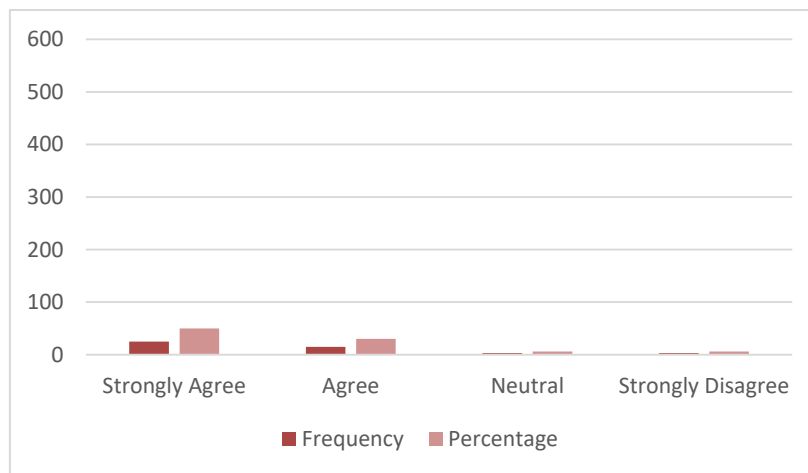


Figure 3. Educational Level of Respondents

Figure 4 shows that 150 respondents representing 30% of the sample size have been on the job for 1-2 years, 100 respondents representing 20% of the sample size have been on the job for a period of 3-5 years, 200 respondents representing 40% of the sample size have been on the job for a period of 6-8 years, 40 respondents representing 8% of the sample size have been on the job for a period of 9-11 years and 10 respondents have been on the job above 11 years. Thus, majority of the respondents have been on the job for 6-8 years.

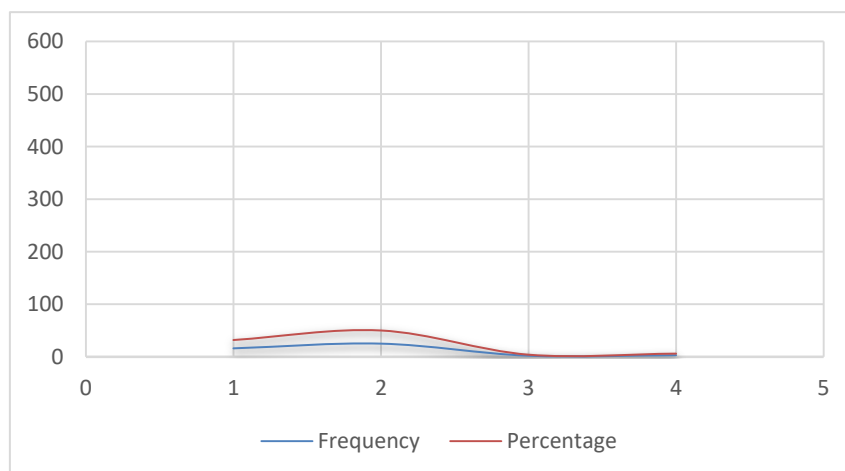


Figure 4. Job Duration

7. Impact of SME on Employment Generation

To study the impact of SMEs on employment generation, the responses were set by requesting the respondents to rate the output of their responses on a scale ranging from strongly agree to strongly disagree. Vis-à-vis the following statement:

Statement 1: The economy depends on its working population for economic growth and development.

Responses for statement 1, indicate that 250 respondents representing 50% of the sample strongly

agreed on the above statement, 150 respondents representing 30% agreed, 30 respondents representing 6% of the sample undecided, 30 respondents representing 6% of the sample size strongly disagreed, while 40 respondents representing 8% of the sample disagreed with the statement. Thus, majority of the respondents strongly agreed on statement 1.

Statement 2: Sustainable employment generation solve socio-economic problems existing in the Lebanese Economy.

Figure 5 shows that 160 respondents representing 32% of the sample strongly agreed, 250 respondents representing 50% agreed, 20 respondents representing 4% of the sample undecided, 30 respondents representing 6% of the sample size strongly disagreed, while 40 respondents representing 8% of the sample disagreed with statement 2. Thus, majority of the respondent agreed with statement 2.

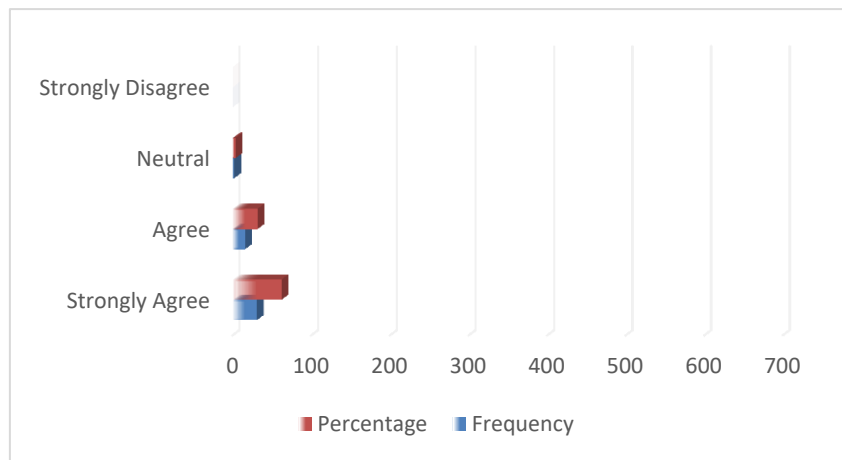


Figure 5. Respondents' Agreement and Disagreement Levels

Statement 3: The youth should be encouraged to develop and nurture entrepreneurial spirit in order to start their own business.

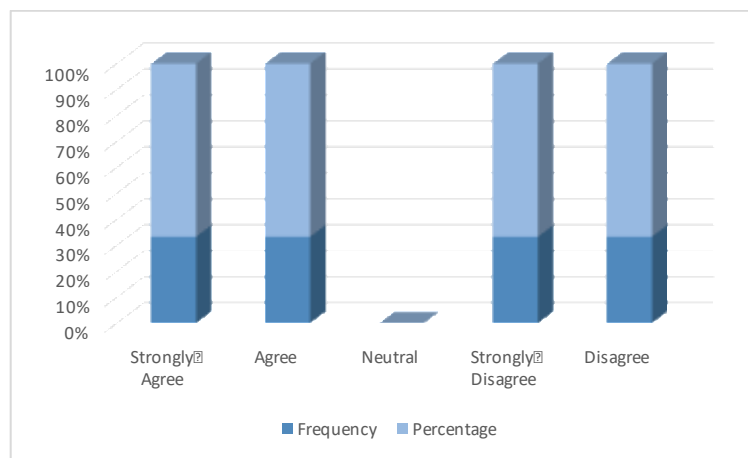


Figure 6. Youth Entrepreneurial Level

Figure 6 above shows that 130 respondents representing 26% of the sample strongly agreed, 280 respondents representing 56% agreed, 0 respondents representing 0% of the sample undecided, 40 respondents representing 8% of the sample size strongly disagreed while 50 respondents representing 10% of the sample disagreed with the statement. Thus, majority of the respondents agreed with statement 3.

Statement 4: Small Business Enterprises and Startups reduce poverty and improve standard of living.

Figure 7 shows that 310 respondents representing 62% of the sample strongly agreed, with the statement, 160 respondents representing 32% agreed, 20 respondents representing 4% of the sample undecided, 0 respondents representing 0% of the sample strongly disagreed, while 10 respondents representing 2% of the sample disagreed with the statement. Thus, a majority of the respondents strongly agreed with statement 4.

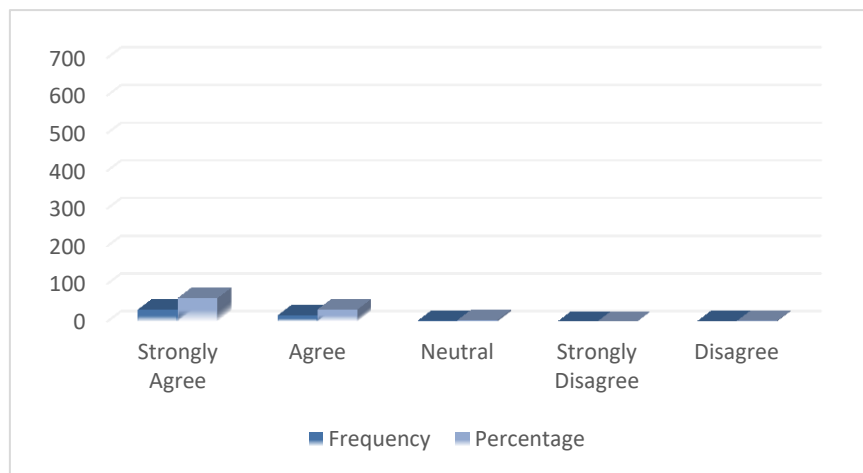


Figure 7. Statement 3-Agreement and Disagreement Levels

Statement 5: Unemployment increases anti-social behavior in a society especially the youth.

Responses show that 370 respondents representing 74% of the sample strongly agreed, 120 respondents representing 24% of the sample size agreed, while 10 respondent representing 2% of the sample disagreed. Thus, a majority of the respondent strongly agreed with the statement 5.

Statement 6: Small Business Enterprises can promote industrial and technological growth.

Figure 8 shows that 180 respondents representing 36% of the sample strongly agreed, 80 respondents representing 16% agreed, 30 respondents representing 6% of the sample undecided, 100 respondents representing 20% of the sample size strongly disagreed while 110 respondents representing 22% of the sample disagreed with the statement. Thus, majority of the respondents strongly agreed with statement 6.

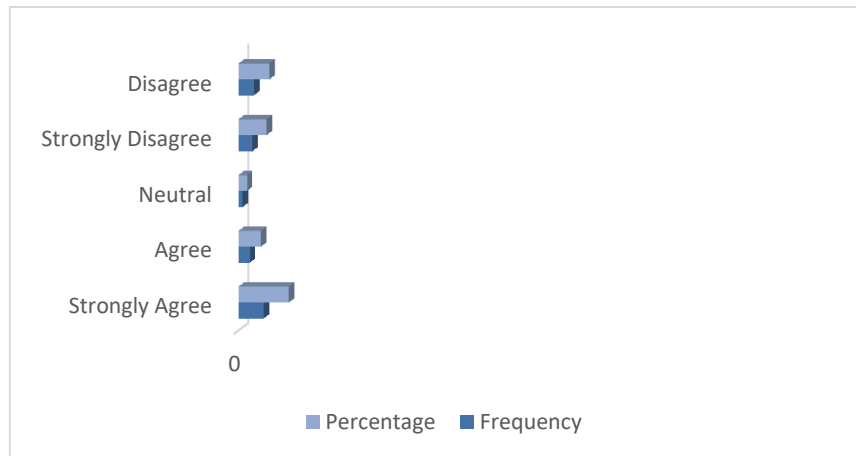


Figure 8. Statement 3-Agreement and Disagreement Levels

Statement 7: SMEs and improvement in employment generation are related.

Responses show that 220 respondents representing 44% of the sample strongly agreed, 80 respondents representing 16% agreed, 150 respondents representing 30% undecided, 30 respondents representing 6% of the sample strongly disagreed while 20 respondents representing 4% of the sample disagreed with the statement. Thus, a majority of the respondents strongly agreed with statement 7.

Statement 8: Unemployment is dangerous to economic growth and development.

Responses show that 200 respondents representing 40% of the sample strongly agreed, 60 respondents representing 12% agreed, 150 respondents representing 30% of the sample undecided, 40 respondents representing 8% of the sample size strongly disagreed while 50 respondents representing 10% of the sample disagreed with the statement. Thus, majority of the respondents strongly agreed with statement 8.

Statement 9: Small and medium enterprises and sustainable development and growth of the Lebanese economy are related.

Responses show that 280 respondents representing 56% of the sample strongly agreed, 130 respondents representing 26% agreed, 10 respondents representing 2% were undecided, 30 respondents representing 6% strongly disagreed, while 50 respondents representing 10% of the sample size disagreed with statement 9. Thus a majority of respondents strongly agreed with the statement.

8. Conclusion

Results have shown that small and medium enterprises are important to achieve economic prosperity.

The economy depends on its working population for economic growth and development. Individuals especially the unemployed graduates should be encouraged to nurture the entrepreneurial spirit, since entrepreneurship reduces poverty and improve standard of living. The results have also shown that employing people reduces anti-social behavior. Moreover, the study reveals that small and medium enterprises and sustainable development of the Lebanese economy are related, and SMEs are a tool for

job creation.

Based on the findings, it can be concluded that for a nation to achieve meaningful and sustainable development, SMES must be given the appropriate attention and proper amount of funds in order to grow and develop. Furthermore, SMEs have positive effects on employment generation, and economic growth.

8.1 Recommendations

Based on the findings of this paper the government of Lebanon is recommended to encourage individuals to grow and nurture entrepreneurial spirit as a platform for job creation. Moreover, there is a lack of SMEs in the industrial sector of Lebanon, and the government should encourage SMEs to be established in the industrial sector, where there is a dire need for loans and investments. Furthermore, the government in collaboration with the local financial companies should encourage the creation of micro finance banks to meet the financial needs of the SMEs, and to assist in their development, growth and continuation.

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