

What are the Challenges that SMEs have Faced During the Financial Crisis in Lebanon?

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Abstract: Small and Medium Size Enterprises have a crucial part in every economy. They account for the majority of businesses worldwide. They provide the main source of employment and are major contributors to value creation across all sectors. Studies have been made to measure the impact of problems that SMEs' performances suffer from. This study is conducted to show the effect of the challenges SMEs face in Lebanon, focusing mainly on their performance. The methodology of this paper includes several previous studies and a survey questionnaire in order to study how Lebanese SMEs' owners perceive the different challenges that they face and their impact on their business. The findings showed that most SMEs lack financial resources due to their inaccessibility to financial capital especially during the last three years. We concluded that employees' salaries have an effect on performance while entrepreneurial skills and business obstacles do not affect profitability.

Keywords: Challenges, SMEs, Lebanon, Performance, financial resources.

1. INTRODUCTION

The importance of SMEs stems primarily from the fact that SMEs have a strong ability to create new jobs. SMEs in Lebanon currently face unprecedented obstacles due to what appear to be intractable problems brought on by a confluence of a governmental vacuum, economic conflict, and a lack of infrastructure. According to a World Bank analysis in 2018, SMEs make up 50% of all jobs in Lebanon and account for 95% of all businesses. Over 40% of Lebanon's GDP is provided by them, based on the Lebanese Ministry of Economy and Trade. SMEs make up around 99.7% of all businesses in the United States, and just 3% of those businesses provide roughly 70% of all new jobs across all industries (Scarborough, 2011).

Approximately 96 percent of registered businesses in Lebanon are SMEs, which employ 50 percent of the labor force and provide 27 percent of total income (International Monetary Fund and World Bank, 2016).

SMEs' standards vary from country to country. In developing countries when it comes of employee count. For instance, the World Bank Group made the number of employees its main measure for separating SMEs from large businesses (Alibhai et al., 2017). However the UN (2019) decided that 250 employees was the absolute minimum for a company to qualify as a SMEs. This study applies the Lebanese Ministry of

Economy and Trade's (2014) standard of 100 employees to identify SMEs. Both during and after a crisis, SMEs are crucial. Small and medium-sized enterprises (SMEs) fill the gaps left by failed governments, provide basic wages, and offer a wide range of goods, services, and charitable donations globally, all of which lessen the impact of a crisis.

Their activities straddle ethnic, social and sectarian boundaries and stabilize a fragmented society. Most significantly, SMEs offer a variety of employment opportunities and economic growth that support resilience to Lebanon's chronically fragile economy and steer the healing process. Historically, Lebanese SMEs have faced endless challenges. According to Alain Daou, these include "red tape, permits, credit acquisition, tax payments, infrastructure, etc". (Joseph, SMEs in Lebanon, 2020).

Additionally, the political unrest that followed the 2019 revolution severely hampered small enterprises by causing a currency fall and followed by illegal financial controls. While net demand has dried up in the majority of industries, purchasing power and working capital lines of credit have been essentially destroyed. Additionally, the recent explosions, mostly in the Beirut region, and the coronavirus pandemic have led Lebanese legislators, health professionals, and intellectuals to urge for a change in lockdown measures, once again removing small enterprises from mainstream concerns (Joseph, SMEs in Lebanon, 2020).

Lebanon is currently experiencing a severe financial and economic crisis. The report of World Bank issued in 2021 entitled "Lebanon Economic Monitor: Great Denial" indi-

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cates that this crisis estimated to potentially rank among the top three most severe economic collapses worldwide since the 1850s.

1.1. Problem

In spite of the vital role SMEs play in the Lebanese economy, the financial obstacles that they must overcome to operate limit their growth and prevent them from making the expected contributions to the country's economy. This is a problem for developing nations since they lack the technology and infrastructure needed to draw in lots of big businesses.

Access to funding for SMEs is a main challenge in Lebanon (Hamdan, 2016; Farran & Fawaz, 2018). According to Hamdan (2016), just 20% of the private sector provides solvency to SMEs, which is a reflection of their bad financial situation, inability to offer the necessary collateral, and mediocre business plans.

According to Farran and Fawaz (2018), the conflict and politics have made it difficult for SMEs in Lebanon to secure their financing, which has produced institutional tardiness and, in turn, delayed the growth of Lebanese SMEs. Moreover, Lebanese banks, which previously drove the country's economy by raking in billions of dollars in foreign deposits, are laying off workers, seeing their loan portfolios contract, and looking for liquidity to stay afloat. Four top bankers estimate that since the financial crisis erupted in late 2019, some 3,000 bankers or greater than 10% of the workforce in the banking sector have quit or no longer have their jobs. Most of the savings held by depositors are frozen, and lending to the private sector has drastically decreased. According to a Byblos Bank note, bank loans dropped by 25% year over year in April to \$33 billion (Barbuscia, 2021). The challenge is how SMEs can cope with the current situation of liquidity drought. Lack of skills can also hamper the growth of SMEs in Lebanon; those skills can affect the overall business performance and hinder the success of such businesses. An example of entrepreneurial competency is entrepreneurial talents. The secret to successfully launching a firm, diversification, and long-term profitability is competence in entrepreneurial skills (Astuti, 2019). It is well known that Lebanon serves as a regional incubator for businesspeople. However, SMEs in Lebanon could function even if they lack any discernible level of entrepreneurial abilities; hence entrepreneurship development in Lebanon is still important.

1.2. Research Question

The following question was administered to highlight the problems confronting SMEs in Lebanon in order to propose some recommendations to help mitigate these problems: What are the challenges that SMEs in Lebanon face and what are their impact on the SME's performance?

After interviewing several SMEs in Beirut to describe the general situation that SMEs have had encountered during the financial crisis, and reviewing previous studies regarding SMEs, we managed to suggest several hypotheses.

They are presented as follows:

- Hypothesis 1: Employees wages affect SMEs performance.
- Hypothesis 2: Lack of financing is the major problem SMEs face in Lebanon.
- Hypothesis 3: There's a relationship between entrepreneurial skills and SMEs performance in Lebanon.
- Hypothesis 4: The SME-related business obstacles that Lebanese firms face have an effect on their performance.

2. LITERATURE REVIEW

2.1. Challenges Hindering SMEs

The majority of SMEs face a variety of hazards; most of which are inherent to their current circumstance. The entrepreneur's reliance, his/her resource limitations, and his lack of technical proficiency are a few of them. If overlooked and no risk response solutions are devised, these risks under certain circumstances could endanger the lives of the engaged SMEs. (Popa, 2012).

Most studies agree that one of the biggest obstacles to the growth of SMEs in industrialized and developing nations is access to financing. In contrast to most emerging nations, Lebanon's classification of the barriers to the expansion of SMEs is different.

As stated by the World Bank Enterprise Survey and supported by the study of Malaeb, the access to financing did not rank among the top four deterring barriers. Challenges that directly impede the growth of domestic SMEs include unstable political, economic, and insecure environments, structural problems, and administrative limitations. (Malaeb, 2018).

In Russia, for example, it is difficult to secure funds, especially when launching a project. There are no direct support initiatives or investment firms, and a combination of state rules and banking policies has rendered credit unavailable to entrepreneurs especially for SME (Dasan, 2013).

Several obstacles have been identified as impeding the development of SMEs in South Africa. Studies has identified access to funds, absence of managerial skills, insufficient facilities and an inaccessibility to appropriate technology, regulatory issues, and access to foreign markets as major limitations to SME growth in South Africa.

Some of the major obstacles confronting SMEs in Nigeria are regulatory issues, access to financial services, infrastructure investment issues, discrepancies in government policy and bureaucracies, environmental concerns, unfair trade practices, marketing issues, and local availability of raw materials, according to Onugu (2005). Shejvali (2007) argues that the challenges that SMEs confront go beyond their finance problems. She outlines five non-financial factors that contribute to SMEs' growth: fundamental or business features, individual traits, management approaches, terms of growth context, and market conditions and growth services.

There are multiple problems facing SMEs in the Kingdom of Saudi Arabia. According to Elhasan (2019), the most

important problems are the lack of funding, availability and capacity of employees, weak demand, government regulations and regulations in addition to some obstacles represented in fees. Labor and workers system recruitment, Competition, employment of Saudis, issuance or renewal of licenses, bureaucracy, and government measures. Elhasan' study showed that the most important reasons for the lack of access to finance by small and medium enterprises are the lack of adequate guarantees in the lack of accounting records, the weakness of funding structures, inadequate lending standards, the failure to provide feasibility studies and the inability to prepare a credit file. For the Saudi Arabian Monetary Authority, Elhasan study recommends:

1. The need for an encouraging policy for the financing of small and medium enterprises, with a unified definition, specifying a specific percentage of funding brackets to finance them, and establishing a legal and legislative basis and a specific mechanism for the development of SMEs.
2. Considering the establishment of specialized banks in the financing of these institutions according to time and sector, with the possibility of establishing the Bank of Trades and Crafts or the Bank of Small and Medium Industries.

On the 5th International MENA Guarantee Conference 2021, the General Manager of Kafalah considers that SMEs continue to face major challenges when it comes to access to finance. Lack of credit information and lack of collateral are just two of the many reasons why financial institutions are less exposed to SMEs than to larger and more established firms. In developing nations, ineffective government bureaucracy is a persistent problem, particularly when it comes to the laws and rules that control SMEs. (Ramady, 2010, Radwan and Speechley, 2011). Furthermore, according to Hertog (2012), roughly 65 percent of SMEs executives in the GCC consider bureaucracy as the most major barrier facing SMEs.

2.1.1. SMEs' Restrictions to Credit Access

The issue of inaccessibility to capital is important: most SMEs experience credit issues in a variety of ways when it comes to financing their operations. Even though there is no difference in terms of financial sources between small and large businesses, the difference is in the ease with which such sources can be accessed. As a result, the internal and external funding sources that SMEs' entrepreneurs have access to influence their financing decisions. Even though local sources of funds are regarded the foundation for most SMEs' start-up stages, these businesses require external or loan financing during their early growth stages, when cash flow is inconsistent. Due to knowledge asymmetry, creditors and credit providers require assurances from SMEs to assure repayment. Lenders select whether or not to finance enterprises depending on the creditworthiness of the owners and the project's predicted cash flow. Because of the significant risk of funding SMEs, creditors may charge high interest rates on short-term loans to evade taking on any financial risk (Berger & Udell 1998; Fraser 2004; He & Baker 2006).

Based on Hamdan (2016), 42 percent of SMEs in Lebanon are hampered by a lack of financing facilities. 8.3 percent of SMEs have a loan (mainly larger SMEs). Banks are the most common source of loans (69%) followed by friends/relatives

(18%) and business colleagues (6%). But, since the beginning of the recession in Lebanon in October 2019, the financial sector has stopped lending and does not draw in deposits. It has also formally enacted severe capital controls. However, it continues under a fragmented compensation structure to distinguish between the "fresh dollar" inflow requirements and prior dollar deposits (before October 2019). Due to de facto discounting and release, these are vulnerable to extreme debt forgiveness. Smaller depositors and SME tolerate the burden of the continuing modification and deleveraging, which is highly regressive (World Bank, 2021). Also, since the 17th of October 2019, the Lebanese banks imposed new limitations and borders following the revolution in Lebanon. Because of the banks' shortage of cash, lending became difficult. Due to the nation's recession, high unemployment rate, closure of significant businesses, challenges with money transfers, restrictions on the number of transactions that may be made through banks, and black market currency rates, applying for loans is especially challenging (Makdissi, 2020).

Accessibility to capital has been recognized as a major obstacle to SMEs' growth in numerous studies (Beck & Demirgüç-Kunt 2006). Hussain et al. (2006) investigated SMEs' financing in the United Kingdom and China. In both nations, SMEs concentrate on internal funding sources during the startup period, such as savings from the individual and support from family. However, Chinese businesses rely on family backing while British businesses rely on financial institutions for loans as their businesses mature. Additionally, UK banks' lending operations are more centralized and supervised when it comes to financing SMEs, and they only offer short-term loans to lower risk. This method tends to stifle SMEs' growth by restricting their strategic planning.

SMEs are finding it difficult to obtain financing from banks and other sources (Smorfitt 2009; Storey 1983), causing the majority of them too fail owing to a shortage of financing (Hall & Young 1991; Smallbone & Rogut 2001).

2.1.2. Governmental Barriers

Malaeb, (2018) asserts that one of the key factors impeding the development of the SMEs sector in Lebanon is the absence of a comprehensive national policy for SMEs, which includes: Lack of a standardized definition of an SME and lack of political structure connecting the government organizations in charge of supporting the industry. Along with a lack of a national economic strategy that establishes goals, outputs, and outcomes, there is an absence of coordination between government entities and between authorities and private sector. Malaeb emphasized that Lebanon's policy framework fragmentation has led to the development of an insufficient business environment as well as additional administrative and regulatory frameworks. Additionally, SMEs' owners and managers are losing faith in the government's capacity to create and carry out solid policies (Malaeb, 2018). Governmental barriers are described as "barriers related with the activity or inaction of the domestic and international government in respect to its indigenous enterprises and exporters," SMEs seeking worldwide expansion frequently face these obstacles. According to a recent study, SMEs have serious concerns about the lack of national gov-

ernment assistance or incentives to join global value chains (European Committee of Regions and EURO CHAMBERS, 2019).

SMEs are increasingly dealing with the benefits and difficulties that come with international value chains. Engaging in global value chains can be especially advantageous for SMEs as it enables them to expand their businesses, gain better market insight, and gain access to international markets at cheaper costs (OECD, 2018).

2.1.3. Human Resources' Barriers

Internationalized SMEs must operate efficiently in overseas marketplaces and connect quickly with clients who live overseas. To do so, they'll have to assign staff to the international market to execute these jobs successfully. However, managing staff in another country can be a significant barrier to a company's success. One explanation is that cultural and linguistic disparities exist between the SME's homeland and the foreign nation in which it functions (Arteaga-Ortiz & Fernández-Ortiz, 2010). In the worst-case situation, cultural and linguistic disparities could lead to mistrust between home-country management and foreign-country managers, as well as customers (Roy et al., 2016).

2.1.4. Entrepreneurial Skills

According to Schumpeter, an entrepreneur has two capabilities: inventive or innovative thinking and foresight. This row implies that entrepreneurship entails the creation of a first-hand product as well as the identification of a new or existing retail for that product. Schumpeter's theory of entrepreneurship places an emphasis on profitability for inventors while downplaying the importance of organizational capabilities and other requirements for entrepreneurs to succeed (Nichter & Goldmark, 2009). In contrast to Schumpeter's approach, the study referenced in Scudder (2001) suggested that the driving force behind labor, land, capital, and organizations is entrepreneurship.

As a result, foresight, market expertise, and the ability to spot possibilities should all be characteristics of an entrepreneur. Similarly, profitable SME are more conscious of the business climate than less successful businesses, in reference to (Coric, Katavic, and Kopecki, 2011). This particular expertise provides an analysis of the business environment and aids in the formulation of a bigger image of the company's actions. Another study (Stevenson, 1993) states that entrepreneurs require a creative skill set that combines cognitive abilities like creativity with behavioral abilities like problem-solving. The study goes on to say that the ability to envision, invent, and work around problems in their surroundings is the primary reason entrepreneurs succeed. The entitlement, however, is null as local authorities must actively participate in funding investments to support entrepreneurial firms. (Faizan & Haque, 2016).

Entrepreneurial skills affect the development and operations of SMEs, according to empirical studies (Hamm, 2002; Whetten & Cameron, 2005). Entrepreneurs' success depends on how well their abilities are acknowledged for new and established enterprises, as well as for their longevity and root development. Whetten and Cameron (2005) divide these abilities into three categories: "personal, interpersonal, and

basic management skills." Managerial staff is more adaptable and make better use of societal care (Haque, Aston, & Kozlovski, 2018). As a result, having a higher social orientation can help with adaptability. Unlike the previous authors, Whetten and Cameron (2005) were capable to cluster all skills indicated by previous authors into these three categories model for essential managerial abilities.

Table 1. Essential Managerial Abilities.

Personal Skills	Problem Solving, Creative Thinking
Interpersonal Skills	Motivating others, Managing conflicts
Group Skills	Leading others, Teamwork
Additional management skills	Communication

Source: Whetten and Cameron (2005)

The findings reveal that independent variables X (human resource knowledge and skills) have a favorable and important effect on SMEs' routine. This suggests that the greater the human resources' knowledge and abilities, the higher the performance of SMEs, or vice versa. As a result, knowledge and skills must be developed and maintained to motivate staff to attain higher levels of performance, which will help SMEs perform better. The assumption that knowledge has a crucial part in creating qualified and competitive humans is supported by the positive and significant impact of knowledge variables. It is because information has become the focal point of all developments and must be treated effectively. One of the aspects in improving the performance of SMEs is the ability to support human resources. The availability of highly trained human resources to operate SMEs is likely to result in improved performance in these businesses. In comparison to HR knowledge, the findings revealed that human resource skills have a greater impact on the functioning of SMEs. This is because more skills are influenced by hands-on experience in operating a firm, whereas knowledge can be learned via resources without being actively involved and/or running SMEs.

2.2. SMEs Performance

Financial assessment has been used by many scholars to examine corporate performance. These metrics are consistently related to the goals of the majority of business owners and directors (Palepu et al. 2000). According to Palepu et al. (2000), ROI is one of the most important measures of a company's financial performance. They claim that return on assets is just as essential as return on equity because it evaluates a company's ability to profit from its assets.

Indicators like profit will be used in the current study to assess how well SMEs are performing financially.

2.2.1. Entrepreneurial Skills and SMEs Performance

SMEs constitute the backbone of the country and the driving force behind economic transformation and expansion. For SMEs, innovation is a crucial factor. Thus, as a result of changes in customer demand brought about by globalization, SMEs are under pressure to meet higher needs. According to Osalor (2016), an SME's success will require entrepreneurial, creative, and teamwork skills, all of which can be learned

through training. In addition, they will need an effective way to communicate with their clients about their products. Working with others and having the leadership skills to guide others are associated with SMEs' growth and the assurance of competitive chances, according to reports on entrepreneurship in the context of "Asia productivity organizations" (APO, 2007).

Respondents' qualitative data firmly support the hypothesis that entrepreneurial skills had developed their industry both domestically and abroad, aided them generate jobs, and improved their competitive capacities. It's interesting to see a resemblance in the perceptions of Nigerian company owners and UK minorities; both participants agree that entrepreneurial abilities enhance sales. They stated that having entrepreneurial abilities has assisted them in identifying opportunities in local economy and understanding client requirements. In addition, respondents described the impact of these talents on their company's evolution as a significant competitive advantage and job formation. As a result, the data confirm the notion of (Horngren, 2006; Nichter&Goldmark, 2009; Delmar et al. 2003) that policymakers are focused with employment creation, whereas the majority of small business owners use profitability as a measure of growth.

2.2.2. *Businesses' Obstacles and SMEs' Performance*

Different business challenges and financial success in measures of ROI, net profits, leverage ratio, annual revenues, market share, and rate of growth are correlated (Waked, 2016). The researchers discovered a link between mean return and sales and marketing, fewer capital availability, strong competitiveness, profit margins; and mean leverage ratio and gender. The study looked at the relationship between annual sales and sales and marketing hurdles, owner age and gender, innovation, trade association services, legislation, advice, education, service, and product quality. Additionally, we discovered a relationship between market share and obstacles related to technology, chamber of commerce services, legal concerns, guidance, training, and the caliber of products and services. To bolster the findings of this study on this topic, Alfaadhel (2010) discovered that marketing, capital availability, competition, and authority backing and laws and rules are the primary difficulties that limit the expansion of SMEs in Saudi Arabia, consequently influencing their performance.

The results here seem to confirm that most of the business barriers that affect the performance of Saudi SMEs are related to marketing and sales. Due to limited access to cash and funding, the most of proprietors of small businesses and operators lack basic sales and marketing knowledge and expertise. Faced with fierce competition. The key difficulties that negatively affect the success of Saudi SMEs are those mentioned above.

3. RESEARCH METHODOLOGY

3.1. Methodology

Choosing the right research method is an important decision to form the right research framework and conduct a satisfactory survey. It is primarily based on associating research

objectives with the characteristics of the research method. There are two research approaches available: qualitative and quantitative.

To examine and answer the study's research question: "What are the challenges SMEs face in Lebanon and its impact on their performance?" For the scale of this study, quantitative and qualitative research approach would be acceptable. It would aid in measuring and identifying diverse perspectives on the issues that stymie SMEs' growth and how they affect their performance locally. As a result, an interview will be held with several SME owners to identify the difficulties those enterprises are facing during the financial crisis. In addition, a survey questionnaire will be used to meet the study's goal of providing a clear picture of Lebanese SMEs' perceptions of the issues they face. The online survey questionnaire will be published across social media and SMEs in Beirut to obtain and collect the data needed to answer the research question, and it will be customized to provide a comprehensive grasp of the subject in Lebanon.

3.2. Study Design

To investigate and understand the thoughts, opinions and insights underlying the problems facing Lebanese small business owners, this study chooses a mixed approach, quantitative and qualitative approach. An interview is conducted with SME owners in Beirut. Most of the interview questions in this study were based on the literature review and study goals. The open-ended nature of the interview questions enabled respondents to elaborate and give their own unique responses. The Interview includes three questions to identify obstacles hindering SME growth and measures that could mitigate these challenges. In, May 2022, an online questionnaire is created with Google Forms. It is simple to grasp and is split into 2 sections. The first section of the questionnaire includes background information about the firm as well as information about the owners or managers of SMEs in order to differentiate them. The second part, involves several questions that target the opinions of owners regarding challenges they face since establishing their enterprise. The first part of the questionnaire, questions 1 to 9, includes general background of the SME and its owner. The second part, question 11 to 25, involves questions regarding opinions and insights toward obstacles faced by SMEs.

The survey questions are identical to those used in three other studies about SMEs' problems. Only questions 11, 12, and 15 are replicated from Ackah and Vuvor (2011), which explored the problems faced by SMEs in accessing finance in Ghana. The second is Shipulwa (2016), which looked into the issues that SMEs confront in Windhoek and derived questions 10, 13, 14, and 16 from it. The last one is Waked (2016), which is about Saudi SMEs' access to finance, and it has questions 18, 20, 21, and 25. All the duplicated questions are planned and prepared to inquire about the challenges that SMEs face.

The questionnaire's responses are calibrated by a 5-point Likert scale, with answer ranging from "Strongly Disagree," "Disagree," "Neutral," "Agree," and "Strongly Agree," in addition to Yes / No questions, and multiple-choice questions.

4. RESULTS AND FINDINGS

4.1. Reliability Statistics

Cronbach’s alpha is a scale of reliability and internal consistency, that is, how closely a set of items are connected to each other. Given that = 0.634 > 0.5, it’s between 0.6 and 0.7, thus it’s accepted. Therefore, it can be said that there is internal consistency across the six items and thus using the questionnaire for this research is credible. The results reveal that there are 198 males and 110 females contributed to the questionnaire's completion, accounting for 64.29% and 35.71% of the total respondents, respectively.

Experience is an important factor before starting any business. Most people (40.3%) have been in their business from 1 to 5 years. While (25.6%) of SMEs owners have been in the business from 5 to 10 years. Newly opened business with people being in the market for less than 1 year only accounts for (23.1%) of total participants, and eventually the least number or percentage of people are those who have been in their businesses for more than 10 years (11%).

31 enterprises don’t have any employees representing 10.1%, then comes enterprises who have between 1 and 5 employees they counted 130 and represents 42.2% of the total respondents, while SMEs who have 5 to 10 employees and those who have more than 10, have accounted for 29.5% and 18.2%, respectively.

4.2. Business Obstacles Hindering the Growth of SMEs

Corruption is the major obstacles that hinder the growth of SMEs in Lebanon with 89 respondents accounting for 28.9%. Competition is the second most selected business obstacle they face, with 81 SMEs, representing 26.3%. Work experience and high labor costs are obstacles that represented 17.9% and 16.2% of total respondents, respectively. Eventually, other obstacles accounted for only 10.7% of total SMEs in Lebanon.

4.3. SMEs with Financial Obligations

62.3% of SMEs have loans or financial obligations to financial institution; these were 192 votes of total respondents. While 37.7% of SMEs didn’t acquire a loan from banks or any financial institution, they seek another means for financing their enterprises, they were 116 enterprises.

88 SMEs need financing for the purchasing of equipment, representing 28.6% of the population, second comes the need for expansion as a purpose to acquire funds from financial institutions, with a number of 85, representing 27.6% of total respondents. Purchasing of raw materials and rent comes third and fourth with 56 and 51 SMEs acquiring finance for such purposes, and representing 18.1% and 16.6%, respectively. Lastly, we have other purposes for financing that accounts for only 9.1% of total respondents.

4.4. Entrepreneurial Skills and the Business Success

The mean or average of the extent to which respondents believe entrepreneurial skills can impact the success of the business is 72.4%. The median is 75% which means that 50% of respondents voted below 75%, and 50% of them voted above 75%. As for the mode which is the most fre-

quent value, most SME owners voted 75%. The maximum value is 100%, whereas the minimum value is 0%. For the 25% percentile, it shows that 25% of respondents have voted less than 50%, and 75% of them have voted more than 50%. The 50% percentile is the same as the median. The 75th percentile, confirms that 75% of respondents have voted less than 75%, and 25% of them have voted more than 75%. Training is an important factor that should be considered before starting a new business. The people who had training before launching their business are 191 individuals, representing 62% of total respondents, whereas people who didn’t receive any training accounted for 38% with 117 individuals. Finally, the following data will demonstrate the estimated annual profit earned by SMEs in dollars.

Table 1. Annual Profit.

Statistics		
19. What is the Estimated Annual Profit of your Business (in USD)?		
N	Valid	308
	Missing	0
Mean		10389.06
Median		9000.00
Mode		9000
Minimum		500
Maximum		50000
Percentiles	25	7000.00
	50	9000.00
	75	13000.00

Source: SPSS Statistics.

A sit can be observed, the mean or average of the profit 10389\$.The median is9000\$, which means that 50% of respondent’s annual profit is below 9000\$, and 50% of the mean an annual profit above 9000\$. As for the mode which is the most frequent value, most SMEs earn 9000\$ a year. The maximum value is 50000\$, whereas the minimum value is 500\$. For the 25 % percentile, it shows that 25 % of the respondents have earned less than 7000\$, and 75% of them have earned greater than 7000\$. The 50% percentile is the same as the median, yet, the 75 % percentile confirms that 75 % of respondents have earned less than 13000\$ a year and 25%of them have earned more than 13000\$ a year.

4.5. Perceptions about Government Role

This part will describe some chosen questions about how people responded for the questions related to government role towards SMEs in Lebanon.

Table 2. Government Role in Support.

22. Government has an Important Role in Supporting SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	12	3.9	3.9	3.9

	Disagree	37	12.0	12.0	15.9
	Neutral	54	17.5	17.5	33.4
	Agree	105	34.1	34.1	67.5
	Strongly Agree	100	32.5	32.5	100.0
	Total	308	100.0	100.0	

Source: SPSS Statistics

Most people agree about the government's role in assisting SMEs in Lebanon with 34.1%, then comes who strongly agree with 32.5%, after that the respondents who feel neutral about the role of government represents 17.5% of total respondents, 12% of voters disagree that the government has a role in supporting SMEs, and eventually 3.9% of voters strongly disagree toward the role of government supporting SMEs in Lebanon.

During the financial crisis Lebanon, the government role has diminished. The following data will show the people perception about the shutdown of some SMEs.

117 individuals strongly agree that the government is responsible for the shutdown of SMEs in Lebanon, representing 38% of total respondents. Second comes individuals who only agree with 30.2%. People who feel neutral toward the government acts accounts for 12.3%. Eventually people who voted disagree and strongly disagree toward the responsibility of government in SMEs break down accounted for 11.4% and 8.1%, respectively.

4.2. Hypotheses Testing

This part will test the hypotheses previously mentioned in the research

Hypothesis 1: Employee wages affect SMEs performance.

Having the independent variable-employee wages-as a quantitative variable, and the dependent variable-annual profitability as performance-as a quantitative variable too, then the correlation test will be suitable for such this hypothesis to check their relation.

H0: $R(xy)=0$; Employee wages does not affect SMEs performance.

H1: $R(xy) \neq 0$; Employee wages affect SMEs performance.

Table 3. Correlation Test.

Correlations			
		19. What is the estimated annual profit of your business (in USD)?	9. In case of having employees, their wages range is (in million LBP)?
19. What is the estimated annual profit of your business (in USD)?	Pearson Correlation	1	.260**
	Sig. (2-tailed)		.000
	N	308	308

9. In case of having employees, their wages range is (in million LBP)?	Pearson Correlation	.260**	1
	Sig. (2-tailed)	.000	
	N	308	308
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: SPSS Statistics

As observed in the table, significance value or P-value=0.00<0.05.

Which means that H0 is rejected, and deduce that employee wages affect SMEs performance? The Pearson correlation value $R(xy)= 0.260$, since $0.2 < R(xy) < 0.39$.

Thus, there is a low correlation between the two variables.

Therefore, there is a low positive correlation between employee wages and SMEs performance, when employee wages increase the annual profit of the SME increase.

Hypothesis 2: Lack of finance is the major problem SMEs face in Lebanon.

The dependent variable-problems facing SMEs-which is a qualitative variable with categories, and there is no independent variable.

Therefore, the Chi-square Goodness of Fit will be used

H0: $P1=0$; Lack of finance is not the major problem SMEs face in Lebanon.

H1: $P1 \neq 0$; Lack of finance is the major problem SMEs face in Lebanon.

Table 4. Chi-square Goodness of Fit Test.

Test Statistics	
16. What is the Major Problem Facing your Business?	
Chi-Square	192.312 ^a
Df	3
Asymp. Sig.	.000
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 77.0.	

Source: SPSS Statistics

P-value=0.00<0.05, $P1 \neq 0$, therefore H0 is rejected

⇒ Lack of finance is the major problem SMEs face in Lebanon.

Hypothesis 3: There is an association between entrepreneurial skills and SMEs performance in Lebanon.

Having the independent variable-entrepreneurial skills-as a quantitative variable, and the dependent variable-annual profitability as performance-as a quantitative variable too, then the correlation test will be suitable for such this hypothesis to check their relation.

H0: $R(xy)=0$; There is no association between entrepreneurial skills and SMEs performance in Lebanon.

H1: $R(xy) \neq 0$; There is a relationship between entrepreneurial skills and SMEs performance in Lebanon.

Table 5. Correlation Test

Correlations			
		17. To what extent (in %), do you think entrepreneurial skills are essential for business success?	19. What is the estimated annual profit of your business (in USD)?
17. To what extent (in %), do you think entrepreneurial skills are essential for business success?	Pearson Correlation	1	.056
	Sig. (2-tailed)		.328
	N	308	308
19. What is the estimated annual profit of your business (in USD)?	Pearson Correlation	.056	1
	Sig. (2-tailed)	.328	
	N	308	308

Source: SPSS Statistics.

According to the results shown in the table above, $P\text{-value} = 0.328 > 0.05$

- ⇒ We fail to reject H_0
- ⇒ So, we can conclude that there is no association between entrepreneurial skills and the performance of SMEs in Lebanon.

Hypothesis 4: The SME-related business obstacles that firms face in Lebanon have an effect on their performance.

Having the independent variable -business obstacles- as a qualitative variable, and the dependent variable -annual profitability as performance- as a quantitative variable, then the hypothesis will be tested using One-Way Anova.

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$, business obstacles does not have an effect on SMEs performance in Lebanon.

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$, business obstacles does have an effect on SMEs performance in Lebanon.

Table 6. One-Way Anova Test.

ANOVA					
19. What is the estimated annual profit of your business (in USD)?					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	12115871.410	3	4038623.804	.134	.940
Within Groups	9170484156.000	304	30166066.300		
Total	9182600027.000	307			

Source: SPSS Statistics

$P\text{-value} = 0.94 > 0.05$, we fail to reject H_0 → Business obstacles doesn't have an effect on SMEs performance in Lebanon.

The summary of the hypotheses testing will be shown in the following table:

Table 7. Summary of the hypotheses testing

Hypotheses	Test	Values	Result
Hypothesis 1: Employee wages affect SMEs performance.	Correlation	$p\text{-value} = 0.000$ $r = 0.26$	H_0 Rejected Low relation
Hypothesis 2: Lack of finance is the major problem SMEs face in Lebanon.	Chi-Square Goodness of Fit	$p\text{-value} = 0.000$	H_0 Rejected
Hypothesis 3: There is a relationship between entrepreneurial skills and SMEs performance in Lebanon	Correlation	$p\text{-value} = 0.328$	Fail to Reject H_0
Hypothesis 4: Business obstacles have an effect on SMEs performance in Lebanon.	One-Way Anova	$p\text{-value} = 0.94$	Fail to Reject H_0

4.3. Discussion of Results

After identifying the sample, 308 responses were collected from SMEs owners and employed managers. The sample was analyzed using SPSS Statistics. The results were analyzed and interpreted. We started with the Cronbach's reliability test which was accepted, the participants were of 64.3% of males, and 35.7% of females, and 47.4% were between the age of 25 and 35. The highest level of education 49.7% of bachelor degree holders and 27.3% of participants were postgraduates, it indicates that most of respondents, 67% of them, are educated which will help them better understand the concepts being discussed.

With 33.1% and 30.5% of participants work in the services and trade sector, they indicate that most SMEs in Lebanon operate in these two sectors due to Lebanon's competitive and free market regime. This makes the Lebanese economy service oriented. There are several business obstacles that prevents the growth of SMEs in Lebanon, according to the sample we analyzed, the most frequent obstacles were corruption and competitors, with 28.9% and 26.3% of total respondents, respectively. Since corruption can have an impact on small business finance by minimizing small business profits, and because of the nature of the Lebanese economy which supports free market regime. Access to debt helps the enterprise to succeed, 62.3% of respondents have taken a loan from financial institutions to start their business or to expand it. The need of financing comes with different purposes, 28.6% and 27.6% of the sample needed financing to purchase equipment and expand their businesses, respectively.

Furthermore, concerning the main variables of the research, the correlation test indicated that employee wages affect SMEs performance with a low positive relationship between

the two variables with $R(xy)=0.26$, which concurs with (Winter-Ember, 1999) who made the case from neoclassical principles that high salary levels in a firm signal high firm performance, a link that can be useful to researchers in the absence of direct productivity evidence. In addition to Heyman (2005), who investigated the relationship between company success in Belgium and Sweden and the dispersion of intra-firm wage level. Both discovered a satisfying connection.

To acknowledge the major problems faced by SMEs, a chi-square goodness of fit test was executed, the results showed a p-value of 0.00, which indicated that lack of finance or access to finance is the major obstacle SMEs face in their start. This coincide with (Beck & Kunt-2006) who mentioned that the expense of obtaining long-term funding from financial institutions and other financial intermediaries is one of the major obstacles to SME expansion across both developed and developing nations. Additionally, according to Leeds (2003), the availability of financing for SMEs will enable them to grow their businesses, develop innovative products and services, assure optimal performance, and leverage additional investments.

The third hypothesis tested was to verify if there is a connection between entrepreneurial abilities and the success of SMEs. The correlation test had a significance of 0.328 which means that there is no association between entrepreneurial skills and performance of SMEs in Lebanon, which contrasts with Osalor (2016), who contends that training may be used to enhance the entrepreneurial, creative, interpersonal, and effective product communication abilities necessary for SMEs to grow. Additionally, reports on entrepreneurship in the "Asia productivity organization" environment examine how collaboration and the capacity for leadership are linked to SMEs' growth and the provision of market opportunities (APO, 2007).

Finally, the impact of business obstacles on performance was examined using One-Way Anova test. The p-value=0.94, which means that business obstacles doesn't have an effect of SMEs performance, the results contradicts with (Alfaadhel, 2010) who discovered that Saudi SMEs' growth is mostly constrained by marketing, capital availability, competition, and government backing and regulations. This ultimately affects how well the SMEs function. Also, (Soini and Vesili, 2011) highlighted several barriers preventing the SME success and growth, including outside influences like competition and finance access, as well as internal aspects like marketing tactics, innovation levels, and technological investment.

CONCLUSION AND RECOMMENDATIONS

This study investigated the difficulties encountered by SMEs in Lebanon. Manufacturing, trade, services, and tourism were its four primary industries. With the use of the quantitative and qualitative data gathering methods described in the preceding chapter, specific study objectives were addressed. The study's conclusions and recommendations are presented in this chapter as well.

Since they frequently provide the only genuine opportunity to contribute to job creation and economic growth, lessen

poverty, and enhance quality of life, SMEs have a significant impact in many nations around the world. The importance of small enterprises in most economies around the world is increasing.

To clarify more about the subject and to answer the research main question; what are the challenges that SMEs in Lebanon face and its effect on SMEs' performance? A review of the literature and several studies previously done on SMEs stated that, there is no one unified definition of an SMEs in the world neither in Lebanon. The expansion and growth of Lebanese SMEs are being hampered by a number of problems. In light of the research on growth drivers and taking into account the four SME sectors, such as manufacturing, other services, commerce, and tourism, this study explored these limits.

According to the literature, SMEs encounter a number of issues that are inescapable given their situation, which has an effect on how well they operate. These difficulties include the traits of an entrepreneur, a lack of financial resources, and low level of technical proficiency. The biggest issue is that they have trouble getting financing, especially at the beginning. The problem of lack of access to capital is crucial because most SMEs encounter financing problems in a number of ways while trying to finance their operations. Although the financial resources available to small and large businesses are the same, the ease with which these resources can be used makes a difference. As a result, the internal and external funding sources that SME entrepreneurs have access to influence their financing decisions. Another issue that could affect SMEs performance are deficiency in skills, entrepreneurial skills help in the growth of businesses domestically and abroad, provides job opportunities, and increase the business competitiveness in the market. On the other hand, studies carried out in Saudi Arabia indicated that business obstacles have an effect on the profitability of SMEs. There is a correlation between different business challenges and financial success in terms of profit margin, annual sales turnover, and growth rate.

The literature review was followed by a study on a sample of SMEs in Beirut, through a questionnaire, to see their perspective and compare with the literature, after conducting the tests related to all variables being tested in the study. Regarding wages and lack of finance, there were compatibility between the study made by the researcher and previous studies. However, business obstacles and entrepreneurial skills haven't appeared to have an impact on SMEs performance in Lebanon. We conclude that factors hindering the growth of SMEs varies from one country to another, but the major problem that SMEs face in most countries are their lack of access to financing.

The research was made on four variables with enterprise performance; we concluded from these variables that lack of financing is a problem the majority of SMEs face. In Lebanon, employee wages affect the business profitability of the enterprise especially in the current financial situation and high dollar rates against the LBP. Entrepreneurial skills of owners and business obstacles don't affect profitability, the financial situation of the owner could have a more important impact on the growth of the whole enterprise where he can hire skilled labor and consequently outrun his competitors.

The government must interfere to enhance SMEs' growth in order to mitigate the effect of the crisis on the overall economy. Both smaller and larger businesses will profit from a favorable business environment, but it must be matched by efficient and effective processes that encourage business expansion, foster the development of necessary skills, and allow connections between businesses. The development of SMEs must be discussed among the government, the private sector, and civil society through suitable channels.

RECOMMENDATIONS

1. Developing a supporting legal and regulatory framework: It encourages competition by avoiding too onerous licensing requirements and permits entry into the market of multinational and regional banks with superior SME lending instruments. By facilitating a range of financial products and services, lowering the costs of financial access, and accessing untapped audiences, technological platforms can be used to further encourage competition among companies in the financial industry.
2. Entrepreneurs should understand their business environment. Skills development in Lebanese SMEs must be continuous due to the ongoing Lebanese crisis. Thus, managers of Lebanese SMEs must work on developing their own skills, as well as the skills of the employees they work with. The circumstances of the current crisis make it imperative for the director of the SME to retain young talents. Today, SME in Lebanon need young talents to ensure their sustainability and ability to face the current crisis.
3. There needs to be ongoing, serious communication between SMEs, the government, and civic organizations. This will assist SMEs in obtaining the information they require and in understanding the necessity of collaborating with other enterprises.
4. The problem of a lack of funds must be strategically handled. Currently, due to the crisis in the banking sector in Lebanon and the exacerbation of the economic crisis, and the diminishing possibility of securing serious financing for SME.
5. In view of the decline in the services of Lebanese commercial banks, the importance of microfinance institutions emerges as an effective option for financing small projects. This idea emerged with economist Muhammad Yunus in the mid-1970s, after he established the Bank for the Poor or the Village Bank, Grameen Bank, in Bangladesh. Also, the government programs must make it easier for enterprises to obtain financing.
6. The government ought to investigate more effective ways to lessen various burdens, such as taxes and levies, in favor of SMEs. SME's ought to receive preferential treatment in specific areas to encourage their growth and development as they are thought to be a part of the nation's economic expansion and job creation.

7. SME in Lebanon should move more towards the international market.

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