



The Egyptian Cabinet
Information and Decision Support Center

IDSC
Policy perspective



The Egyptian SME's Force Field Analysis 2020

Professor/ Fared El Naggar

Dr. Nehal El Naggar, DBA, FHEA



June 2021



**The Egyptian Cabinet
Information and Decision Support Center**

Chairman

Mr. Osama El-Gohary

Prime Minister Assistant & IDSC Chairman

Editor-in Chief

Dr. Khadiga Arafa

Manager of Department of Strategic Issues

Managing Editor

Dr. Esraa Ahmed Ismail

Executive Director of Department of Strategic Issues

Graphic Designer

Ayman Elsherif

Asmaa Salah

Reviewer

Ehab Gibreel

Editor

Nada El-Mogy



IDSC Policy Perspective

An online non-periodic publication issued by Cabinet's Information and Decision Support Center (IDSC). It covers the most prominent topics in the scene from all aspects to present a comprehensive vision regarding such topics relying on experts' perspectives.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the official policy or perspective of IDSC

IDSC's Commentary

Small and Medium-sized Enterprises (SMEs) has become a cornerstone in national economies. They play a vital role in achieving economic development and eradicating unemployment. One can differentiate between small and medium-sized enterprises by measuring the number of employees and annual revenue.

Looking at Egyptian SMEs, they have been growing since the 1990s. SMEs are defined by Egyptian laws as the enterprises whose capital ranges from EGP 50,000 to EGP 1 million with a maximum of 50 employees.

In fact, the comprehensive economic and structural reforms in Egypt contributed in promoting SMEs. The Egyptian government has adopted national policies to develop SMEs through marketing, issuing laws increasing financial and technical support presented to such enterprises. In addition, the government has been working on widening the scope of digitization, application of financial inclusion, and improvement of governmental monitoring.

The objective is to improve the performance of SMEs, enhance their contribution to national economic growth, and help them overcome any crises. The most significant challenges facing SMEs are lack of financial resources, change in consumers' attitudes and preferences, various global crises such as the global financial crises, or COVID-19 and its economic repercussions.

Within context, this issue of IDSC policy perspective discusses on the state of SMEs in the Egyptian markets, illustrating the impact of the COVID-19 pandemic on them, and determining driving and restraining factors of these enterprises.

The Egyptian SME's Force Field Analysis 2020



Prof. Fared El Naggar, PhD



Dr. Nehal El Naggar, DBA, FHEA

Abstract

Small and Medium-Sized Enterprises (SMEs) are featured now as the cornerstone for economic development in countries. It is necessary to accelerate the growth of SMEs and improve their competitiveness (Forsman, 2008). An SME generally refers to a small or medium-sized enterprise with fewer than 250 employees with a limit on turnover and balance sheet that might differ from one region or country to another. SMEs are of a particular importance in Egypt, which has long been the largest SME hub in the MENA region (Middle East and North Africa). The Startup guide (2020), describing Egypt's startup ecosystem, states that "Egyptian startups in 2019 sealed 142 deals worth \$95 million, meaning that the country ranked first by several deals in the MENA region, surpassing the United Arab Emirates (UAE) for the first time. With nearly two-thirds of these deals closed by foreign investors, the country is only becoming more exciting as a place to do business". Following the size and possibilities, SMEs have some specific features out of which drivers and others are hindering factors that are worth investigating, this article aims to analyze the key success factors in promoting the Small and Medium-Sized Enterprises (SMEs) and the restraining factors for SMEs. The triangle of entrepreneurs, startups, and SME's will be analytically discussed to assess both constraining and driving forces. Force field analysis is a tool for root cause analysis that helps acting for better optimal results as a benchmark for PIP (program for improving performance).

Introduction

Small and Medium-sized Enterprises or SMEs are businesses with revenues, assets, or numbers of employees that fall below a certain level or size. The concept was initiated to support manufacturing and different profit-generating business practices and the criteria in determining and classifying SMEs that vary between countries and even industries. The common goal of defining SMEs is to differentiate small and medium-sized businesses from larger corporations. Startups and small businesses are often low investment businesses that obtain financing and favorable taxation and are usually supported by the governments of different countries. They play a vital role in contributing to the economic development and reduction of unemployment while facing domestic and foreign challenges which could hinder their existence and continuity. When considering Egyptian SMEs and entrepreneurial ecosystems, there has been clear evolution over the past years with consistent support from their government and policymakers.

SMEs and MSMEs react to the surrounding environment and market conditions, especially under unprecedented conditions like the COVID-19 Pandemic. Global Economic forecasts, issued over April-June 2020, depicted an increasingly negative outlook of the global economic recession triggered by the pandemic. In its June 2020 Economic Outlook, the Organization for Economic Co-operation and Development (OECD) projected a 6% drop in global GDP, and a 7.6% fall in case of a second pandemic wave by end 2020, with a double-digit decline in some of the most hit countries, followed by a modest recovery of 2.8% in 2021 (OECD, 2021).

The impact of the current COVID-19 outbreak has affected small as well as large businesses, and different players in the economies of countries. This significant effect on large Micro and Small and Medium Enterprises (MSMEs) has triggered researchers to investigate their continuity, profitability, and activity. This article is an overview of the state of SMEs in Egypt and the effect of the COVID-19 pandemic with an emphasis on driving and restraining factors using a Force-field analysis.



SMEs in Egypt and the Egyptian Ecosystem

The terms “small” and “medium” are used to refer to the size of businesses that vary among manufacturing, agricultural, and service sectors. Generally, several employees and the annual revenue are used to distinguish sizes in addition to the profit and cash turnover rates. According to Egypt’s Small Enterprise Law (No. 141, 2004), SMEs are defined as “All companies or facilities with productive, commercial or service-providing economic activities, with a minimum capital of LE 50,000, a maximum capital of LE 1 million and a maximum of 50 employees.” (Egypt Today, 2020)

The Central Agency for Public Mobilization and Statistics (CAPMAS) indicates that there are 3-8 million micro-enterprises and 67000 small businesses which all operate with \$4.9 bn capital in 2020.

Central Agency for Public Mobilization and Statistics (CAPMAS) indicates that there are 3-8 million micro-enterprises and 67,000 small businesses which all operate with \$4.9 bn capital in 2020. Some of such SMEs started to adopt online businesses. In addition to this, there exist several types of SMEs exporting in Egypt such as sole agents, joint ventures, subsidiaries, management contracts, turnkey operators, countertrade and informal businesses using interests and social media accounts. (CAPMAS, 2021)

There has been an exponential growth of SMEs in Egypt since the 1990s due to which the private sector has been unable to provide decent jobs to accommodate the increasing labor supply that was caused by a lack of job opportunities in the public sector (ILO, 2019). The Egyptian government has been promoting SMEs since the late 1990s and early 2000s and sought to do so by adopting the “National Policy for SME Development”. This has been followed by issuing different laws that enhanced SMEs through financial and technical support, especially when the government prioritized the promotion of entrepreneurship in the past few years.

In collaboration with the Central Bank of Egypt (CBE), a strategy to improve banking supervision and regulation as well as financial stability and inclusion was

developed. The initiative included different areas of support and intervention to improve the institutional framework for financial-sector stability and financial inclusion. Different parties were involved in supporting MSMEs and SMEs as the Egyptian Financial Regulatory Authority (FRA) and (CBE).

Under the Entrepreneur National Strategy coordinated by the MSME Development Agency, Egypt unleashed the potential of 2.5 million MSMEs, and the government launched several initiatives designed to support and fund SME growth. SMEs are also supported in clustering, integrating value chains, innovating and valorizing national resources. In terms of financing, the MSMEDA upgrades the microfinance institutions, and (CBE) launched the SME-financing initiative (2016 e- 2019) encouraging banks to increase their SME lending. A new SMEs law is in the making that is notably expected to give incentives for small businesses to join the formal economy. Several SME credit lines are funded through EU development finance institutions (e.g. EIB, EBRD, AFD) and collaborate with the Credit Guarantee Company's EUR100m- SME guarantee trust fund.

Under the Entrepreneur National Strategy coordinated by the MSME Development Agency, Egypt unleashed the potential of 2.5 million MSMEs. In addition, the government launched several initiatives designed to support and fund SME growth.

In order to expand credit guarantee schemes through the Credit Guarantee Company (CGC) to enhance human and institutional capacities. Furthermore, the Egyptian Banking Institute (EBI) offered demand-oriented training programmes to provide technical support at the individual and institutional level to help SMEs.

Moreover, most Egyptian startups are committed to a social mission, especially after the 2011 uprisings. This consensus has become even more pronounced after the Coronavirus (Covid-19) pandemic. There has been a recent influx in companies pivoting and moving towards social entrepreneurship with a focus on recycling, digitization, clean energy, transportation, healthcare, technology in various sectors, education, and fintech. Furthermore, the number of private venture capital (VC)

firms, accelerators, and incubators in Egypt has also been increasing which indicates a growing interest in entrepreneurship in Egypt. Such firms include GESR, Flat6labs, INJAZ Egypt, and other Venture Labs; altogether successfully contributing to the entrepreneurial ecosystem in Egypt that have succeeded to transform ideas to proper guided implementation. Such incubators and accelerators offer mentorship, technical and non-technical training, office space, and legal support to the selected startups.

Force Field Analysis of SMEs

The Force Field Analysis is a tool that enables researchers and practitioners to visualize and analyze situations. The model portrays driving and resisting and/or restraining factors of any project or initiative in the form of opposing forces, or as a force field. In the case of SMEs, lack of resources can be emphasized as one of the main problems and a typical characteristic trait, taking into account that the resources can include management, factors of production, and internal controllable and external uncontrollable factors.

SMEs are challenged to stay afloat, buffered by dual forces of weaker demand and pressure on working capital.

Globally, the leading hinderers and the most common challenges for SMEs include global market competition, global financial and economic crisis, information communication technology, a rise of Multinational Corporations, Transnational Corporations, changing profile of consumers and their preferences, trade dumping, international terrorism, religious conflicts, and trade wars. Due to this and other



inconceivable factors, the mortality rate of SMEs, especially after a short period after commencement is quite high.

On the other hand, factors that drive SMEs and their successful performances in comparison to other large-scale competitors, depend on how these companies use external networks efficiently (Lin & Lin, 2015). Inter-organizational networking is positively connected with internationalization speed (Meng, et al., 2016). There are two types of factors that affect the network: relationship-network content and network relationship (Lin & Lin, 2015). The network relationships consist of some important factors which include sharing knowledge, accelerating innovations, and reducing the number of transactions. Thus, the firm's ability and willingness to internationalize depends upon its knowledge about international markets (Schmidt & Sofka, 2009).

Egypt's recent macroeconomic and structural reforms realized the support of SME's like private sector for job creation, achieving sustainable growth, better SMEs business climate, better export opportunities, and law red tape.

Egypt's recent macroeconomic and structural reforms realized the support of SMEs like private sector for job creation, achieving sustainable growth, better SMEs business climate, better export opportunities, and law red tape. It is expected that SMEs and entrepreneurs become more flexible during crises and to seek further investments in innovation, and the government supports such initiatives yet there are some policies and regulations that might obstruct or delay SMEs or MSMEs. Bank loans, overdrafts, leasing, hire purchase arrangements, and equity are practiced in Egypt, but asset-based finance such as factoring, and invoice discounting are not widely spread.

Government role includes digitization, tax reduction, soft loans at 5% interest, incubators development, including informal business in the formal businesses sector (60% of the whole sector) via new SME's law, gradual merging law, quality assistance, and tax accounts, microfinancing, financial disclosure, resolving bankruptcies and debt financing for SMEs.

The Risk Categories facing SMEs may include but not limited to: Sales and Revenue, Supply Chain, Labour, Cost of production, Institutional and financial policies. Hollensen (2001) classification of barriers to successful export operations can be identified as barriers hindering export initiation. They consist of Insufficient finances, Insufficient knowledge, Lack of foreign market connections and distribution channels, Lack of export commitment, Lack of productive capacity to dedicate to foreign market and Management emphasis on developing domestic markets.



The impact of the pandemic may be particularly harsh for start-ups (Sedláček and Sterk, 2020). Research suggests that the impact on firm creation may be even stronger than previous crises; During COVID-19, SMEs in Egypt receive a 6-month extension for credit repayments; more technical support was given to SMEs during the crisis through a toolkit on teleworking and advice to companies. Consequently, a temporary increase in R&D tax credits was achieved in 2020 and 2021. (OECD, 2021)

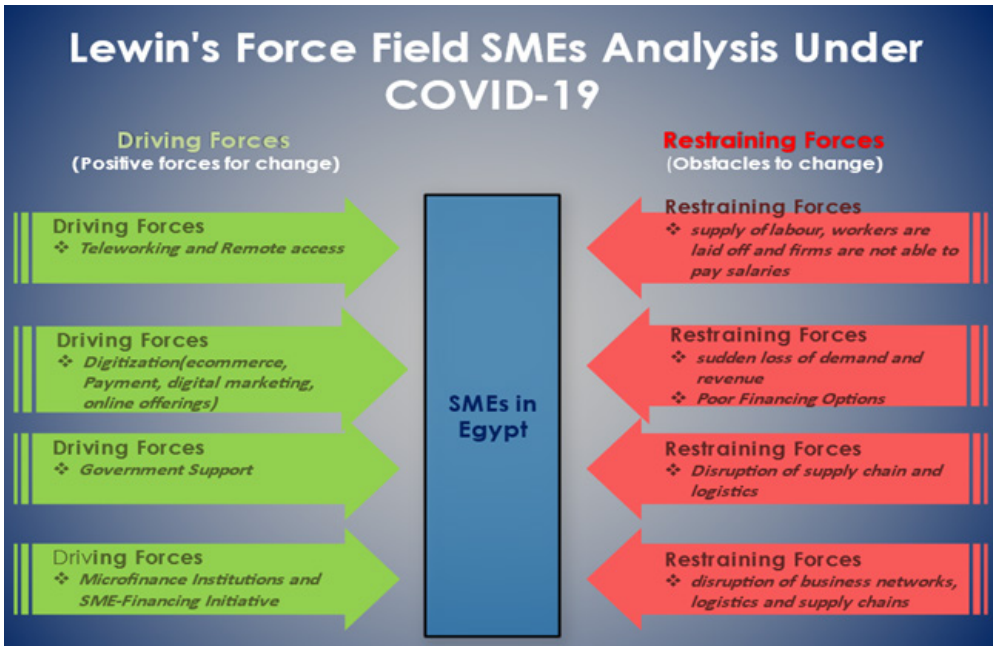
In all OECD countries, SMEs account for the vast majority of companies, value-added, and employment. However, in some regions and sectors that have particularly felt the impacts of the situation, the prevalence of SMEs is even higher (OECD, 2021). Egypt's talent force has the potential to be one of the main drivers to advance the country's startup ecosystem and have pivoted dramatically during COVID-19.

Egypt's talent force has the potential to be one of the main drivers to advance the country's startup ecosystem that have pivoted dramatically during COVID-19.

The following are some of the Risk factors and challenges facing SMEs (under COVID, In Egypt and around the world)

Risk factors and challenges facing SMEs	
1. Decreased value of monthly domestic sales	2. Reduction in the number of working days
3. Decreased value of monthly export sales	4. High rates of work absenteeism
5. Delays and reduced collection of receivables	6. The cost of commodities sold by the firm increased
7. Reduced purchasing power of consumers	8. SMEs cannot afford investments for market and technological development
9. Shipment of fresh produce grounded at airports and ports because travel has stopped	10. The cost of inputs and (e.g. labor, fertilizer) increased
11. Restrictions on transportation and disruptions in distribution channels to markets	12. Increased the losses and waste
13. Rejection of shipments by importer/retailer	14. Cost of implementing preventative measures at the workplace
15. Failure to deliver contracted sales to partners	16. Reduced capacity of public and private institutions to provide services to SMEs
17. Delayed port operations Shortage in quantities of agricultural commodities to meet the demands	18. Policy uncertainty concerning corporate tax
19. Change in consumers' demand and purchasing preferences and investment choices and priorities	20. Policy uncertainty concerning cutting employees' numbers and salaries
21. Reduced quality of agricultural commodities	22. Policy uncertainty concerning (central) bank's interest rate policies, economic recession or political instability
23. Plummeting Employee Productivity: employees are unable to commute to work loss of skilled labor as experienced employees with valuable information and knowledge and/or contacts leave the firm	24. Difficulty accessing emergency support introduced by government departments
25. Increased cost of obtaining loans	26. Banks and financial sector organizations are unwilling to provide credit to SMEs, and are unable to pay back my loans

The following is a figure demonstrating how to use Force Field analysis for SMEs decisions affected by both driving and restraining forces:



Conclusion

This article attempts to critically review the existing literature on common challenges or hinderers for SMEs to identify the survival and succeeding factors for SMEs in the current competitive business environment and under such unprecedented global circumstances such as the COVID-19 pandemic. From the above discussion, it can be concluded that SMEs are the economic locomotive of growth. Today, the majority of the economic activity of the SMEs occurs among themselves in collaboration with micropreneurs, given the vast technological advancement and high connectedness that is currently unfolding.

This article opens the debate on the effects of the COVID-19 lockdown on the creation of new forms of business and partnerships, so future researchers should study the impact of both cross-sectional and longitudinal to analyze the short, medium and long-run effects, and more importantly in different economic sectors considering the

role of government and financial institutions. Further calculations of the weights of the different factors and their impact would provide better insights and understanding.

Recommendations

Entrepreneurs should look at the bright side of the international crisis, as it is an opportunity to carefully monitor and review their financial aspects and metrics and realize the importance of cash. In addition, they should start counting on managing the current accounts they have in hand. They have to understand how the further decline in the stock market may affect their financial stability and funding accessibility. Entrepreneurs should put great emphasis on creativity and innovation, especially during crises and should always be prepared with alternative plans -if possible- to be well-prepared for any further financial and economical problems. Entrepreneurs should start thinking of ways to generate cash by, for example, getting government grants or bank loans with minimum interest rate or exploring programs that are specialized in helping small businesses. In other words, they should be creative with finding sources of cash to survive. The government has to do surveys and contacts with small and medium-sized enterprises to grasp and come up with their real priorities, needs, and wants, especially during crises. Sectoral Analysis should be conducted; the tourism sector, for instance, should focus on local tourism to mitigate and overcome partially the crisis negative that impacted their businesses over the past few months. Employers should maintain their employees' physical and mental wellbeing and develop a backup plan with private or public organizations to support them physically and psychologically.

Entrepreneurs should hold accurate information among key stakeholders to maintain their confidence. Moreover, they must focus on supply chain assessment and risk management to utilize alternative modes of transportation and do trade-offs based upon needs, cost,

Entrepreneurs should be creative with finding sources of cash to survive, and the government has to do surveys and contacts with SMEs to grasp and come up with their real priorities, needs, and demands, especially during crises.

service, and risk analysis possibilities. Finally, they should identify the components and raw materials which have the highest impact on their revenue streams.

References

1. CAPMAS (2021), <https://www.data4sdgs.org/partner/capmas-central-agency-public-mobilization-and-statistics> (accessed on 28 May, 2021)
2. Egypt Today, <https://bit.ly/2UIgzqo>
3. Egypt Innovate, <https://bit.ly/3yMIxzL>
4. ILO (2019). International Labor Organization. https://www.ilo.org/wcmsp5/groups/public/ed_emp/documents/publication/wcms_735169.pdf
5. Forsman, Helena. (2008). Business development success in SMEs: A case study approach. *Journal of Small Business and Enterprise Development*. 15. 606-622. 10.1108/14626000810892382.
6. Lewin K. (1951) 'Field Theory in Social Science', Harper and Row, New York.
7. Mahrous, A., Genedy, M.A. and Kalliny, M. (2020), "The impact of characteristics of intra-organizational environment on entrepreneurial marketing intensity and performance in Egypt", *Journal of Entrepreneurship in Emerging Economies*, Vol. 12 No. 5.
8. Lin, F. J. & Lin, Y. H., 2015. The Effect of Network Relationship on the Performance of SMEs. *Journal of Business Research*
9. Maslen R., Platts K.W. (1994) 'Force Field Analysis: A Technique to Help SMEs Realise their Intended Manufacturing Strategy', in *Operations Strategy and Performance*, 1st European Operations Management Association Conference, University of Cambridge, June, pp.587-588.
10. Thomas J. (1985) 'Force Field Analysis: A New Way to Evaluate Your Strategy', *Long Range Planning*, Vol. 18, No. 6, pp. 54-59.

11. Meng, F., Rieckmann, J. M. & Li, C., 2016. Empirical Evidence How Social Capital Effects the Internationalization Process of SME in Zhejiang. *Transnational Corporations Review*, 8(3), pp. 196-206.
12. Hatab, A. A., Lagerkvist, C.-J., & Esmat, A. (2020, December 3). Risk perception and determinants in small- and medium-sized agri-food enterprises amidst the COVID-19 pandemic: Evidence from Egypt. *Wiley Online Library*. <https://onlinelibrary.wiley.com/doi/10.1002/agr.21676>. Accessed on 23 May 2021
13. OECD (2020). The covid-19 crisis in Egypt. Available at: <https://www.oecd.org/mena/competitiveness/The-Covid-19-Crisis-in-Egypt.pdf> (accessed on 20 June 2021)
14. OECD (2021). Coronavirus (COVID-19): SME policy responses. OECD. (n.d.). Available at: <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/> (accessed on 22 February 2021).
15. Sedláček, P., & Sterk, V. (2020). Startups and employment following the covid-19 pandemic: A calculator (CEPR Discussion Paper No. DP14671 No. DP14671). CEPR. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3594304 (accessed on 1 June 2021)
16. Startup Guide (2020), <https://www.mikegingerich.com/blog/the-complete-guide-to-entrepreneurial-startups-2020-edition-2/>
17. WHO (2020). WHO Coronavirus Disease (COVID-19) Dashboard. Available at: <https://covid19.who.int/region/emro/country/eg> (accessed on 19 February 2021)
18. Zubair, S., Kabir, R., & Huang, X. (2020). Does the financial crisis change the effect of financing on investment? Evidence from private SMEs. *Journal of business research*, 110, 456-463.
19. ElDeeb, Leena; Jackson, Tom; Halaka, Aalaa, Understanding Egypts Startup Ecosystem, <https://startupguide.com/understanding-egypts-startup-ecosystem>.



The Egyptian Cabinet Information and Decision Support Center (IDSC)

1, Magless El Shaab st., Kasr El Einy, Cairo, Egypt

Postal Code: 11582 P.O.Box: 191 Magless El Shaab

Tel.: + 27929292 202

Fax: + 20227929222

www.idsc.gov.eg

info@idsc.net.eg

EFQM



www.idsc.gov.eg