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Chapter 3

High growth new enterprises owned by graduates

This chapter zooms in from the "big picture" presented in Chapter 2 towards a more "in-depth" analysis of a very small number of enterprises in MENA: high growth new enterprises owned by graduates. These are especially relevant for policy makers as they have the potential to contribute substantially to job and wealth creation.

To study the characteristics and challenges of these high growth enterprises, interviews were conducted with 20 entrepreneurs in five different countries (Egypt, Jordan, Morocco, Tunisia and UAE) covering a wide range of sectors. The case studies illustrate that most high growth firms have several owners, with university degrees and some, but diverse, previous work experience. Two thirds of these firms reported difficulties with access to finance, the recruitment of skilled labour, burdensome government regulation and corruption in the start-up process. Thus new business owners feel there is an opportunity for significant improvements, in particular in the area of access to finance and government regulation. While there is no overarching agreement on what governments need to do, some specific suggestions by entrepreneurs are given at the end of this chapter.

Introduction and methodology

Chapter 2 painted a "big picture" of the scale and nature of enterprising activity in MENA countries – comprising perhaps 5 million people in Egypt alone. This chapter shifts the focus radically towards a more in-depth review of a very small number of new enterprises that perhaps have the potential to go on and become significant contributors to wealth and job creation in the future.

The justification for this shift is that such enterprises are expected to have a positive and considerable direct impact on the economy by creating jobs for their employees and wealth for their owners. They may also have a secondary positive effect by generating wealth for their suppliers and their employees, and by providing valuable goods and services for their customers. Thus, even though they are small in number, they can have a considerable economic multiplier effect.

The focus will be on young firms with economic potential, defined as those starting after 2005 and established by graduates. The economic crisis that engulfed a number of MENA countries since 2008 emphasises the need for policy makers to understand the role of such firms and to give their owners' views serious consideration.

Interviews with new business owners allow an assessment of the entrepreneurial experience based on their opinions and perceptions. The common criterion for selecting the companies was their age, *i.e.* they had been trading for fewer than six years. This is close (although not exactly corresponding) to the definition of young enterprises used in Chapter 2, where these firms are defined as registering up to five years of profits.

Although cases were not selected because of the educational levels of their owner-managers, in practice all the case studies were of enterprises established or managed by individuals with graduate or postgraduate education. The selection process of case studies influenced this outcome in that some, though not all, of the interviews were arranged through the network of alumni and contacts of professors of the business schools and universities co-operating in the study.

Four new enterprises covering a wide range of sectors of economic activity for each of the five countries – Egypt, Jordan, Morocco, Tunisia and the UAE – took part in the study. Data were collected through face-to-face interviews with the owner of the new enterprise, but often supplemented by telephone or mail contact. The interview schedule included open and flexible questions, allowing the business owners to express their opinions and experiences. Box 3.1 provides further details about the methodology.

Box 3.1. **Methodological reach and implications of the case studies**

The 20 case studies used a common outline asking the same questions. The analysis is focused on details and reasons for starting the business; the scale and aspirations of growth; background information about the founders; characteristics and issues concerning access to finance; competitiveness; attitudes to enterprise in their communities; and views on how governments can stimulate entrepreneurship. The report does not disclose specific information about individual companies.

Clearly, 20 firms cannot be a statistically representative sample of the gazelle population in MENA countries, but interviews with them can help to explore in greater depth issues of concern to this group of business owners. What it does not do is to imply that public policies should be based exclusively on these exceptional success stories or upon narrow definitions of high-impact enterprises (OECD, 2010). It does emphasise that despite their diversity and their different ways of expressing matters there are several issues that the owners of these businesses regard as major constraints on the growth of their business. These are access to finance, regulatory constraints and a shortage of skilled labour – although the emphasis upon these varies between countries.

Despite clearly identifying these areas of concern, re-focusing public policy upon such firms presents challenges in all countries, the most notable of which is identifying high-impact enterprises.

The approach and analysis of the report, however, constitutes a significant advance in the examination of gazelles in the MENA region. By looking first at the broad picture of enterprise activity in MENA and then at the 20 firms selected, the report provides a reasonably complete analysis of these enterprises and their characteristics. Based on the analysis, it also offers an initial but meaningful set of policy options open to policymakers in MENA economies, based on OECD and MENA experience.

Enterprises characteristics

The analysed businesses are new, show considerable employment growth and are highly valuable

The case-study businesses are all new and some are very new. All have been established since 2005 and half of them after 2008. They are found in a wide diversity of sectors with four businesses in manufacturing and three in restaurants and retailing. The rest cover sectors such as construction, personal and business services.

Only one was clearly high-tech. Fewer than half made no claim to be high-tech, but a sizeable number clearly embraced new technology in differing aspects of their business.

Despite their very recent establishment, the firms vary considerably in size, and some are very large. Table 3.1 shows that, although about a third of the sample have fewer than 10 employees, six firms have more than 50 employees, and the largest firm currently has 300 full time employees. For one case, we have no employment information.

Some of the businesses are highly valuable. Although a number of owners were either unable or unwilling to place a market value on their businesses, in five cases the owner

Table 3.1. **Current Employment size of surveyed firms is mostly below 50 workers**

	≤ 10 workers	10-49 workers	50-100 workers	100+ workers
Number of businesses	6	6	3	3

estimated it would exceed EUR 1 million. The most highly valued business was one estimated at EUR 14 million.

Registration duration and costs vary widely among countries

Registration with the government authorities had taken place for most of these businesses, of which only one was in the informal sector. However, registration was not consistent and was sometimes with only some agencies still underway.

Registration times varied considerably from one business to another and from one country to another. All the UAE businesses were registered within a week. In Egypt, the process was sometimes short, but in one case took 12 months. Similar, though less extreme, variations were found in both Jordan and Tunisia.

The cost of registering the business also varied considerably. In part, the variation was because some firms were seeking a Stock Exchange quotation, whereas others were only seeking the most basic form of registration. The Tunisian costs varied from EUR 25 to EUR 1 750, whereas the variation in Jordan was more modest, varying only from EUR 90 to EUR 450. However, there were suggestions that the process was subject to corruption. One respondent reported that, "legally it cost me about EGP 2 000, but more than EGP 20 000 under the table as facilitation fees".

The main motivation to start a business is the identification of a market need

Founders gave a wide variety of reasons for starting their businesses. Sole individuals owned only six businesses in the sample, while combinations of people, including, spouses, other family, friends and colleagues, owned the bulk of the rest.

For some, the reason for starting the business was the identification of a market need or niche that they felt able to fill, with that knowledge coming directly from previous work activity. This was the dominant reason, often combined with the influences discussed below. Dissatisfaction with previous work prospects was also referred to frequently. A third motivation was seeking a form of employment that provided satisfaction to the owner, especially when combined with childcare or specific family circumstances.

Box 3.2 displays this diversity of motives in direct quotations.

Box 3.2. **Motivations for starting a business**

"Having been employed to set up the business of a large UK Public Limited Corporation in the Middle East and having done so with success, a combination of events allowed the stars to align. The biggest driver was that I had identified a gap in the market, an opportunity in an emerging market but the policies, procedures, lack of cultural understanding and risk averse nature of the PLC did not allow us to take advantage. Moreover the attitude of this large PLC towards business in the region alienated local partners and started to damage long term relationships that I had. I wanted to take advantage of the opportunity, of the ability of those who I invited to join me and in the strength of my relationships. Ultimately we wanted to make a change whilst building an exciting profitable business. I believe we have done pretty well so far."

"As a graduate of fine arts I have worked on several art projects as a freelancer, at a later stage, I joined a couple of well-known publishing houses. Yet, after getting married and having kids, keeping the balance was difficult so my husband, who is also a fine arts-graduate and works as graphic designer, suggested we start our own business to make use of our expertise and thus we dedicated a space in our house to carry on our activities."

Source: Interviews (2011).

New enterprises face a broad variety of challenges including competition, access to finance, corruption and a lack of skilled labour

The problems faced by these new enterprises in their early days were diverse but access to finance, competition and problems recruiting skilled labour were widespread. Table 3.2 shows the responses given by owners to questions about the problems that they faced in their early days and those that they currently face. In some instances, since many are very new firms, the problems are the same, but in most, they are different.

This is an important table for several reasons. First, it demonstrates that all the new firms initially and at the time of the interview experienced at least one, and normally more than one of the problem areas identified in the table. Second, it demonstrates that not all businesses experience the same problems. Indeed the striking feature of the table is that almost every problem area was identified by at least one business. The only exception is that for many firms current (macro-economic) conditions were generally worse than when the business began.

Despite the range of problems reported, Table 3.2 shows that the most frequently referred to problem areas during a business start-up were access to finance, competition from rivals and an inability to obtain skilled employees. Some two thirds of firms referred to these factors.

Table 3.2. **The most common problems faced by new enterprises at start and at the time of interview ("currently") are access to finance, competition and corruption**

Problem	Faced at start	Currently faced
Economic conditions	2	4
Competition	9	7
Interest rates or access to finance	9	6
Inflation or cost of inputs	2	3
Cash-flow payments or debtors	6	5
Government regulations	6	4
Lack of skilled employees	7	3
High wage rates	2	3
Total tax burden	1	3
Lack of time/capacity	2	–
Corruption	6	5
Lack reliable basic services	2	2
Lack of internal management skills	–	2
NONE	–	–

In general, however, firms are less likely to report problems currently than during the start-up phase, which implies that the firms have addressed some of them by themselves. Amongst the top issues of current concern are competition and lack of skilled employees, although access to finance continues to be a problem for a minority of firms.

Not shown in the table are differences between countries. For example, problems over access to finance are widely referred to by the UAE and Jordanian firms, but by none of the Egyptian firms. Several Moroccan firms referred to problems with government regulations and corruption but not those in either Jordan or Tunisia.

New enterprises widen their market with time

The vast majority of the businesses start by selling locally, but then geographically widen their markets over time. Table 3.3 shows that even businesses that expect to perform well are initially heavily dependent upon the local market. Even so, for the three firms that did begin by having overseas sales immediately, export sales were a major source of revenue.

What is clear from the Table is that, with time, businesses expand the geographical range of their sales. Sales into local markets fall from 58% to 50%, whereas overseas sales rise from 18% to 21%.

Table 3.3. **New enterprises expand locally in the course of their development**

Market percentage	At start	Currently
≤ 20 miles	57.6	49.8
20-100 miles	13.8	19.3
≥ 100 miles but national	7	8.1
Overseas	17.9	21.3

Note: The results do not add up to 100%, because of incomplete answers.

These new enterprises have grown rapidly and have high aspirations for the future

The growth in employment since start-up in some of these enterprises has been remarkably high and their owners expect this to continue in the next few years. This is shown in Table 3.4, which distinguishes between firms of different sizes The first row shows employment when the businesses began. With the exception of one firm, which was a cross-border transfer, all firms specifying their employment had fewer than 50 workers when they began and 12 of them had fewer than ten. In aggregate, when they began, these firms employed 213 full- and part-time workers.[1]

The second row of the table shows the current employment, shown earlier as Table 3.1. Where it differs is by including the total number of full- and part-time employees. Comparing rows 1 and 2 of Table 3.4 it can be seen that employment has risen strikingly from 213 to 1107. This is primarily a reflection of the increase in the number of firms employing 50 or more workers, which have risen from one to six.

Table 3.4. **Employment distributions**

	≤ 10 workers	10-49 workers	50-100 workers	100+ workers	Total employment [full and part time]
At start	12	6	1	0	213
Currently	6	6	3	3	1 107
Two years from now	7	3	2	6	1 469

Note: Not all respondents provided answers to all these questions.

The third row of Table 3.4 shows the number of firms expecting to have employment in the four size categories in two years' time. It can be seen that almost one third of firms providing employment data expect to have more than 100 full time workers by 2013. If achieved, this will be a remarkable expansion, given that none of these firms will have been trading at that time for a decade. The total number of jobs is forecasted to rise to 1 469, which is a 33% increase over two years.

There is, of course, the risk of over-optimism that consistently characterises the forecasts of entrepreneurs, but the fact that there has been a sharp rise in employment since start-up does provide some confidence in the projections. It also points to the direct employment-creation role played by such enterprises.

Who are the founders of these businesses and what sort of backgrounds do they have?

All the business founders are graduates in a variety of subjects, but the majority in science or engineering, with some in arts-related subjects. A small number have business-related qualifications such as MBAs.

What is clear is that the founders are highly educated individuals, compared even with those creating new firms in developed countries. For example, a random sample of those starting new enterprises in all sectors in England and Wales found that 27% of start-ups were launched by graduates.[2]

The majority of founders are male. There are 15 males and 5 females who are the lead partner, although there is a male who is at least a part owner in an enterprise in 17 cases.

There is a wide diversity in the ages of the founder. The oldest founder was 56 years of age and the youngest was 27. The majority are currently in the 30-50 age range, which also is very similar to the findings of Greene *et al.* (2008) for England where the median age of a new firm owner was around 40.

There is also a range of prior experience of business owners. A quarter currently own another enterprise, and one works as an employee in another firm, but the remainder have no other business interests. Again, this is close to the 24% finding of Greene *et al.* for England. Individuals who had owned a business before created seven of the firms, so about two-thirds were begun by someone starting for the first time. This, again, is in line with the Greene *et al.* findings. Of those that had prior business-ownership experience, only one continues to trade in their former enterprise. The others had closed their prior firms before they began their current enterprises.

The business owners were most likely to have been born and lived in the country where they started their businesses. While only one of the four UAE founders are born there, in Egypt, Morocco and Jordan all founders were born in that country. However this diversity is also to be expected. Immigrants to countries are frequently an important source of enterprise[3] but this contribution is extremely diverse. For example the Greene *et al.* findings are that for one area of England – Teesside- two thirds of new firm founders were born in the area, whereas in another – Buckinghamshire – this was only one quarter. This emphasises that there is no clear personal background from which potentially high-performance entrepreneurs emerge.

The attitudes of business owners

All the respondents said that starting a business had been the right decision for them. Table 3.5 reports their responses to questions about themselves and their personal satisfaction with being a business owner.

The majority of business owners view themselves as transparent, in the sense that their emotions are clear to others. However, there is a significant minority for whom this is not the case, perhaps emphasising the absence of a single "personality type" entrepreneur.

This point is even clearer in the responses to the question about whether they enjoy entering uncertain situations. Only half of the respondents said that they would be

comfortable with risktaking, which is somewhat surprising from a sample of new-business owners. This proportion may still be high, compared to the population overall, but it nevertheless indicates that the founders of high-potential enterprises are by no means unanimously risk-prone.

The one characteristic that characterises virtually all new business owners is the feeling that starting the business was the right thing for them to do. In spite of all the problems that they have faced, as noted in Table 3.2, starting the business has turned out to be more desirable than other career opportunities. There was only one dissenter from this view. This rhymes with research findings in other countries that point to higher levels of job satisfaction amongst business owners than amongst employees.

There is also virtual uniformity amongst owners that starting the business has enabled them to achieve other important life goals. This may be considered surprising, since business ownership is very time-consuming, but it nevertheless again points to an all-round level of life satisfaction amongst business owners.

Access to finance

Context

Table 3.2 shows that access to finance, along with competition in the marketplace, was referred to most frequently as a difficulty faced by founders.

In many respects, this is unsurprising because prior surveys by international organisations have suggested that a lower proportion of SMEs in the MENA region than in any other "comparable" area have access to loans and lines of credit.

According to Rocha *et al.* (2011) approximately 20% of SMEs in the MENA region have access to a loan/credit line; with only African SMEs being in this disadvantageous position. In contrast, more than 40% of Latin American and Caribbean SMEs can access funds.

Rocha *et al.* (2010) also show that considerably more large firms access loans and credit lines than SMEs. For example, in the MENA region, just over 40% of large firms access this form of credit. Rocha, *et al.* (2010) also show that, within the MENA region, there are wide variations in the relative importance or share of all loans to enterprises for SMEs. For example, in Qatar and Bahrain only a small proportion of all loans go to SMEs. This contrasts with countries such as Morocco where about one quarter of loans go to SMEs.

Amongst the five interview countries, the share of SME to total loans is it lowest in the UAE and in Egypt at around 5%. In Jordan it is 10%, in Tunisia it is 15% and it is highest in Morocco at 24%. Since the share of loans may be considered as a proxy for the ease with which SMEs can access finance it is expected that this would be least problematic in Morocco and most difficult in UAE.

Sources of funding used by new firms

The survey found a considerable diversity of sources in funding for new firms. Table 3.5 shows the sources of finance used by new enterprises both at start up and during the 12 months prior to the interviews ("last 12 months").

Several points emerge clearly from the table. First, virtually every firm used more than one source of finance at start-up: 45 for the 20 firms. Although the combination of sources does vary widely between the firms, it points to the importance of having a range of financial options available to the new firm founder.

Table 3.5. **There is a large diversity in sources of finance used to start a business and sources used in the last 12 months**

	Used to start the business	Used in the last 12 months
Personal savings/wealth	17	7
Credit card	–	1
Trade credit	6	4
Loans or gifts from friends and family	9	6
Home mortgage	3	2
Bank loan	6	9
Bank overdraft	1	2
Equity from informal sources	1	2
Equity from financial institutions	2	4
Asset-based finance	–	1
Retained earnings	–	1
NONE	–	–
TOTAL sources	45	39

Nevertheless, almost all businesses, when they begin, draw heavily upon the wealth and personal savings of the founder. Only three businesses began without using this source of funding. Starting a business of almost any size therefore requires its owner either to have resources themselves or to be able to access them – probably from family or close friends. Although that dependency does fall as the business becomes established, many enterprises continue to draw upon these sources even after having traded for some years.

At start up, funding from friends and family is the second most frequently used source of finance for these new businesses.

The third most frequently used sources are banks, in the form of loans and/or overdrafts for about one third of the sampled firms. This contribution does vary between countries – there being no examples of bank lending to the four new enterprises in Jordan, but three in Tunisia. External equity provision is rare for new enterprises, with only one firm out of 20 obtaining this from a formal source, although another firm obtained some informal [Angel] equity.

The final source used by a significant number of new firms when they began was trade credit in the form of goods or services provided prior to payment from the supplier. Six cases used this source and there was reference to it in all five countries.

The sources of finance not used in the start-up phase are also important. Formal venture capital is rare as a source of start-up funding, but so is the use of credit cards or any form of asset-based finance. Both these are important sources of finance for new firms in wealthier economies, so their absence in MENA countries perhaps points to a less diverse range of financing options open to new enterprises in this region.

The second column of the Table shows that different combinations of funding were in use at the time of the survey and that, since start-up, there is now less dependence on personal wealth/savings. In contrast, the importance of the bank-based sources has increased markedly and is by far the most frequently used current source, with nine firms identifying loans and two with overdrafts.

Furthermore, almost half the firms said banks were the single most important source of current finance. However, this is not true in all countries. In the UAE in particular, new firms appear to have more difficulty accessing bank finance than elsewhere.

Despite the increasing diversity of funding sources used as the enterprise develops it continues to be the case that credit cards, and asset-based finance sources, are rarely used. This contrasts starkly with, for example British SMEs, 54% of which had used credit cards as a source of business finance over the previous three years. Approximately one quarter of SMEs in the United Kingdom used leasing, hire purchase and other forms of asset finance.[4]

Success in obtaining finance from formal financial institutions

One widely used metric that seeks to capture the extent to which new and small firms can access finance from financial institutions is the proportion of firms that successfully apply for such funding. Amongst the survey firms, 73% of those applying for this form of finance were successful, which might be taken as implying that most firms succeed and perhaps even that the market for new firm finance is working well *for the specific type of surveyed firms*.

In the light of other survey findings, however, this might be a misleading conclusion. Five firm owners never even sought funding from banks for their business. The reasons they gave for this was, not that they never wanted finance, but, rather, that they felt there were too many problems in applying for it. Firms with such views are one element of a "discouraged-borrowers" group of SMEs. Such firms are now receiving much more attention from those studying SMEs' access to finance.[5] Two of the firms were in Jordan.

Several of the firms that applied for funding did not succeed on the first occasion and in some cases attempted several times to secure funds until they eventually succeeded. So, although there is a success rate of almost 75%, which is broadly in line with SMEs' success rates in other lower-middle income countries, this may give the impression that SMEs access to finance is easier than is in practice the case.

The inference drawn here is that there is merit in the financial institutions' emphasising the high success rate in order to encourage more applications, but the institutions themselves also need to do more to make that application process less challenging and intimidating.

One factor that normally positively influences the willingness of banks to provide funding is the presence of a coherent business plan. All firms in this survey stated they had such a plan, but it was not written in four cases, and, in three cases, it was only "informally" written. So, only in just over half the cases was there a formal written plan.

Unsurprisingly, the firms with the formal written plan were the most likely to review and update it twice a year.

Being competitive

Becoming, and staying, competitive is crucial for a new enterprise to be successful. The many dimensions of competitiveness were explored with the owners, with the results presented in Table 3.6. The owners were asked for their views on ten dimensions of competitiveness identified in the study and on the extent to which these were important for their business. The table reports on the proportion of respondents who believe the dimension was very important for their business.

The key factor that business owners believe makes their enterprise competitive is having high quality products and services. This was an important factor for 80% of the firms, while three others agreed that it was important. In contrast, the firm owners saw

Table 3.6. **What makes your enterprise competitive?**

Factors strongly influencing the competitiveness of your business	% saying very important
Lower prices than the competition	10
Having quality products and services	80
Serving those missed by others	50
Being first to market with a new product or service	50
Doing a better job in marketing and promotion	60
Having a superior location	35
Having modern attractive products	55
Having a management team with strong technical and scientific skills	65
Developing new or advanced technology	50
Developing new intellectual property	35

lower prices as much less important, only 12% of respondents thought this was very important or important.

A second dimension of competitiveness that respondents thought to be important was "having a management team with strong technical skills". This is an important finding since it implies that the technical and scientific skills that are delivered through graduate-level education are a key influence on competitiveness and hence on firm performance.

Finally, alongside low prices, two other factors are not seen as particularly important in making a new enterprise competitive. These are the importance of a superior location and the development of new intellectual property.

What seems to emerge is that low prices or fundamental novelty are viewed as less important to the competitiveness of a new enterprise than the "basics" of offering high quality goods and services delivered by a management team with strong technical and scientific skills.

Attitudes to entrepreneurship

This section captures the views of new graduate business owners about a number of aspects of entrepreneurship in their community. It is important to stress that respondents answered questions about their own community about which one assumes they had direct experience. These experiences are likely to vary between and within countries. Table 3.7 presents the data.

Table 3.7. **Business owners' attitudes to enterprise in their community**

The self-reported views of business owners about attitudes to enterprise in their own community	% strongly agreeing
The social norms and culture are highly supportive of success achieved through one's own personal efforts	30
Young people are encouraged to be independent and start their own businesses	20
State and local governments provide good support for those starting businesses	0
Bankers and other investors go out of their way to help businesses	5
Many of my friends have started new businesses	10
Many of my relatives have started new businesses	20

About one third of new business owners feel their communities are supportive of success achieved through one's own personal efforts. We take this to reflect communities in which successful entrepreneurship is held in high esteem. By implication, the reverse

may reflect the so-called "tall poppy syndrome" in which those who excel are cut down to the size of the other poppies in the field. Although not shown in the Table, three of the four Jordanian respondents were positive about attitudes, whereas the views of the Egyptian and Tunisian respondents were much less positive. Indeed the Egyptian respondents reported that there was more likely to be hostility towards, rather than support for, success.

Broadly similar findings emerge when respondents were asked about whether their community encouraged new business creation amongst young people. Here 20% of respondents strongly held that view, with another 30% holding that view but less strongly. Again, the views across the countries differed somewhat with Jordanian respondents being broadly positive, but the reverse for the Egyptian and Moroccan respondents.

What unites this group of new business owners is that none is persuaded that state and local governments provide good support for those starting in business. Tunisian business owners expressed the most positive views, whereas the UAE, Egyptian and Morocco owners were almost consistently negative, and in several cases strongly negative.

A similar level of consistency appeared when business owners were asked for their views on the statement that bankers and investors went out of their way to help businesses. Only one business owner, a Tunisian, agreed with this statement, three offered no opinion and the remainder disagreed with differing levels of vehemence. However, it is worth linking this to finance where the survey found that virtually three quarters of those respondents who had applied for bank finance were ultimately successful, and that this is broadly in line with evidence from other lower-middle-income countries. This suggests there are important perception, as well as reality, issues in the relationship between small business owners and the finance community.

The final two rows of Table 3.7 report on whether new business owners said their friends and relatives had also begun new businesses. A positive response could reflect an entrepreneurial environment in which enterprise creation is the norm. The answers suggest this is not generally the case with only two respondents clearly pointing to friends' having started a business, although there were four cases where family members had started one. There were no cases in the UAE of either family or friends having created a new enterprise.

How can governments stimulate entrepreneurship?

None of the 20 new business owners in this survey strongly agreed with the statement that, "the state and local governments provided good support for those starting new businesses". This varied between countries, with Tunisian respondents having more positive views of state support than either the Egyptian or the UAE business owners.

This section develops the theme of what the government does, and what it might do, to help new enterprises. Respondents were asked whether they had ever participated in public programmes and, if so, what their views were about the impact of the programme on their business.

Eight firms said they had participated in government programmes to help new and small firms. Only in Jordan were there no respondents who had participated in such programmes. Of the participants, one reported a very negative experience, one was positive, one felt it to be useful, but too general, and one felt that the fit with their business was weak. One respondent provided the observation that, whilst their personal experience had been satisfactory, their "general view" was not positive. Box 3.3 captures these diverse views.

Box 3.3. **Experience with government entrepreneurship support programmes**

"Overall a good experience as we got many good consulting projects going, although we worked with a way below average consultant in one project... But overall, the money spent by the government does not equal the services received. The reason businesses don't complain is because they only contribute 10-20%."

"We found the public programme to be very informative. The training provided has helped to formalise working and labour processes and also to clarify business objectives and needs. It also helped to implement the business plan."

"It was relatively useful but very general and not specific enough. They offer only general training in entrepreneurship competences and skills."

Source: Interviews (2011).

Non-participants were asked why they had not participated in public programmes. Their responses were evenly divided between those who claimed they were unaware of the programme and those who felt the existing suite of programmes were not suitable for their business and therefore would provide it with little value.

Finally respondents were asked the more open-ended question of what they felt government could do to help their business. This generated a wide range of highly disparate, and frequently contradictory, responses. These are reported in Box 3.4.

The first two responses capture the polar opposites in approach – with one favouring minimal government and the other favouring a much more supportive but "hands-on" approach. Between those two extremes are other respondents seeking "better but not necessarily more government". These include a range of suggestions such as a simpler and swifter issuing of licenses, the establishment of an easy small-claims court to encourage fewer payment delays and facilitation of part time working.

The second issue raised was the nature and scale of the tax regime. More than half the respondents raised some aspect of the tax regime, the majority simply wanting either a general reduction in taxes or, more frequently, a reduction in, or removal of, those taxes which they felt were disproportionately paid by their enterprise.

The final set of issues that was raised is not specific to the individual business, but would help businesses generally to perform better. These issues were much less frequently raised by respondents but included matters such as the reliable provision of basic economic infrastructure and services; ensuring there is a supply of well-trained workers; reducing the power of monopolists and leading a fight against corruption.

The diverse, and even contradictory, responses which the respondents provided when asked what governments could do to help their business emphasises there is no single

Box 3.4. **The general role of government**

- Do nothing – keep away from my business.
- The creation of a macro-economic support policy for the sustainability of entrepreneurship and SMEs, along with a governing body to oversee the implementation of this policy.
- A simplification of regulations, such as easy and straight licenses.
- Having a quick, cheap and easy small-claims court would be of real value to overcome difficulties with cash-flow and debtor payments.
- In the UAE part-time working is effectively forbidden. This prevents new enterprises from growing because they often could not afford full-time employees. So it is important that part-time working should be allowed.

The tax regime

- The government tax regime makes us uncompetitive.
- A reduction in income tax.
- Value Added Tax is too easily avoided by competitors who are either too small to pay it or who evaded it and so were able to charge lower prices to customers hence under-cutting legitimate firms.
- The cost of property registration is prohibitively high.

Other issues

- Public services such as transport, water and electricity and broadband access is poor and almost always unreliable.
- Government should improve access to skilled workers. Businesses seeking to compete with overseas enterprises are particularly hampered.
- Government could provide real help to small firms by addressing these "macro" issues.
- Government should break up monopolies because these firms charge high prices for their products.
- Fight corruption.

"magic bullet" for governments to fire so as to satisfy even the bulk of growing SMEs. In particular there is a sharp divide between those SMEs who simply want less government, and those who want better government. There is also the difficulty that tax payments are also consistently seen by SME owners as regressive and potentially undermining of their business, yet most governments require income to provide public services.

Despite these contradictions there are also important pointers for governments wishing to improve the environment for new enterprises with growth potential. At the very practical level the provision of courts to speed payment procedures is desirable, as is attacking monopolies and the provision of economic infrastructure. In some countries the elimination of corruption is of paramount importance.

Summary and conclusions

This chapter has reported the results of interviews with the owners of 20 new enterprises in five MENA countries: Egypt, Jordan, Morocco, Tunisia and UAE. All these businesses are new – defined as established since 2005 – and every business is owned by a graduate.

Since prior research has shown a broadly positive link between the educational qualifications of the founder and the performance of the enterprise, we expect these to be high-performing, and high-potential, ventures.

This expectation is realised since, as a group, these graduate-owned new firms have grown rapidly since they were established. Furthermore, they also expect to continue to grow in the future – some even more rapidly than they have in the past.

Six of the businesses currently have more than 50 workers and five are valued at more than EUR 1 million, even though they are all less than six years old.

However this process of growth has not been easy and many problems have had to be overcome. Virtually two thirds of new firms, when they began, reported experiencing problems with access to finance and the recruitment of skilled labour. Government regulations, combined with corruption, were also frequently mentioned as problems to be addressed.

The firms have taken steps to address these problems and so they are mentioned by fewer firms. Nevertheless, access to finance continues to be a difficulty facing a number of firms, together with the recruitment of skilled labour. The competition faced by the firm in its marketplace is also another important current problem.

In spite of having all these problems, the owners of new firms believe that the creation of an enterprise has been a good career choice for them. It has also given them the opportunity to satisfy other important life-goals.

Business owners derive personal satisfaction from entrepreneurship as career choice. Even so, they feel governments can make significant improvements in policy making and in improving access to finance.

The study points to a strong, and widely-held, view that the financial sector is providing inadequate access to finance for new and small enterprises. Only one out of 20 firms agreed strongly that banks went out of their way to assist enterprises.

At face value this might imply that few of these firms received bank funding, but this is not the case. More than two thirds of those firms that applied for bank funding actually received it. The problem is that a number of enterprises never sought funding. They were "discouraged" in the sense of not applying because they thought either that they would be rejected or that the bureaucracy would be too onerous. A second group are those who, although they eventually received funding, found the process both time-consuming and problematic because of having to try a number of sources before being accepted.

There is clearly a need for a considerably better dialogue between the finance and the enterprise community so as to understand better the perspectives of the other. It emphasises that this is a marketplace where information is highly imperfect and perhaps one in which all parties could benefit from greater interaction.

Although new enterprise owners' view of government is slightly more positive than their views of the providers of finance, it is the case that there are many suggestions of how government can assist enterprises of this type.

The potentially considerable economic impact of these enterprises means that their views and suggestions need to be taken very seriously. Unfortunately, these suggestions are disparate, and sometimes inconsistent with one another. There is no overarching agreement on what government needs to do.

Even so, there are some consistent and recurring themes. These are: reducing regulations and the associated corruption; a review of the tax system: its fairness, because those who pay it are at a disadvantage compared with those who evade or avoid it; the importance of basic reliable public services such as water, electricity and transport; and the provision of a legal structure which operates speedily and at low cost.

Notes

1. There is incomplete data for one firm.
2. Greene *et al.* (2008).
3. Levy (2007) emphasises this contribution.
4. See Figure 16.2 of Storey and Greene (2010).
5. Discouraged borrowers are those who, in conditions of perfect information would have applied for loans. They comprise those who are discouraged by the application costs and those who are discouraged because they fear they will be rejected. See Kon and Storey (2003).

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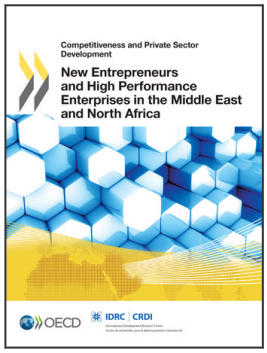

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