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The Failure of SMEs: Review of Literature and Development in Morocco

Ait Soudane Jalila[1], Essalhi Omar[2]

[1]Professor at the Faculty of Legal, Economic and Social Sciences, Rabat-Agdal, Morocco
Department of Management Sciences – Mohamed V University.

[2]PhD student Researcher in Management Sciences at the Faculty of Legal, Economic and Social Sciences, Rabat-Agdal, Morocco

Abstract: ***Being described as an abnormal event that marks the life cycle of the company, the failure of the companies represents an event where the company endures serious malfunctions that jeopardize the continuity of its operation and its sustainability. In this sense, the purpose of this article is to present a review of theoretical literature resulting from analyses according to legal, economic, financial and strategic approaches, also to present a descriptive analysis of the evolution of the failure of companies in Morocco during the last decade. And those in order to further identify and explain the concept of business failure, raise the nuances between terms that may arise by addressing this topic and identify the main causes (the why) and the process (the how) the failure of Moroccan companies.***

Keywords: failure, bankruptcy, company difficulties, descriptive analysis, process, business continuity

1. Introduction

In today's highly uncertain and ever-changing environment, companies can face challenges that risk compromising their viability.

They have become more subject than ever to competitive tenacity, technological change and the inexorable need for performance. They are then faced with the obligation to deal with the obstacles that constantly hinder their efforts. The latter depends on their ability to take appropriate action to remove the coercion that threatens the existence of companies. Nevertheless, such a challenge would be far from easy despite the efforts made, which would condemn firms to become bankrupt. This was confirmed by the successive disappearance of several major companies at the dawn of the 21st century, like Enron, Worldcom. Moreover, the Moroccan executive has not been pardoned, since many companies listed on the Casablanca stock exchange have deserted the Moroccan market because of the failure, of which the liquidation of SAMIR remains the most publicized.

At first sight, failure is in itself a term that reflects a reality that is difficult to grasp. The ambiguity underlying this phenomenon depends on the polymorphism it embraced. It is simultaneously approached in an economic, financial and legal approach. In an economic approximation, the default represents the inability to secrete cash flows to maximize shareholder value by considering social and environmental constraints [1]. In its financial design, the default is defined as the structural inability to meet financial commitments at maturity[2]. Such a definition constitutes an insinuation of a legal nature, in so far as the Moroccan legislator considers as default any undertaking which fails to cover its liabilities payable by its available assets.[3]

The analysis of the problem of business failures in Morocco presents a classification that can be addressed according to several criteria. However, bankruptcy or default is the legal translation of failure related to economic and financial difficulties. The proliferation of crises, the scarcity of resources and the asymmetry of information are findings that justify the need to apprehend this topic in order to calm its repercussions especially to Moroccan SMEs.

The purpose of this article is to further define and explain the concept of business failure and to raise the nuances between the terms that may arise when addressing this topic, on the one hand and on the other, explain the process of the failure and its evolution in Morocco during the last decade.

At the end, we will try to answer the following question:

- What are the main causes of the failure of Moroccan companies ?
- As part of this contribution, the article will be structured as follows:
- The presentation of the literature and the theoretical framework of the failure; The second item will be reserved for the failure process; The third point will be devoted to the evolution of the failure of Moroccan companies.

2. Literature Review: A Concept that is difficult to Define

[1] OOGHE H. and VAN WYMMERSCH C. Treatise on Financial Analysis, Namur: Presses Universitaires de Namur, 11990. In: ZOPOUNIDIS Constantin, Evaluation du risque de défaillance de l'entreprise: méthodes et cas d'application, Paris: Economica, 1995, p95.

[2] HOL S., WESTGAARD S. et WIJST V.N, Capital structure and the prediction of bankruptcy, Norwegian University of Science and technology Department of industrial Economics and technology Management, juillet 2002, p. 1-20.

[3] Kingdom of Morocco, Ministry of Justice and Freedoms, Dahir No. 1-96-83 of 15 Rabii I 1417 (1 August 1996) promulgating Law No. 15-95, Trade Code, Title II, Procedures for Dealing with Company Difficulties, Article 560, page 215.

After a broad review of the literature on the business failure phenomenon, we find that over the years, different types of contributions have emerged.

The failure of companies is an event that can occur during the life of the company, it results practically in a state of cessation of payments.

Failure is a phenomenon whose occurrence risks compromising the existence of any company, regardless of its size. Given the seriousness of the failure on the different stakeholders specifically shareholders, a full understanding of such a fact is necessary to undertake preventive measures.

Failure refers to a reality that is neither complacent nor to demystify or grasp as much to define it as to discern between companies that are failing and those that are not. Often combined with a financial connotation, it represents the point of intersection between several disciplines. It is understood as an evolutionary process that is examined simultaneously according to an economic, financial and legal approach and whose causes degenerate among themselves to potentially succumb to bankruptcy.

The concept of a failing company can be complex and dynamic, as well as difficult to identify because of the various methods of analysis.

Cata and Zerbib (1979) discuss the failure of the company by referring to a legal, economic and financial approach. According to these two authors, the legal default is in principle an action for bankruptcy linked to an insolvency situation. The economic failure refers to the lack of profitability and efficiency of the productive apparatus. Finally, financial distress is linked to cash flow problems and inability to repay debts. For Derni and Grucifix (1992), the company is threatened from the moment when profitability becomes insufficient since it no longer allows to remunerate own funds at market rates. The company no longer finds a solution to manage its debt, which results in payment incidents (Gresse, 1994).

Zopounidis (1995) shows that there is no single definition of failure. It is therefore necessary to give a broader definition, including qualitative variables in the analysis of financial distress (Sun and Li, 2009). The consideration of these qualitative variables alongside the financial variables will provide a more rational and comprehensive analytical framework for the prediction of the failure.

According to OOGHE and VAN WYMEERSCH (1996), the main phases of financial distress are presented as follows:

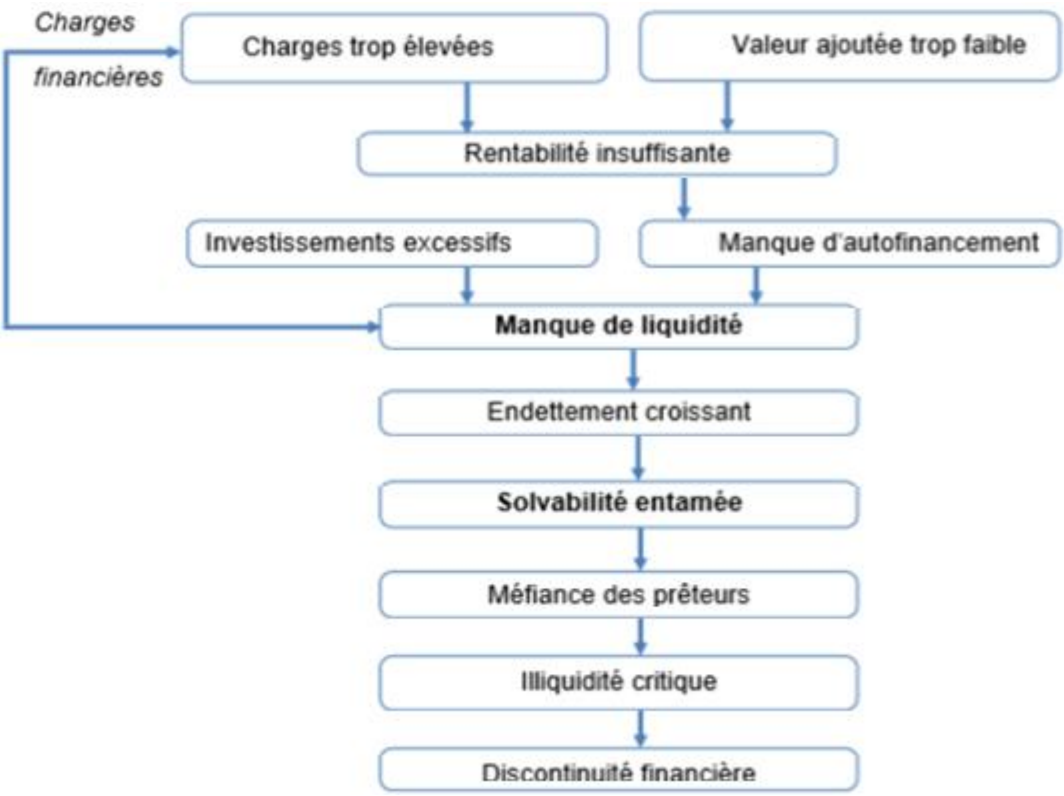

Figure 1: The economic chain leading to financial discontinuity

Source: Ooghe and Van Wymeersch (1996) p.16

In 1976, ARGENTI, aware of this problem, specifies that, in order to fully understand the phenomenon of the failure and be able to prevent it, it is necessary to understand it in its entirety and to be able to identify the why (causes) and how (processes) of the failure. It stresses that only an overall qualitative approach to organisational, strategic and operational aspects can identify the causes of the failure and that, in seeking an explanation of the company failure, the dynamic aspect of the company's failure process cannot be ignored. Indeed, bankruptcy is not a sudden and unexpected event (LUOMA and LAITINEN, 1991).

- The strategic failure

The success or failure of the company depends on both internal (human, technical, financial, organizational, etc.) and external factors (competition, market, legislation, etc.). For the supporters of this current of reflection, the failure results from the non-compliance of the strategic recommendations.

The risk of default is integrated into the strategic approach through portfolio analysis models, the simultaneous analysis of the competitive position and the value of the activity. To the extent that any activity follows a well-identified life cycle" (see DONCKELS ,1990) the trajectories of failure and bankruptcy are those that lead to the marginalization of activity.

At the end of this process of evolution, the company in a situation of failure possesses only problem activities: some have a low profitability but require big financial needs (dilemma), the others require little financial means but are no longer profitable (dead weight) (GUILHOT ,2000). Based on the mastery of PORTER (1986), this author points out that in addition to rivalries between firms in the same sector, the company is confronted with a regiment of contradictory forces (pressure from suppliers and customers, threats from new entrants and substitutes, sometimes ambiguous role of government…)

Several studies and studies have focused on the competitive environment which is a field of analysis of company failure. Indeed, by applying the Porter five-force model (1979), the failure is due to intra-sectoral competition (BALDWIN and AL., 1998), geographic concentration (DAUBIE, 2005) or in the industry (MALECOT, 1991), chain failures (JAMINON, 1986; BLAZY, 2000), the fall in demand (MALECOT, 1981), the bankruptcy of major customers (LIEFHOOGHE, 1997), the deterioration of the supplier relationship or the failure of a major supplier (LIEFHOOGHE, 1997), the threat of a substitute product (BRILMAN, 1982) and the threat of new entrants.

Thus, an absent or erroneous strategy (SHARMA and MAHAJAN, 1980), an absent or excessive diversification (HAMBRICK and D'AVENI, 1988), commercial and technological dependence (MARCHESNAY, 1988), the absence of an innovation strategy (PICORY, 1995; VAN CAILLIE and AL., 2006) and a deficient information system and inadequate production structure (BLAZY, 2000) are major causes of business failures.

- The financial failure

The accounting analysis done previously from the income statement has some limitations. It is an insufficient criterion. It calculates value added on the basis of turnover. The latter may be virtual insofar as it does not necessarily correspond to the collection of sales proceeds. A portion of the turnover may be compromised. It may contain unpaid debts and subsequently generate bad debts. Consequently, the situation of the company may be compromised (even with a good turnover) if the cash in and disbursements (cash drain) are not carried out at the right time.

From a financial point of view, a company is considered to be failing if it has cash flow problems and is unable to meet its commitments. If the profitability is insufficient, the operation of the company is threatened, since it can no longer remunerate the capital at market rates. Under these conditions, it will be less easy for the firm to obtain new capital since it is not in a position to remunerate it. It will then have to apply for a new credit line in order to ensure the continuation of its activity.

This use of external funds will lead to additional financial burdens that will contribute to the deterioration of its financial results. Similarly, the company may experience liquidity problems in the event that its operational availabilities are insufficient to cover all of its expenses (BAL and AL., 2010).

The financial default is therefore similar to a recurring insolvency situation observed at a given maturity. Thus, financial problems, which are the ultimate manifestation of the degradation process, must push companies to give a large place to the financial function in their management.

- The economic failure

The economic failure of an enterprise is characterized by its inability to generate a monetary surplus, and therefore an internal financing capacity sufficient to guarantee a sustainable coverage of the investment cycle.

It can also be said that the company is economically bankrupt when its expenses far exceed its revenues. This leads the company to find itself unable to remunerate its factors of production which contribute to the realization of its economic assets.

The warning signs of business failure can be many and varied. These indices are to be sought at the level of the defection of the main functional elements of the company (the market; the products; the technology; the human resources; the management team, the social and legal climate, etc.)[4]. These are therefore general causes that regularly and globally affect failing companies.[5]

The default occurs when the holding can no longer meet its liabilities payable by means of, its available assets. It manifests, then, by the lack of profitability of the company, its inability to generate profits and to self-finance.

According to Greese (1994), a company is failing when it generates negative value added. The company then generates less resources than it spends and is unable to pay, at market prices, the production factors necessary to guarantee the quality and continuity of the firm's activity[6]. Ooghe and Van Wymeersch (1990) argue that a company is failing when it fails to meet its economic objectives of

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[4] CRUCUFUX F. and DERNI A. "Business Recovery: Symptoms of Failure and Strategies", Academies, Free Enterprise, 1992, p.13
[5]MALECOT J.F. op.cit p.10
[6] GRESSE Carole, les entreprises en difficulté. Paris: Economica, 1994, 112 p. in: BEN JABEURS S. et FAHMI Y., les modèles de prévision de la défaillance des entreprises françaises: une approche comparative, IPAG Business School, Working paper, 2014, p 1-24.

maximizing shareholder value on a regular basis, given social and environmental constraints.

According to classical theories, the bankruptcy of enterprises can be explained by two parts: by the natural sanction of the failing agents and by the ruin of the small capitalists by the big ones.

For the first part, Richard Cantillon (1755), considering entrepreneurs as “people with uncertain wages”, asserts that the failure of entrepreneurs can be explained by low profits due to the phenomenon of uncertainty and intense competition.

For Jean-Baptiste Say (1803), the risk of bankruptcy depends on two values: the personal value of the entrepreneur where bankruptcy is the result of the action of an incapable and negligent man, and the sectoral value where poor capital allocation leads to overproduction.

- The legal failure

In this regard, two ideas should be borne in mind. Indeed, since Roman law, bankruptcy rights are collective, general and public proceedings aimed at eliminating the company or allowing its recovery, which is their first aspect, the second being that at the origin of these proceedings, there is the insolvency of a debtor which manifests itself in the cessation of payments, since he is unable to meet the liability immediately payable with his available assets.

The failure or difficulties of the company are mainly related to the cessation of payment. The legislator specifies that the defaulting company is the one "that is not able to pay its debts at maturity"[7]. in Moroccan legislation the default is linked to the cessation of payments of an undertaking which has carried out a procedure of internal prevention of the difficulties of the undertaking. Therefore, it is considered that a company that is failing or in difficulty is the one that is in default after having presented symptoms that have clearly threatened the continuation of normal activity and have jeopardized the continuity of the operation[8].

So from a legal point of view, and according to the Moroccan legislator, the failure of companies is mainly defined as the inability of the company to honour its financial commitments, in other words, its solvency vis-à-vis its creditors - a debtor fails to pay the debt that has become due at maturity.

- Organisational and managerial approaches to failure

The managerial and human organizational aspect is undoubtedly one of the aspects that has been most often highlighted during attempts to explain company failures, under the controversial term of management errors of incompetence of the leader, etc.

The managerial environment and its influence on the failure of companies constitute a fairly rich field of empirical investigations. Indeed, the competence of the management team, the level of quality and motivation are all factors that have shed light on the failure of companies (OOGHE and WAEYEART, 2004; OOGHE and DE PRIJCKER, 2006).

Indeed, CONAN and HOLDER (1979) show, in a study carried out in France[9], that the incompetence of managers has a direct impact on the failure of companies. According to these two authors, this incompetence can be explained by the ageing of the leader or by the lack of power, by the management of an unfit or ill-prepared person or by the inability of the manager to control the changes in the company and its environment.

As a result of the increasing deterioration of the company’s organisational factors, a decline in the company’s market is observable (MARCO, 1989), notably through a decrease in the volume of its activities (decrease in turnover).

The review of the literature and the various empirical studies allows us to highlight one constant: the insistence on the role of the leader in the advent of bankruptcy. We confirm this. The leader is often the man-orchestra, the only master on board. Under these conditions, it becomes easy to assume full responsibility for the failure of an SME to its manager, to the management errors of the latter. However, a critical analysis of this finding allows us to express several reservations, as suggested by PACHE (1990), taken up by GAUDISSART (1993).
By proving the responsibility of the manager for the bankruptcy of his company, we try to prove, PACHE tells us, the incapacity of his manager. But this author continues, what does this term cover: a manifest inaction? Accounting irregularities? A proven lack of competence? In other words, management errors can expose a lot of different causes. This notion is too vague and seems to be a safe haven for economists struggling to analyze the real causes of the failure. This concept will require further study.

Other studies, such as those carried out on SME samples (KAPLAN, 1948; MAYER and GOLSTEIN, 1961; MARCH and SIMON, 1964; SHENKER, 1973), show that personal variables reflect the root causes of the problem of business failure.

3. Process of Default

Through the examination of the literature devoted to the failure of enterprises, this phenomenon is not a sudden sudden sudden event, but an evolutionary process that spreads over time and through which the enterprises whose fate is bankruptcy move. Marco (1989) proposed a general representation of the path a company would take to reach bankruptcy, which can be divided into four main phases: the origin of the failure, the onset of symptoms, the switch to red flashers and bankruptcy.

[7] Law No. 15-95 forming the Commercial Code, Book V on the difficulties of the enterprise, Title 1 of the procedures for preventing difficulties, Article 50.
[8] It should be noted that the cessation of payments is not always followed automatically by a cessation of activity.

[9] CONAN J. and M. HOLDER [1979], «Analyse des causes de faillite des PMI», Thèse d'Etat, Université Paris Dauphine, CEREG, cited by DAIGNE, 1986

The following diagram summarizes the failure path according to MARCO in 1989:

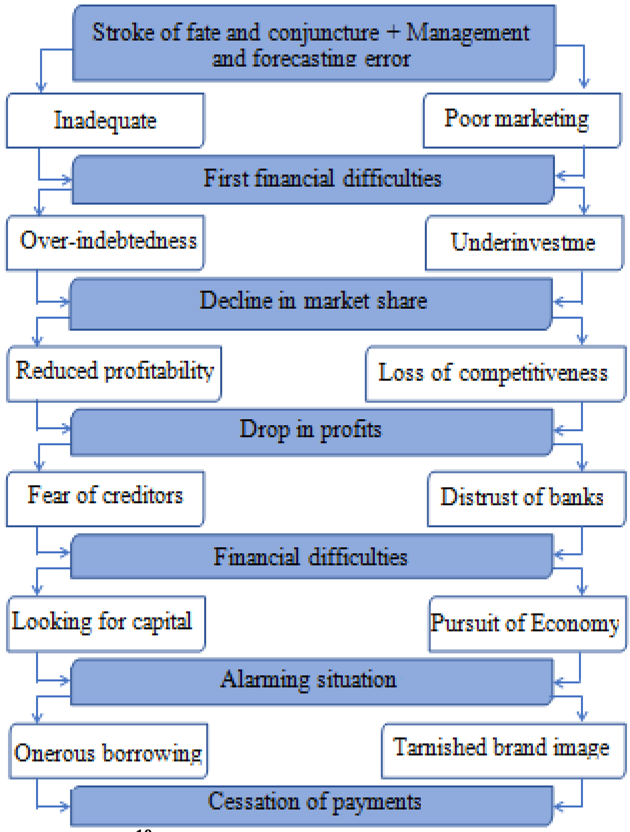

Figure 2[10]: The path of the MARCO failure (1989)

- The origin of the failure

The failure of the enterprise is the result of the interaction of several factors at the level of three parts of the analysis: individual factors, microeconomic factors and macroeconomic factors[11]. In addition, microeconomic factors, particularly the resources of the enterprise and their implementation are fundamentally conditioned by the characteristics of the key individuals and the external environment of the enterprise. In this logic, the failure of the company is mainly related to the attitudes of the management team, the environment of the company and its ability to cope with it. In this sense, the origin of the failure can be explained by two approaches:

- The deterministic approach, Darwinist which states that the company is influenced by its environment to the extent that it exerts impulses on it by conditioning the availability of resources in terms of quantity and quality as well as on the prospects of its evolution[12] .
- The proactive approach, known as behaviorist, emphasizes the influence of the leader, through his experiences, attitudes and motivations, on the functioning of the company and the portfolio of resources[13] .

In addition, under the resource dependency approach, the enterprise is perceived as a scarce set of financial, technical and intangible resources. On the one hand, obtaining the various resources depends on the environment in which the enterprise operates, to the extent that the environment influences it and determines the quantity and quality of the resources made available to it. On the other hand, the management team partly determines the structure of the resource portfolio made available to the company[14]. Under the constraints imposed by the company's external environment, the management team determines how to implement the resources made available to it to achieve a level of performance, that is, the management of the company. This condition conditions the survival or disappearance of the company. Moreover, the way in which the resources made available to them are deployed, under pressure from its environment, makes it possible to define the strategic position of the company on the market[15].

As a result of the existence of an imbalance in the management of the enterprise, the resources of the latter would be affected and would see a deterioration. The interaction between these elements changes the firm's market position. When this situation becomes recurrent, the structure of the resource portfolio and the management of the company will continue to deteriorate. As a result, the imbalance becomes insurmountable and the company enters the infernal spiral of failure by moving from a normal business to a failing business.

- Onset of symptoms of failure

When the company tumbles into the spiral of failure, the symptomatic signs begin to manifest in the absence of preventive or curative measures to restore the situation of the firm. They then become observable to the different external partners of the company through the deterioration of the various financial indicators.

The alteration of the organisational elements of the company leads to a decline in the market resulting in a decrease in the volume of activity and turnover. Indeed, the company notes a downward trend in profitability and its ability to cope with different competitors, which explains the deterioration of the indicators related to profitability and the decline in the company's strategic position. The first signs begin to manifest themselves to the different external partners of the company. As a result, suppliers are beginning to shorten payment deadlines on very short notice, fearing that their debt will not be honoured, while customers are exploiting their strong position to negotiate comfortable payment deadlines. Following the decline in the company's economic profitability, liquidity is compromised, as cash flows become insufficient to ensure the remuneration of production factors and the self-financing of investments. Unable to capture new capital, the managers are forced to

[10] MARCO L., la montée des faillites en France: 19éme – 20éme siècle. Edition l'harmattan, collection Logiques Economiques 191 p.: observatoire des PME

[11] CRUTZEN N. and VAN CAILLIE D., le processus de défaillance de l'entreprise: intégration et relecture de la littérature, Actes de 9ème congrès international francophone de la PME, association internationale de recherche en PME, Louvain-la-Neuve, Belgique, oct 2008 p 1-20.

[12] MELLAHI K. et WILKINSON A., Op. cit. p 22

[13] Ibid. p 27

[14] SHEPPARD Jerry Paul, op. cit., p 31

[15] BARNEY Jay B., Firm ressources and sustained competitive advantage, journal of management, vol 17, n°1, 1991 p 99-120.

solicit new debt. Under the shadow of its problematic state, the bank could ration the credit and not renew the credit contract with the company. These could lead the company to abandon projects that are profitable. In the event that creditors agree to the loan, they will be required to charge a high risk premium. Consequently, the increase in debt leads to a significant increase in the financial burden, which risks affecting the balance sheet balance when it is simultaneous with the deterioration in solvency: working capital cannot cover the need for working capital, This explains the poor position of the cash balance.

In such circumstances, the strategic position on the market retreats again and leads to a decline in its profitability, a drying up of liquidity, and then a degradation of resources. Moreover, management remains inadequate. To remedy the situation, the company is going into debt again, which will further increase the financial burden. The signs of failure are becoming increasingly recurrent and serious. As a result, the company enters a vicious cycle in which the symptoms continue to follow one another. However, there is still a good opportunity for future survival and growth and prosperity if substantial injections of funds and funding can be obtained and if the underlying cause.

- The red flashing lights

As time passes, the spiral of failure reveals the flashing lights of a potential bankruptcy. The succession of the symptoms of the failure leads the company to a situation which it is too late to rectify, given the speed with which they follow. In this stage, the financial situation of the company is severely collapsed with a critical level of solvency and liquidity. At this alarming stage, the various external partners of the enterprise are beginning to become reluctant towards the enterprise (NEWTON, 1985; p 45). Indeed, it suffers indirect costs of bankruptcy. Indirect costs include loss of sales, loss of profits and, possibly, the inability of the company to obtain credit or issue securities, except under too onerous conditions[16].

- Bankruptcy

When liquidity and solvency are seriously affected, the company is in a state of default accompanied by weak strategic positioning and poor management. Total insolvency is confirmed when legal measures, involuntary or voluntary, are taken by filing an application under the Commercial Code. However, the process may end with a split, absorption or merger[17].

3. Evolution of the Failure of SMEs in Morocco

Small and medium-sized enterprises form the basis of the economic fabric of Morocco (93%) (the main link of the Moroccan entrepreneurial fabric), are not all in good health Numerically by far the most numerous, they contribute positively to economic growth, job creation and regional and local development. Nevertheless, their contribution largely falls short of the potential that this category of companies can claim.

However, the SME must be differentiated in its treatment in relation to the large enterprise and specific support, better adapted to its needs, must be provided. Because of the fragility of its structures and the weakness of its resources, the SME remains more exposed to the constraints of its general environment, which it suffers from, more than the large company, hazards and uncertainties. This translates into a high failure rate for new enterprises and an insufficient level of competitiveness and performance for existing SMEs.

- Breakdown of enterprises by category[18]

The business structure in Morocco is 93% made up of TPME (64% of TPE and 29% of SMEs) against 7% of GE.

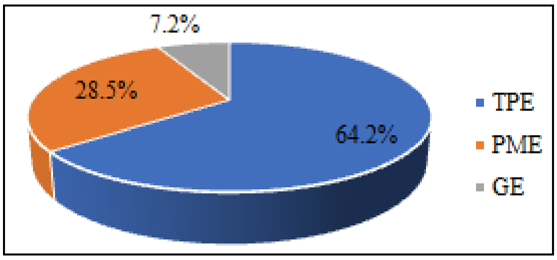

Figure 3: Distribution of enterprises by category

- The evolution of business failure

This descriptive analysis focuses on companies that fail to comply with data provided by the firm inforisk, which specialises in commercial intelligence on Moroccan companies over a ten-year period.

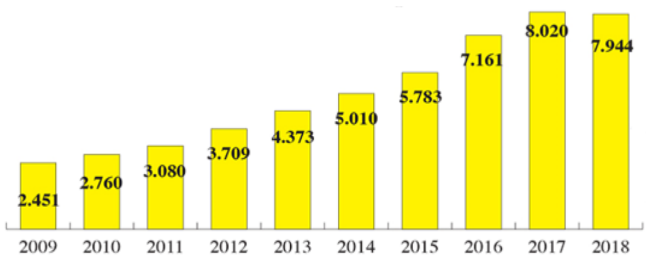

Figure 4[19]: Business failure in Morocco (2009-2018)

According to the graph above, throughout the study period. The growth rate of failing companies has increased steadily over the period 2009-2017, with a modest decline in 2018, but a decline for the first time since 2009. The year 2017 was a killer for companies operating in commerce, construction and real estate.

According to inforisk, one of the main demands of SMEs is payment deadlines, especially in the private sector. The situation is deteriorating every year and is an accelerator of

[16] WARNER Jerold B., Bankruptcy Costs: some evidence, the journal of finance, vol 32, n°2, papers and proceedings of the thirty-fifth annual meeting of the american finance association, atlantic city, new jersey, september 16-18, 1976 (May, 1977), p 337-347.

[17] BALCAEN S., MANIGART S., BUYZE J. et ALL, firm exit after distress: differentiating between bankruptcy, voluntary liquidation and M&A, small business economics, vol.39 n°4, november 2012 p 949-975.

[18] National Business Survey, HCP Statistical Business Register data ; 2019.

[19] Source: Inforisk specialist in intelligence on Moroccan companies.

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failures, the other obstacles to the development of SMEs, including access to finance, there are advances. Small and medium-sized enterprises, which are poorly structured to use market financing, have no recourse other than the bank.

According to Inforisk indicators, 8,439 Moroccan companies went bankrupt in 2019. This is an alarming figure, especially since it places Morocco in the category of countries where the economic situation and unpaid payments are particularly fatal for companies.

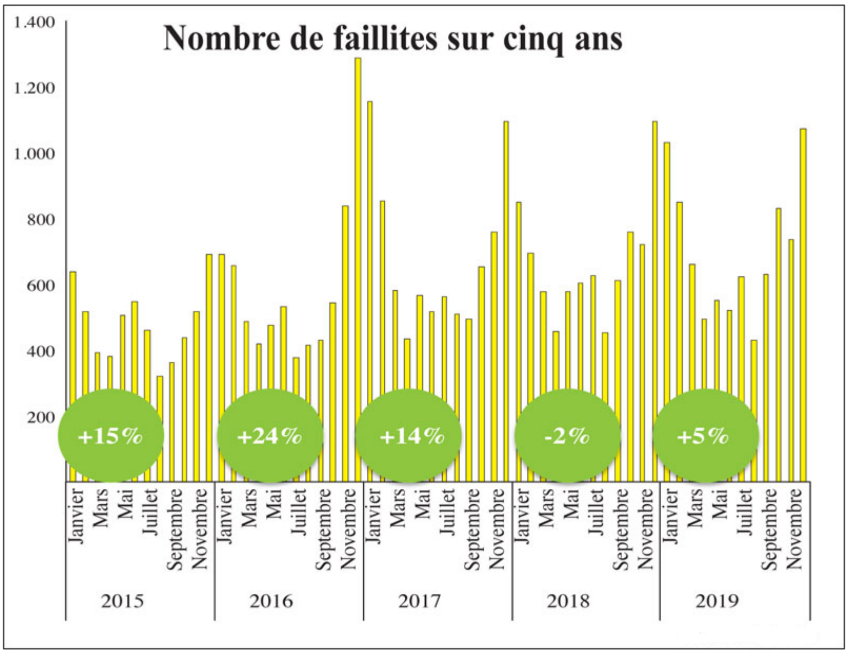


Figure 5: Business failure in Morocco (2015-2019)
(Source: Inforisk specialist in intelligence on Moroccan companies)

After a slight lull in 2018, we can see that corporate insolvencies started to rise again in 2019. The number of bankruptcies has increased from 5% to 8,439. In ten years, the number of bankruptcies has multiplied by 2.4. Morocco is one of the countries where the economic situation and unpaid payments are particularly deadly for businesses.

The Euler Hermes Group anticipates a 5% increase in insolvencies for the year 2020. Tens of thousands of other companies are on death row. It should be noted that very few of them use the collective procedures provided for in the Commercial Code to try to break the deadlock. Those who put themselves under the protection of Book V of the Commercial Code are for the most part unrecoverable.

This approach is culturally seen as a disgrace and shame by leaders. In some cases, they are playing time games to avoid tax controls. On the other hand, a company under a safeguard plan, for example, is often mistakenly considered to be in default, which makes customers and suppliers flee and precipitates its descent into hell. Last year there were only 11 safeguard proceedings.

- **Sectors hit by higher insolvencies in 2019 [**Source: Inforisk specialist in intelligence on Moroccan companies**]**

Trade, Real Estate and Construction remain the most affected sectors. In total, 2,960 bankruptcies were registered in trade and 1,800 in real estate in 2019. Defects in the BTP total 1,280. Behind business losses, there are also thousands of jobs at risk.

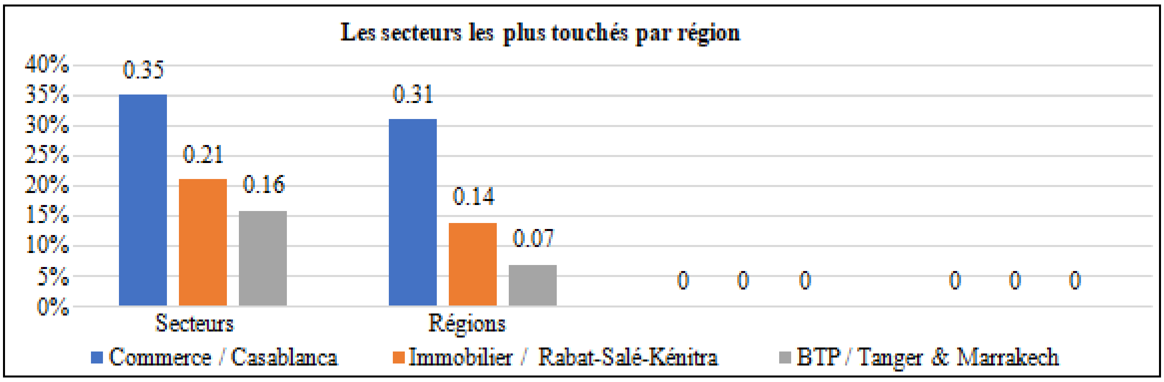


Figure 6: Most affected sectors

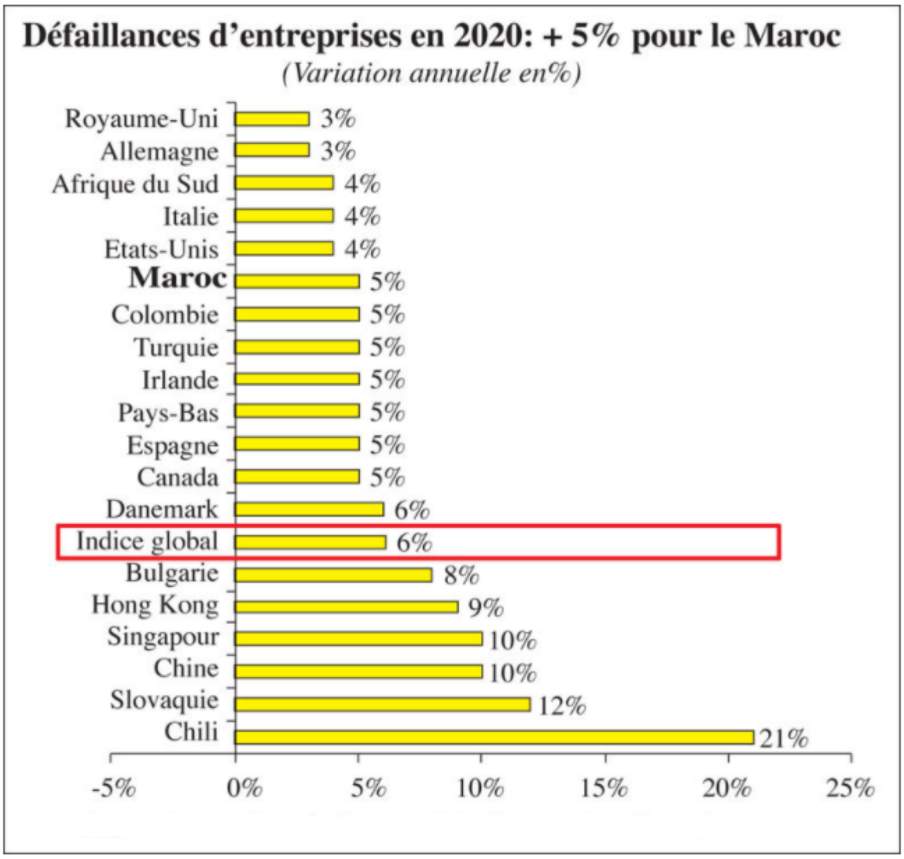
Given their weight in our economy, 3 sectors are strongly represented in business failures: Trade (35%), Real Estate (21%) and Construction (16%). Clearly, these three sectors account for more than 72% of our failures. In geographical terms, the most affected cities are Casablanca (31%), Rabat/Salé/Kénitra (14%), Tangier (7%) and Marrakech (7%).

Regarding the first sector, unfair competition from the informal sector is a first explanation of the large number of failures. Compared to real estate and construction, these two sectors are affected by cyclical effects that weaken businesses in these sectors. Beyond the economic factors, the sectors most affected are also those in which payment deadlines are among the worst. These unpaid payments are an accelerator for businesses to disappear.

According to studies carried out, the lengthening of payment periods or unfair competition from the informal sector are the main reasons put forward by experts to explain this phenomenon. It should be noted that in addition to the negative effect that the informal sector has on the activities of enterprises operating in the formal sector, Informal enterprises continue to be very costly to the state as they do not take social security for their employees, pay no taxes and compete unfairly with structured enterprises. This weight of the informal sector in the national economy exerts a negative influence on the business environment, and moreover on the competitiveness of other national enterprises.

So many reasons that push these small structures to put the key under the mat.

For the year 2020 and according to Euler Hermes' new mapping, the risk of unpaid debts is increasing worldwide. For Morocco (+5%) is on the list of countries where the situation is deteriorating sharply. This increase is significant, but remains less significant than the situation established in 2019 (+7%).



Source: Nationla Statistics, Solunion, Eler Hermes, Allianz Resarch

- Business insolvencies expected to rise in 2020 – COVID-19 –

A wave of bankruptcies is expected in late 2020 and early 2021, the number of which could well exceed for the first time the 10,000 mark annually. Economic actors and experts are unanimous.

For this year, which will be considered special and unique following the state of health emergency declared in March 2020, Moroccan companies have experienced an unprecedented period of cessation of operation (83% of small and medium-sized enterprises were shut down during quarantine[20]). Several companies, industrial and commercial, were obliged to shut down their activity, and therefore their operating and funding cycles have been profoundly impacted by this health crisis.

If the number of company defaults at the end of 2019 were close to 8439 defaults, due to late payments and low order books, the insolvencies and bankruptcies for the current year will be devastating for the Moroccan economy. No sector will be spared. All economic sectors are deeply affected and

[20] Based on studies by firms and experts.

in continuous decline, with the exception of the food, telecommunications and domestic energy sectors, which have been able to achieve growth in these particular circumstances, following the increase in household consumption in confinement.

4. Conclusion

At the end of this article, It follows from this review of theoretical literature that the analysis of the failure of companies in terms of real and effective causes is not easy to identify because of this concept which is appears at once polysemic, polymorphic, dynamic, transversal and difficult to circumvent. Indeed, several concepts are used to mark such a situation of failure, namely bankruptcy, cessation of payment, default and the company in difficulty. Thus, a multitude of analytical approaches come to clarify this phenomenon and focus mainly on the legal aspect which represents the first part interested in the problem of bankruptcy, then the economic, finance and management.

Aware of this problem and in order to be able to identify and prevent it it is necessary to understand it in its entirety, to identify the why (causes) and how (processes) of the failure.

In the case of SMEs, the main link of the Moroccan entrepreneurial fabric, are not all healthy and based on interviews with specialists, experts, judges and business leaders the very significant increase in the mortality rate of companies is mainly due to the decline in sectoral turnover and profit margins following the lasting deterioration of the company's activity, increased working capital requirements, longer payment periods reflecting future cash flow difficulties and increased financial risk … several other factors are involved.

According to the statement of the Euler Hermes group in total, more than 20,000 companies could be shut down by the end of 2021. And so Morocco will not be spared by the wave of bankruptcies that is looming, business failures in the Kingdom could jump by 25%.

While economies around the world are slowly emerging from the world's worst coronavirus pandemic, much of the business failure is yet to come, and the post-pandemic debate is just beginning.

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