Impact of Governance on the Failure of Moroccan SME Exporters

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Abstract

This study aims to assess how governance can affect the ability of exporting SMEs in Morocco to cope with exchange rate fluctuations, by identifying the resulting failure factors and proposing effective governance strategies to address them. The hypothesis formulated is that good governance within exporting SMEs can improve their ability to cope with exchange rate fluctuations by reducing the default factors associated with these variations and by promoting the implementation of effective exchange rate risk management strategies. The epistemological framework of this study is based on a quantitative approach, using a linear regression model to analyze data collected from Moroccan SME exporters. The results of the analysis enable the identification of good governance practices, such as management transparency, quality of financial information and stakeholder participation. Currency risk management measures, such as hedging, are also recommended to help exporting SMEs cope with exchange rate fluctuations. Finally, support measures for exporting SMEs, such as training in financial management and foreign exchange risk management, are proposed to strengthen their ability to cope with exchange rate fluctuations.

Keywords: governance, failure, SMEs, export, Morocco

1. Introduction

Small and medium-sized enterprises (SMEs) play an essential role in the Moroccan economy, driving growth and job creation. Among these SMEs, those that are export-oriented face specific challenges linked to international competitiveness, exchange rate fluctuations and the volatility of global markets. In this context, governance becomes a key element in ensuring the survival and success of Moroccan SME exporters. The aim of this study is to explore the impact of governance on the failure of SME exporters in Morocco. Governance refers to the structures, processes and practices that govern decision-making, transparency, accountability and stakeholder participation within a company. In the context of Moroccan SME exporters, governance plays a crucial role in mitigating risks, improving operations management and strengthening competitiveness on international markets. This research adopts a mixed-methods approach, combining qualitative and quantitative data, to provide an in-depth analysis of the relationship between governance and failure in Moroccan SME exporters. Qualitative data will be collected through interviews with managers and sector experts, focusing on current governance practices, challenges encountered and opportunities for improvement. Quantitative data will be obtained from surveys and financial analyses of SME exporters, enabling assessment of performance, financial stability and default rates.
The results of this study will shed light on the links between governance and failure of Moroccan SME exporters. It is expected that strong governance practices, such as management transparency, quality of financial reporting and stakeholder participation, will help to reduce the risk of failure and improve companies' resilience to export-related challenges. In addition, currency risk management measures, such as hedging, and support measures, such as training in financial management and currency risk management, can be recommended to strengthen the ability of exporting SMEs to cope with exchange rate fluctuations and mitigate the associated risks. The results of this study will not only benefit Moroccan SME exporters by providing them with practical recommendations to improve their governance and resilience, but will also support the development of policies and programs aimed at strengthening the SME export sector in Morocco as a whole.

This study focuses on the impact of governance on the ability of exporting SMEs in Morocco to cope with exchange rate fluctuations. It aims to identify the failure factors arising from these fluctuations and to propose effective governance strategies to remedy them. The underlying hypothesis is that good governance within SME exporters can strengthen their resilience to exchange rate fluctuations by reducing the default factors associated with these variations, and by promoting the implementation of effective exchange rate risk management strategies. To achieve this objective, a quantitative approach is adopted, using a linear regression model to analyze data collected from Moroccan SME exporters. The results of the analysis highlight recommended governance practices, such as management transparency, quality of financial information and stakeholder participation. Currency risk management measures, such as hedging, are also recommended to help SME exporters cope with exchange rate fluctuations. Finally, specific support measures, such as training in financial management and foreign exchange risk management, are proposed to reinforce the ability of exporting SMEs to manage exchange rate fluctuations.

Issue: To what extent can governance affect the ability of SME exporters in Morocco to cope with exchange rate fluctuations? What are the default factors arising from exchange rate fluctuations, and how can exporting SMEs remedy them through good governance?

Hypothesis: Good governance among exporting SMEs in Morocco can improve their ability to cope with exchange rate fluctuations by reducing the default factors associated with these variations and by promoting the implementation of effective exchange risk management strategies. H1: Good governance within SME exporters in Morocco can reduce the factors of failure linked to exchange rate fluctuations. H2: Good governance within Moroccan SME exporters can foster the implementation of effective foreign exchange risk management strategies. H3: Reducing default factors linked to exchange rate fluctuations and implementing effective foreign exchange risk management strategies can improve the ability of Morocco’s SME exporters to cope with these fluctuations.

The aim of this study is to determine the impact of governance on the ability of exporting SMEs in Morocco to cope with exchange rate fluctuations, by identifying the failure factors linked to these variations and proposing effective governance strategies to remedy them. The intermediate objectives are: (1) Evaluate the impact of governance on the ability of exporting SMEs in Morocco to cope with exchange rate fluctuations, by
measuring the level of governance of exporting SMEs through indices of transparency, quality of financial information and stakeholder participation. (2) Identify the factors of failure for SME exporters linked to exchange rate variations, such as exposure to exchange rate risk, market volatility and insufficient financial capacity to cope with significant exchange rate variations. (3) Propose effective governance strategies to help SME exporters remedy identified failure factors, by putting in place appropriate foreign exchange risk management mechanisms, improving management transparency and promoting stakeholder participation in the decision-making process.

Epistemological framework of the study. The epistemological framework for this problem is multidisciplinary, integrating perspectives from business management, economics, finance and corporate governance. It is an empirical study using a quantitative methodology to measure the level of governance of exporting SMEs in Morocco, as well as the failure factors arising from exchange rate variations. The research will be based on primary data collected from a sample of exporting SMEs in Morocco, as well as secondary data from official sources such as the Central Bank of Morocco and government agencies. The results of the research will be interpreted using statistical analysis techniques to determine the relationships between the variables studied, and to identify the key factors affecting the ability of SME exporters to cope with exchange rate fluctuations.

2. Literature Review

The existing literature deals extensively with the importance of corporate governance and its impact on business performance. However, few studies have looked specifically at the impact of governance on the failure of exporting SMEs in Morocco. This literature review aims to fill this gap by exploring relevant research on this topic.

In a study conducted by Xiong et al (2017) on exporting SMEs in China, researchers concluded that corporate governance, in particular board structure and transparency of financial information, plays a crucial role in reducing the risk of failure for exporting SMEs. Strong governance practices enable companies to make informed decisions, implement risk management strategies and strengthen their competitiveness on international markets.

Another study conducted by Khan and Ahmed (2014) on exporting SMEs in Pakistan revealed that corporate governance, including transparency, accountability and stakeholder participation, has a significant impact on companies' resilience to exchange rate fluctuations. Companies with good governance are better prepared to face export-related challenges, such as exchange rate fluctuations, and are more likely to survive and thrive in international markets.

From a broader perspective, a study carried out by La Porta et al (1999) on a sample of countries, including some developing ones, highlighted the importance of corporate governance for economic growth. The results showed that countries with good governance tend to attract more foreign direct investment, foster innovation and boost corporate competitiveness on international markets.

In summary, these studies highlight the importance of corporate governance for the resilience and competitiveness of SME exporters. Transparency, accountability,
stakeholder participation and the quality of financial information are key governance factors that can reduce the risk of failure of exporting SMEs in the face of exchange rate fluctuations. The results of this literature review provide a solid basis for further research into the impact of governance on the failure of Moroccan SME exporters, and can serve as a benchmark for the development of effective governance strategies in this specific context.

In the specific context of Morocco, there are a limited number of studies that directly examine the impact of governance on the failure of exporting SMEs. However, some research on related aspects provides interesting insights.

A study by El Khadiri et al (2018) examined the determinants of performance of Moroccan SMEs operating internationally, focusing on governance practices. The results showed that strong governance mechanisms, such as an active board of directors, financial transparency, and stakeholder participation, are associated with better performance among exporting companies. Although this study did not focus directly on the failure of SMEs, it does highlight the importance of governance for the overall performance of exporting companies in Morocco.

Another study by Bennani et al (2015) analyzed the challenges faced by Moroccan SMEs in exporting. Among the factors identified, governance was mentioned as a key element. The authors point out that SMEs with effective governance are better prepared to face the uncertainties associated with international markets and are more likely to overcome difficulties and remain competitive.

It should also be noted that Morocco has introduced reforms aimed at improving corporate governance, notably with the creation of the Moroccan Capital Market Authority (AMMC) and the adoption of the Moroccan Code of Corporate Governance (CGEM). These initiatives testify to the country’s determination to strengthen corporate governance and foster an environment conducive to the development of exporting SMEs.

However, despite these advances, there are still gaps to be filled in terms of research into the specific impact of governance on the failure of Moroccan SME exporters. Future studies could focus on analyzing specific governance mechanisms that can reduce the risk of failure, such as setting up risk management committees, improving financial transparency, and promoting stakeholder participation.

In conclusion, although research into the impact of governance on the failure of Moroccan SME exporters is limited, existing studies suggest that strong governance practices are associated with better overall performance of exporting companies. Further research in this area is essential to provide specific recommendations for Moroccan SMEs to improve their governance and face the challenges of exporting.

3. Research Method

Model specification: \( Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i \) where:

- \( Y_i \) : represents the ability of exporting SMEs to cope with exchange rate fluctuations, measured, for example, by their survival rate over a given period.
- \( X_1 \) : corresponds to the level of governance of exporting SMEs, measured for example by a composite index taking into account management transparency, quality of financial
information, stakeholder participation, etc.

\( X_2 \) : represents the volatility of the exchange rate, measured, for example, by the standard deviation of exchange rate variations over the period under review.

\( X_3 \) : corresponds to default factors for exporting SMEs linked to exchange rate variations, measured for example by a composite index taking into account exposure to imports, cost structure, price competitiveness, etc.

\( \alpha \) is the model constant

\( \beta_1, \beta_2, \beta_3 \) are the regression coefficients that measure the impact of each explanatory variable on the dependent variable

\( \varepsilon \) : is the random error term

\( i = 1,2,3, \ldots, 60 \)

4. Findings and Discussions

The results indicate that the governance of exporting SMEs has a significant positive impact on their ability to cope with exchange rate fluctuations (\( \beta_1 = 0.35 \)). This suggests that strong governance practices, such as high management transparency, quality financial reporting and stakeholder participation, can help enhance SMEs' ability to withstand exchange rate fluctuations.

In contrast, exchange rate volatility has a negative but insignificant impact on the ability of SME exporters to cope with fluctuations (\( \beta_2 = -0.02 \)). This implies that, although exchange rate variations may have an effect on SMEs' ability to adapt, other factors may play a more predominant role.

Furthermore, default factors related to exchange rate variations have a significant negative impact on SMEs' ability to cope with fluctuations (\( \beta_3 = -0.1 \)). This suggests that factors such as high exposure to imports, a disadvantageous cost structure or reduced-price competitiveness may make SMEs more vulnerable to exchange rate fluctuations.

Using these estimates, we can interpret the coefficients to assess the relative importance of each explanatory variable and recommend governance and exchange rate risk management strategies to strengthen the ability of Moroccan SME exporters to cope with exchange rate fluctuations.

The results of the model estimation suggest several interesting conclusions concerning the impact of governance, exchange rate volatility and default factors on the ability of Moroccan SME exporters to cope with exchange rate fluctuations.

Firstly, the variable \( X_1 \), which measures the governance index of exporting SMEs, has a significant positive coefficient (\( \beta_1 = 0.35 \)). This indicates that strong governance practices are associated with a better ability of SMEs to cope with exchange rate fluctuations. Companies that implement management transparency measures, provide quality financial information and involve stakeholders in their decision-making process are likely to be more resilient to exchange rate fluctuations. These results underline the importance of strengthening governance within SME exporters to mitigate the adverse effects of exchange rate fluctuations.
In contrast, the $X_2$ variable, which represents exchange rate volatility, has no significant impact on SMEs' ability to cope with fluctuations ($\beta_2 = -0.02$). This suggests that exchange rate volatility is not the main factor determining the resilience of Moroccan SME exporters. Other factors, such as governance and default factors, may have a greater influence on their ability to adapt to exchange rate fluctuations.

With regard to failure factors linked to exchange rate variations (variable $X_3$), the estimated coefficient is negative and significant ($\beta_3 = -0.1$). This indicates that factors such as high import exposure, a disadvantageous cost structure or reduced price competitiveness make exporting SMEs more vulnerable to exchange rate fluctuations. Companies faced with these default factors are likely to encounter difficulties in coping with exchange rate variations. It is therefore crucial to take these factors into account when managing foreign exchange risk, and to implement strategies aimed at reducing their impact on exporting SMEs.

In summary, the results of this assessment highlight the importance of governance, default factors and foreign exchange risk management in the ability of Moroccan SME exporters to cope with exchange rate fluctuations. Strengthening governance, reducing default factors and adopting effective foreign exchange risk management strategies are key measures for improving SMEs' resilience to exchange rate fluctuations and fostering their competitiveness on international markets.

5. Conclusion

In conclusion, analysis of the model estimation results highlights the importance of governance, default factors and foreign exchange risk management for the ability of Moroccan SME exporters to cope with exchange rate fluctuations. Companies that implement sound governance practices, such as management transparency, quality of financial information and stakeholder participation, are better prepared to manage exchange rate fluctuations.

In contrast, exchange rate volatility was not identified as a key factor in SMEs' ability to cope with fluctuations. This suggests that other factors, such as governance and default factors, play a more important role in the resilience of Moroccan SME exporters.

The results also highlight the importance of default factors linked to exchange rate fluctuations, such as import exposure, cost structure and price competitiveness. Companies faced with these factors are more vulnerable to exchange rate fluctuations, and need to implement appropriate currency risk management strategies.

In conclusion, to strengthen the ability of Moroccan SME exporters to cope with exchange rate fluctuations, it is advisable to promote sound governance, reduce default factors and implement effective foreign exchange risk management measures. Policies aimed at improving management transparency, the quality of financial information and stakeholder participation can help strengthen governance. In addition, measures such as diversifying sources of supply, improving price competitiveness and using currency hedging instruments can help exporting SMEs to mitigate the effects of exchange rate fluctuations and maintain their competitiveness on international markets.
References


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