

# The Issue of the Definition of Moroccan SMEs and Different Approaches

Makhroute Mohamed, Morsli Asmaa, Tawafi Ichrak  
University Hassan 1st, Settat, Morocco

Rholam Youssef  
University Hassan 2nd, Casablanca, Morocco

Most researchers consider that the extreme heterogeneity in the analysis of small and medium enterprises (SMEs) is one of the difficulties they encounter during the research. In fact, this heterogeneity, coupled with a high volatility due to permanent creation and early disappearance of large numbers of SMEs, is one of the main reasons that discourages researchers to devote their energies in the study of SMEs, and thus to derive theories and concepts similar to those of large businesses. Nevertheless, in the absence of a unified definition of SMEs, it can propose the use of quantitative and/or qualitative criteria in order to differentiate SMEs.

*Keywords:* small and medium enterprises (SMEs), quantitative criteria, qualitative criteria, SME definition proposal

Small and medium enterprises (SMEs) play a leading role in all developed and developing economies. This role is crucial for strengthening the performance, especially in the time of crises where global economic activities are slowing down.

Being the backbone of economic growth and development, SMEs now are in the heart of the economic concern in Morocco. This renewed interest comes from the numerical predominance of this category of enterprises in the national productive tissue. In fact, the tasks assigned to them is in the densification of this tissue, strengthening social cohesion and regional development, to adapt to changes in the environment, to respond to the flexibility of market needs, to develop local resources and to encourage the progressive development of the industrial sector. Yet, their contribution to economic activity remains weak. The challenge for the Moroccan government in this situation is to provide an environment that allows this large population of firms to remain competitive by introducing appropriate policies to support innovation and attract a sizeable

---

**Corresponding author:** Makhroute Mohamed, Ph.D. candidate, Laboratory Studies in Finance, Accounting and Management, National School of Commerce and Management of Settat, University Hassan 1st; research fields: the corporate governance by private equity, small and middle companies' investment. E-mail: mohamed.makhroute@gmail.com.

Morsli Asmaa, Ph.D. candidate, Laboratory of Science of Management, National School of Commerce and Management of Settat, University Hassan 1st; research fields: management intercultural, small and middle companies. E-mail: asmaa.morsli@gmail.com.

Tawafi Ichrak, Ph.D. candidate, Laboratory of Science of Management, National School of Commerce and Management of Settat, University Hassan 1st; research fields: management and quality, small and middle companies. E-mail: tawafi.ichrak@gmail.com.

Rholam Youssef, Ph.D. candidate, Laboratory of Science of Management, University Hassan 2nd; research fields: the corporate governance by private equity, small and middle companies' investment. E-mail: youssef.rholam@yahoo.fr.

number of companies operating in the informal structures. To achieve these objectives, one should first start with the identification and definition of these companies, which is itself the heart of the difficulty.

The objective of this article is to provide a definition to SMEs. Indeed, even around the world it is difficult to find a unified definition that is standardized and recognized globally. Besides and within the same country, it can come across several definitions that differ according to the vision and objectives of each national, governmental and private institutions (state, local authorities, financial institutions, etc.) and international institutions (World Bank, International Monetary Fund, OECD<sup>1</sup>, etc.). SMEs in Morocco do not escape this rule; there are different definitions mentioned through time by several stakeholders, namely GPBM (Professional Group of Banks in Morocco)<sup>2</sup>, CGEM (General Confederation of Enterprises of Morocco)<sup>3</sup>, the state through SMEs Charter, the investment code, etc.

The difficulty of the SMEs definition lies in the unification of criteria and approaches adopted to describe this category of enterprises. In effect, for example when SMEs tax advantage is based on quantitative criteria (threshold of total revenues), the companies will lower their total revenues in order to respond to tax measures for SMEs in the country. The thought will penalize them when they ask for bank funds.

In the first part of the article, the authors will analyze the different types of SMEs to understand the concept while answering to the following questions:

- (1) As a concept, what is a SME? And how can this concept be understood?
- (2) Is there a single definition? What are the difficulties encountered in the analysis of this topic?
- (3) What are the criteria for distinguishing the different types of SMEs?
- (4) Is there an approach and reflection to define the Moroccan SMEs?
- (5) Is there a difference between the Moroccan and the European definition (OECD)?

In the second part, the authors will present the characteristics of SMEs in Morocco, as well as introducing a draft of the new definition of SMEs. It needs to point out that the main objective to define the categories of these companies is to benefit from the support measures by the Moroccan government under the National Pact for Industrial Emergence. The authors will proceed to this by responding to the following questions:

- (1) Why is the definition of SMEs unified in Morocco?
- (2) What are its main characteristics?
- (3) What are the limits of the old definitions? Is it necessary to update those definitions?
- (4) What is the contribution of the new definition project?

## **Types of SMEs**

### **What Is Meant by SMEs?**

The SME is a vague concept whose definitions vary (Julien & Morel, 1991, p. 13). The economic and legal diversity presents itself a first characteristic of the SMEs definition. It is not surprising that worldwide researchers, scientists and governments have tried repeatedly to define SMEs without reaching a comprehensive definition that considers both the legal and economic aspects. The difficulty comes from the

---

<sup>1</sup> Organisation for Economic Co-operation and Development.

<sup>2</sup> The Professional Group of Banks in Morocco (GPBM) is an association of banks. Credit institutions authorized as a bank are a mandatory part of GPBM and only the members, currently numbering 16.

<sup>3</sup> Established in 1947, the Confederation of Enterprises of Morocco is a private association of entrepreneurs in Morocco. CGEM represents companies of all sizes and in all sectors (industry, trade and services) across the territory, and 95% of its members are SMEs.

fact that the definition should satisfy the objectives (that are sometimes contradictory) of a diverse panel of stakeholders. For instance, whereas researchers and scientists try to give a theoretical definition of the various characteristics of the SMEs in order to track their reality, politicians and public authorities prefer to have a practical and operational definition in order to implement various government programs.

However, the absence of a unified definition can result from the circumstances of the fact of differentiating SMEs through the use of two large distinct approaches: the qualitative and quantitative. Actually, the definitions using the qualitative criteria are also known as theoretical, sociological or analytical criteria, while the approach using quantitative criteria are also called descriptive.

**The qualitative approach.** This approach considers the socio-economic aspect of the enterprise as descriptive character. Different qualitative definitions emphasize the distinctive elements and the characteristics of SMEs such as:

(1) Human dimensions: this is to define SMEs through the behaviour of the entrepreneur, who is usually the owner and the manager. This dimension is related to the personalization of the SMEs management;

(2) The Bolton report (Wtterwulghe, 1998, p. 16): which is a report used by the British authorities in the 1960s to conceptualize the SMEs. The definition given in this report is based on three criteria:

- (a) The fact that a company is run by the owners in a personalized way;
- (b) A relatively small market share;
- (c) The independence of the company.

It notes throughout this definition the existence of elements related to the personality of the manager of the SMEs as well as its managerial structure characterized by a “flat chart” as compared to large companies;

(3) Multi-criteria approach (Wtterwulghe, 1998, p. 17): this analysis done by M. Wotrin (1966) is especially dedicated to industrial SMEs in the European community and highlights various other characteristics; beside the human factor, there are more descriptive:

- (a) Relatively non-specialized executives;
- (b) Close human contact between the top management, workers, suppliers and owners;
- (c) The lack of a strong position to negotiate purchases and sales;
- (d) The inability to raise capital using the money markets and difficulties in obtaining credit even for the short term. To raise funds and invest SME leaders need to self-finance.

Many of these criteria are actually due to the small dimension of the SME which is a handicap in the market.

Far from being exhaustive, qualitative approaches are based on many criteria and several dimensions but all lead to a description or even a characterization of the SME and its differential from the large companies. Moreover, qualitative criteria are not operational when it comes to empirical studies of the SME or to enforcing laws and tax. This is the reason why government authorities rely on quantitative criteria to identify more easily and quickly what is a SME.

**The quantitative approach.** The quantitative approach allows the identification of the SME easily and quickly. It is mainly based on the apparent and measurable elements of the company such as the total revenues, the number of employees, constructions, the employed capital and the added value. However, the quantitative criteria used to define SMEs differ from one country to another. For example, the differences of labor force quantity criterion are shown in Table 1.

The volatility of the quantitative criteria increases when the sectorial dimension is included. A company

with the same quantitative parameters can be considered as large or small moving from a sector to another. Thus, even though the simplicity of the quantitative approach when studying SMEs, the difficulty to identify and lock the criteria may lead to confusion.

Table 1

*Differences in the Use of the Labor Force Quantity Criterion Across Countries*<sup>4</sup>

| Country     | Small enterprise | Medium enterprise | Large enterprise |
|-------------|------------------|-------------------|------------------|
| Belgium     | From 1 to 50     | From 51 to 200    | + 201            |
| USA         | From 1 to 250    | From 251 to 500   | + 501            |
| Japan       | From 1 to 49     | From 50 to 500    | + 501            |
| Switzerland | From 1 to 20     | From 21 to 100    | + 101            |

**Definition of SMEs in Morocco**

A legal definition of SMEs was created for the first time under the investment code<sup>5</sup> enacted in January 1983. Yet, SMEs continued to have several definitions according to criteria set by investors (Azzouzi, 1997). These different criteria were basically qualitative and related to users' needs (access to financing programs for young entrepreneurs, granted benefits by the government). Thus, and with the adoption of the SMEs Charter, Morocco has now a unified definition based on qualitative and quantitative criteria.

**Adoption of a definition of SMEs in Morocco.** A unified definition of SMEs based on qualitative and quantitative criteria is settled under Law 53-00 of SMEs Charter on July 23, 2002, in order to limit and define the population of companies that are entitled to specific treatment provided under the SME policy. The Charter states that SMEs are: "any business managed and/or administered directly by individuals who are shareholders, and is not owned by more than 25% of capital or the voting rights by one enterprise or several enterprises, falling outside the SME definition". This threshold may be exceeded if the business is owned by: collective investment funds; corporate capital investment; venture capital organizations; and financial institutions duly authorized to use public savings to make financial investments, which do not exercise, individually or jointly, any control over the company.

In addition, SMEs must meet the following conditions:

(1) The existing businesses must have a permanent number of workers not exceeding 200 people, and must have reached, over the last two years, either an annual revenues below 75 million dirhams after taxes, or a total annual balance sheet less than 50 million dirhams. In the case of SME holding directly or indirectly more than 25% of the capital or voting rights in one or several companies, the sum of permanent staff and annual income after taxes (tax free) or total annual balance sheets of those companies should not exceed the thresholds above;

(2) For newly created companies (less than two years), they should engage in initial global investment not exceeding 25 million dirhams and maintain a ratio of investment per job less than 250,000 dirhams.

It needs to point out that the legislature has started updating the legal definition of SMEs introduced in January 1983 by the investment code. The goal is to provide SMEs the support mechanisms provided by the

<sup>4</sup> Research Group in Economics and Management of SMEs (GRPME). The group published in 1994 a book entitled *SMEs: Review and Prospects* under the direction of Pierre-André Julien.

<sup>5</sup> Article 3 of the Code defines SMEs as "the company, which invests in the creation or extension does not exceed 5 million dirhams and values in many facilities created by stable employment does not exceed 70,000 dirhams".

SMEs Charter. Of course, this definition is never final and may be changed, according to the economic and social circumstances, to accommodate economic operators and institutions. In fact, a Joint Committee, composed of representatives of Bank Al-Maghrib and GPBM, elaborated a new bank rating systems that allows the alignment of Moroccan banks to new standards from European agreements "Bale II". The proposed new system provides rating scales differentiating companies according to their size (large enterprises, SMEs, micro-enterprises). These are defined on the following basis (see Table 2).

Table 2

*SME Criteria Defined by Bank Al-Maghrib and GPBM*

| Company size     | Permanent workforce | Revenues              | Total balance sheet   |
|------------------|---------------------|-----------------------|-----------------------|
| Large enterprise | > 250 Employees     | > 75 millions dirhams | > 90 millions dirhams |
| SME              | < 250 Employees     | < 75 millions dirhams | < 90 millions dirhams |
| Micro-enterprise | < 10 Employees      | < 10 millions dirhams | < 15 millions dirhams |

**Definition of SMEs in OECD countries and the EU.** There is no single definition of SMEs in OECD countries and the number of employees is not always the unique defining criterion. Nevertheless, it is generally considered that SMEs are independent companies that are not subsidiaries of other companies whose workforce number varies across countries. In the countries of the EU, the common upper limit is 250 employees. In other countries, it is limited to 200 employees, while in the USA SMEs employ 500 worker and less. In this country, micro-enterprises employ 5-10 persons. Besides the workforce, SMEs are also defined by their financial assets.

**Definition of SMEs in the USA and EU.** The definition of SMEs in USA is based on several criteria, namely number of employees (less than 500 worker and up to 1500 worker in industries), and annual total revenues (less than 50 million dollars in services, 13.5 million dollars in trade, and 17 million dollars in constructions). SMEs account for more than 99.5% of companies exporting goods directly abroad and contribute to a great extent not only to economic growth but also to the creation of employment (53% of jobs are created by SMEs).

In Europe, a new definition of micro, small and medium enterprises (SMEs) is adopted by the European Commission<sup>6</sup> (see Table 3). This new definition keeps different classes of employees to define the categories of micro, small and medium enterprises. It also provides a substantial increase in financial ceilings (total revenues and total balance sheet), particularly due to inflation and productivity growth, since 1996, the first Community definition of SMEs.

Table 3

*SME Criteria Defined by the European Commission*

| Criteria            | Micro-enterprise | Small enterprise   | Medium enterprise  |
|---------------------|------------------|--------------------|--------------------|
| Number of employees | < 10             | 10 to 49           | 50 to 249          |
| Total revenues      | < 2 millions     | < 10 million Euros | < 50 million Euros |
| Total balance sheet | < 2 millions     | < 10 million Euros | < 43 million Euros |

<sup>6</sup> Recommendation of the Committee of May 6, 2003, concerning the definition of micro, small and medium enterprises [notified under document number C (2003) 1422] [Text with EEA relevance (2003/361/EC)].

## New Definition of SMEs in Morocco: Ingoing Process

### SMEs Positioning in Morocco

The Minister of Economy and Finance Nizar Baraka said on September 20, 2012 in Marrakech that SMEs occupy a prominent place in the national economy, representing 40% of production and 31% of exports, and operating in all sectors of economic activity. They represent 90% of the companies in Morocco. Also, according to the Federation of SMEs (affiliated with the CGEM), the total number of SMEs in Morocco is around 70,000 companies and comprise approximately 50% of private sector employees. On private investment and the overall added value, the SME parts are 40% and 21% respectively. Of the 70,000 SMEs affiliated to the National Social Security Fund (CNSS), only 40,000 report to the tax authorities and 1,500 fulfill the necessary conditions for funding from banking system. The SMEs is involved in 20% of the income tax on corporations and 30% tax on salary, which is up to 8,050 million dirhams and 8,257.5 million dirhams respectively<sup>7</sup>.

The distribution of SMEs is unequal at both sectorial and geographical levels. SMEs are heavily concentrated in trading activities and services. Note that 72% of SMEs working in the service sector and 27% in the secondary sector. Data from the Office of Statistics in 2006 revealed that of the 70,000 SMEs surveyed in 2005, nearly half of the companies operating in the industrial, commercial and services sectors are located in Casablanca. The low distribution of SMEs over economic region is explained by the persistence of large disparities between and within regions (see Figure 1). According to estimations obtained from the CGEM, 60% of registered companies are very small enterprises, while the number of SMEs hardly exceeds 5,000.

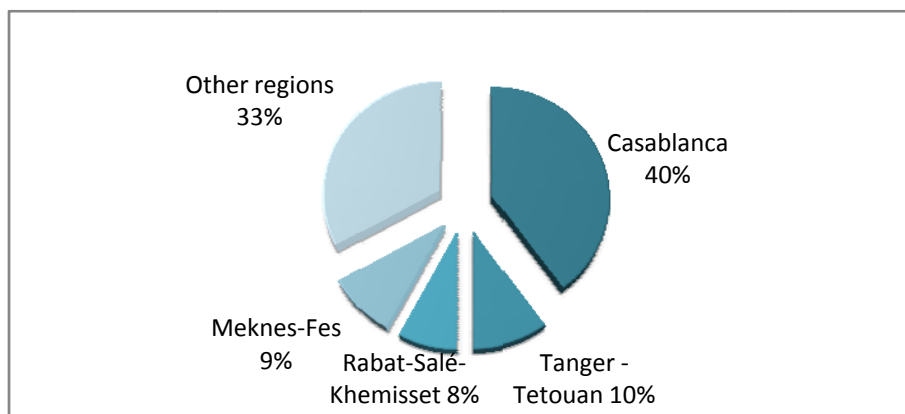


Figure 1. The geographical distribution of Moroccan SMEs.

**Characteristics of Moroccan SME.** Therefore, SMEs have an ability to adapt quickly to events and changes in the economic environment, thanks to the simplicity of their structures and the weakness of their commitments.

Major players in the Moroccan economy, Moroccan SMEs have characteristics that vary according to the size, sector and location. Generally, SMEs in Morocco are distinguished by the following organizational characteristics:

- (1) Preponderance of the entrepreneur—owner and manager;
- (2) Small size;
- (3) Weak supervision;

<sup>7</sup> See *Tax Revenues in 2011*. Retrieved from <http://www.tax.gov.ma>.

- (4) Low specialization of labor;
- (5) Weakness of management practice;
- (6) Weakness of technology;
- (7) Lack of innovation;
- (8) Lack of clear and reliable information.

This list of characteristics of Moroccan SMEs is not exhaustive; other characteristics can be identified in a significant proportion of SMEs, such as:

- (1) The preponderance of an oral culture. With the exception of a few memos, nothing is set in a clear and accurate writing;
- (2) The division of labor is generally less developed. The SME is looking for people that can adapt to a wider variety of tasks and work situations;
- (3) Failure to exercise market power, including the influence on the price of goods.

### Moroccan SMEs in Search of Identity

**Limitations of previous definitions.** The question of the definition of SMEs has undergone several versions over the past 40 years. Table 4 summarizes the various definitions that have been in force.

Table 4

#### *Evolution of the Definition of SMEs in Morocco*

| Reference  | Criteria definitions used   |
|--|---|
| Simplified procedure accelerated in 1972                                     | Total assets before investment: 2 million dirhams (subsequently revised to 5 million dirhams);<br>Turnover: 3 million to 7.5 million dirhams updated.   |
| Pilot line mobilized between 1978 and 1979                                   | Total assets after investing 5 million dirhams;<br>Turnover: 7.5 million dirhams;<br>Cost per job.  |
| Integrated assistance program  | Net assets vary according to sorting slices corresponding to three sectors receiving funding:<br>1st installment: learn from 100,000 to 500,000 (discounted to 1 million dirhams);<br>2nd phase: from 2.5 million to 5 million (capped at 6 million dirhams);<br>In 1987, these three units were reduced to two: between 1 and 4 million and between 4 and 8 million dirhams. |
| Investment code of 1983  | Investment program for creation or extension less than 5 million dirhams.   |
| Bank Al-Maghrib (1987)   | Total assets: 15 million dirhams;<br>Investment program: 7,000,000 dirhams.   |
| Program upgrade FOGAM <sup>8</sup>   | Total assets before investment: less than 20 million dirhams;<br>Program upgrade whose cost does not exceed 10 million dirhams.   |
| Subcommittee SME/ SMI <sup>9</sup> -preparation PDES <sup>10</sup> 2000-2004 | Number of jobs: 200;<br>Turnover according to the phases of development of the company:<br>Created: less than 5 million dirhams;<br>Growth: between 5 and 20 million dirhams;<br>Development: between 20 and 50 million dirhams;<br>Total assets: 30 million dirhams;<br>Cost of investment/employment: 75,000-80,000 dirhams.  |

Note. Source: Ministry of Finance.

In addition, other institutions have developed their own definitions. Thus, for banks, SMEs are companies that realize a turnover of 200 million dirhams. For the Department of Trade and SMAEX (Society of Moroccan

<sup>8</sup> Guarantee Fund to Upgrade.

<sup>9</sup> Small and Medium Industry.

<sup>10</sup> Plan of Economic and Social Development.

Export Insurance), SMEs are companies whose turnover export exceeds 10 million dirhams.

The current definition of the investment charter in 2002 has limitations because:

- (1) The size of a company is closely related to its field of activity;
- (2) This definition does not distinguish between small and medium company.

It suggests setting thresholds based on the company's business. They would be adopted after extensive consultation with professional organizations and reviewable and justified request.

Furthermore, the following things should be done:

- (1) Establishing a guide such as Guide to SBA's Definitions of Small Business and taking into consideration the specificity of the Moroccan SMEs;
- (2) Definitions of SMEs sector as in the case of SMI, according to the industry given the number of workers born not permanent (case of agriculture) and given the seasonality case of agriculture and tourism;
- (3) Limiting the life of SMEs has a set number of years, for example, 5 years, young company;
- (4) Define the very small business and individual activities separately.

**Objectives of the proposed new definition.** The proposed new definition of SMEs is being validated by the Minister of Finance. It has initiated a project for over a year. Ministries of Industry and Trade, Finance, National Agency for the Promotion of SMEs (ANPME) and CGEM therefore worked on a new definition of SMEs. A provision of the measures provided by the National Pact for Industrial Emergence dedicated to improving the competitiveness of SMEs.

In parallel, it is imperative to define SMEs based on the eligibility criteria in the general definition of a region, area, branch, etc. Sales of electromechanical by example should be the same as that of the agro-industry, i.e., the definition must take into account several socio-economic factors (living, price, wages, etc.) and such a definition should not simply consequently retain maximum ceiling boards or minimum, but take into account the parameters used in the socio-economic reality.

The final version of the new SME definition reflects the sole criterion of turnover and ignores the number of its employees. The final document defines three types of companies: very small businesses (less than 3 million dirhams), small business (between 3 and 10 million dirhams), and small and medium enterprises (between 10 and 175 million dirhams).

Recall that the CGEM had proposed a range between 175 and 200 million dirhams to get closer to standard banks. "We opted for a simplified definition and flexible, taking into account only revenues", said by Salahuddin Kadmiri, Chairman of the Committee SME/CGEM<sup>11</sup>.

In the opinion of management, the integration of the criterion of the number of jobs (less than 200 employees) is not objective. In fact, a company can employ, for example, 300 people remain a SME.

CGEM proposed a range between 175 and 200 million dirhams to get closer to standard banks.

Indeed, it is a growing awareness of the specific barriers faced by SMEs. The proposed new definition is better suited to different types of SMEs and representing several advantages including:

- (1) Improving and harmonizing statistical studies on SMEs and defining their types;
- (2) Benefiting provisions part of the measures of the National Pact for Industrial Emergence (dedicated to improving the competitiveness of SMEs);
- (3) Promoting innovation and improving access to research and development (R&D).

<sup>11</sup> See *SMEs: The new definition during validation*. Retrieved from <http://www.lavieeco.com>.



The definition is an important tool for the implementation of effective policies and programs to support the development and success of SMEs. This is the reason why the ANPME and CGEM are invited to apply as widely as possible.

One of the main objectives of the new definition is to ensure that support measures are granted only to companies that need it. It is important to note that the definition contains several anti-diversion measures designed to reserve the benefits of programs to assist SMEs to real SMEs.

In addition, the enactment of the new official definition will be announced in April, further details may be made to the new definition, in the years to reflect the experience and economic developments.

### References

- Abdelaoui, M., & Haoudi, A. (2009). Study on the tools of financement and constraints of development of SMEs in Morocco. *Journal of Telmcen Algeria: Benchmarks of Economic Development*, 9(1), 20.
- African Bank of Development. (2006). *Rapport of strategy of the Kingdom of Morocco 2007-2011*. Operations Department.
- Azzouzi, B. (1997). *SME and strategy of development in Morocco* (2nd ed.). AZZOUZI edition.
- Embassy of France in Morocco—Economic Mission. (2004, August 18). *The Moroccan SME faced to the challenge of the upgrade*.
- European Commission. (2006). *The new definition of SME in the European Union*. Publications Enterprises and Industries.
- Julien, P. A., & Morel, B. (1991). *The beautiful business, however SMEs in France and Quebec*. Montréal: Boréal Express.
- Morocco. (2000). *Direction of the General Economic Policy—“The SMEs in Morocco Lightening and Propositions”*. Rabat.
- Morocco. (2002). *Charter SME, Law No. 53-00*.
- Morocco. (2009, February 13). *National Pact for the Industrial Emergence, Contract Program 2009-2015*.
- Rochdane, H., & Ayegou, J. (2009). The vulnerability of very small enterprises and small and medium enterprises in a globalized environment. Proceedings from *11th Scientific Day of Entrepreneurship Net Work*, May 27-29, 2009, University of Quebec at Trois-Rivieres Canada.
- The Economist. (2001, January 31). *The new definition in the course of validation*. Edition No. 3456.
- The Economist. (2011, February 10). *Emergence plan, Chami holds his definition of the SME*. Edition No. 3464.
- Wtterwulghé, R. (1998). *The SME: A human enterprise*. Edition of Boeck.