IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN:2278-487X, p-ISSN: 2319-7668. Volume 25, Issue 8. Ser. 5 (August. 2023), PP 23-36
www.iosrjournals.org

Rescue Mechanisms For Companies In Difficulty: Case Of Smes In North Lebanon

Selim Mekdessi[*], Josepha Hbeich[*], Riad Makdissi[*]
[*]*(Faculty of Economics and Business Administration, Lebanese University, Lebanon)*

Abstract:
This article delves into the intricate dynamics of company distress, with a specific focus on Small and Medium Enterprises (SMEs) within the context of the economic, financial, and social crises that unfolded in Lebanon post-October 2019. The study seeks to unravel the mechanisms that enable companies, particularly SMEs, to navigate the challenges posed by external and internal factors and consequently enhance their chances of survival.
Drawing parallels between corporate distress and medical conditions, the article conceptualizes the financial health of companies through a diagnostic lens. It explores how companies exhibit "symptoms" or "signals" of financial problems before progressing to a "sick" state analogous to bankruptcy, which is deemed comparable to corporate "death." Just as remedies are prescribed in the medical field, the article emphasizes the need for timely, preventive measures to avert the onset of distressful situations.
The study critically examines existing literature on distressed companies, pinpointing bankruptcy prediction techniques as having dominated scholarly attention, often overshadowing comprehensive explanatory efforts. The SMOCK model is introduced, categorizing bankruptcy causes into external environmental factors, internal company attributes including leadership capabilities, and company-specific initiatives or goals.
Framed within the broader context of Lebanon's multifaceted financial instability, the article elucidates the nation's macro-financial dysfunctions, evident in soaring inflation, currency depreciation, and restricted access to dollar deposits within Lebanese banks. While external factors play a role, the article underscores the significance of company-specific attributes in contributing to distress, such as strained creditor relationships and an inability to adapt to changing demands and environmental shifts.
The central inquiry of the study revolves around a fundamental question: How can struggling businesses be effectively rescued? Through a comprehensive exploration of the intricacies of distress and resilience, the article contributes to a nuanced understanding of the mechanisms that can potentially safeguard SMEs in Lebanon, and by extension, in similar contexts worldwide. The findings emphasize the need for tailored, proactive strategies that address both external pressures and internal company capabilities, facilitating the preservation and revitalization of businesses facing adversity.

***Key Word**: Resilience, SMEs, Financial Health, Economic Crisis, Financial Instability, Recovery Strategies, Inflation, Lebanese Economy, Adaptation, Crisis Management, Lebanon.*

Date of Submission: 04-08-2023 Date of Acceptance: 14-08-2023

I. Introduction

At the origin of any difficulty of a company, including bankruptcy, there is the action of an internal or external magnitude that this company undergoes: the entry of a new competitor, a strike, an internal crisis, etc. This action triggers a reaction from the company that can lead it to overcome the obstacle and finally adapt, or expose it to action of a new magnitude, or even lead it to bankruptcy. Each company reacts in its own way so that when faced with the same action, different companies may react differently. These reactions are determined by the adaptability of the company and can explain its different paths. A dialogue is then established between the action of greatness and the reaction of the company which seeks to adapt and survive[1].

When this situation is manifested by the financial dimension, some authors speak of the “financial stress” of companies. Business imbalances, the vocabulary used in the literature that examines business dysfunctions often has "a more medical connotation"[2]. Thus, the state of health of companies is examined through the grid of medical language: companies are “healthy” if they do not have financial problems; they present “symptoms” or “signals” when it is possible to envisage financial problems; and they are "sick" when the financial problems are proven. Thus, the negative evolution of the financial situation of the company is qualified as deterioration of its state of health, whereas bankruptcy is "comparable to death", since the company is declared " dead” when it underwent a liquidation. As in the medical field, “remedies” are prescribed to the company when it comes to applying corrective actions or finding ways to recover. Moreover, the company must react in time in order to survive; he is even advised to take a preventive approach to avoid the occurrence of difficult situations[3].

Given the specificity of the Lebanese crisis and the specificity of Lebanese SMEs, this study aims to understand the mechanisms for rescuing companies in effect from the impacts of the economic, financial and social crises after October 2019 on the financial performance of SMEs in various sectors. Highlight the importance of preventing these difficulties.

The literature on companies in difficulty presents bankruptcy as a process of which it identifies the causes. It also explores recovery avenues for companies to escape this process. However, this literature has focused its attention on techniques for predicting bankruptcy to the detriment of explanatory work[4].

Thus the SMOCK model has shown that the causes of bankruptcy can be grouped into three main categories[5]:

- External causes that come from the environment;
- Internal causes that come from the resources and skills of the companies, including the ability of its leaders;
- Company initiatives or goals.

Lebanon faces a difficult financial situation. In fact, Lebanon is suffering from financial and economic instability that is the source of systematic macro-financial dysfunctions. Inflation has risen sharply, the Lebanese pound exchange rate has fallen on the parallel market, and dollar deposits in Lebanese banks are blocked[6].

But there are also causes that come from both the environment and the resources and skills of the company. This is the case, for example, of the creditors of the company who decide to no longer support the management team or the inability of the company to anticipate and respond to demands and to changes in the environment[7].

A main question, then, that we are interested in is: How to save a struggling business?

II. Literature review

Small and medium-sized enterprises (SMEs) are a very heterogeneous group. They are present in a wide variety of activities. We find in the SME category the small craftsman who alone manufactures agricultural tools sold in the village market, the Internet café of a small town, the café around the corner, but also small engineering or construction companies. Publishers marketing their products abroad and medium-sized companies manufacturing spare parts sold in the domestic market and abroad to international automobile manufacturers. These businesses are owned by owners, poor or rich; they operate in very different markets; they are distinguished by the level of skills of their employees, the amount of their capital, their technicality and their more or less asserted vocation to develop, and come under either the official economy or the parallel economy[8].

A large number of countries also define a category comprising the self-employed and micro-enterprises which employ less than 10 employees. Regardless of the level of development of the economy, a high proportion of micro-enterprises and sometimes small enterprises are part of the parallel or underground economy. SMEs are characterized by their small size, the centralization of management and decisions, a low specialization at the level of management, employees and equipment, an intuitive or little formalized strategy, a simplicity or lack of complexity in general (information systems, organizational structure, processes, etc.), the intense human dimension, the strong interconnection between formal and informal elements, great flexibility, strong customization as well as frequent use of the authoritarian approach and, subsequently, the participatory approach[9].

Notion of difficulty

The notion of difficulty is very difficult to grasp. It can be considered that there are a number of cases in which companies can be considered to be “in difficulty”. The definition to be adopted must be broad enough to take into account the different forms of the phenomenon. We can cling to the legal definition, namely that any company that falls under the scope of a suspension of payment is in difficulty. While this definition effectively takes into account that the company can no longer meet its commitments, it remains restrictive in the sense that the difficulties existed long before the receivership. This is why we must consider difficulty as a situation of weakness, tension or stress. By extension, we can define difficulty as a situation during which the company experiences cash flow problems. Although here the perspective is broadened (we are not confined to the situation of receivership), the definition provided is insufficient because it does not take into account the factors that may be at the origin of the cash flow problems encountered. From there, the difficulty can be considered as a total or partial loss of the company's capacity. This loss reflects the weakness of the company in its environment. This definition has the merit of accounting for the duality of the difficulty. It can be of the public type, the company is then in a situation of receivership, or also of the private type (that is to say that the difficulty is not then expressed in the legal framework)[10].

Cause of failure and prevention mechanism

The immediate causes of failure are financial: indeed, under the terms of the law, collective proceedings must be opened from the moment the company is no longer able to meet its current liabilities with its available assets. If the company could have access to sufficient financial resources to meet its deadlines, it would never be in default, regardless of the "real" difficulties it might encounter. However, these financial difficulties may result from factors of various origins which are not necessarily financial. It can be insufficient outlets, strategic errors, too high costs, an insufficiently developed information system... It can also be financial problems, but additional elements must be obtained to clarify the process that led the company to default: insufficient own financing, difficulties in recovering from customers, unsuitable financial structure, excessively high interest rates[11].

Early detection of business difficulties contributes to better management of those and the establishment of a rescue plan. Unfortunately, many companies react late, due to a lack of understanding of the mechanisms that are at the origin of the difficulties and a manifest lack of foresight. The forecast can be made from a few clues. One of the main clues that can explain the financial difficulty of a company is its inability to honor its financial commitments to its various creditors[12]. Several other signs can explain that a company is in financial difficulty:

Cash flow analysis: Signs of business deterioration are negative cash flow and positive working capital requirement (WCR). Cash is the cornerstone of the company, poor management of it can negatively impact the financial strength of the company, among the main factors that can explain a deterioration in cash:

- Poor WCR anticipation: lag between invoicing and collection (long or non-respected customer payment deadlines) or disbursement (very short supplier payment deadline), increase in WCR;
- The increase in outstanding payments due to customer insolvency (increase in the number of customer disputes, etc.);
- A decline in activity in the face of strong competition (decline in the order book, drop in prices, etc.);
- An increase in stocks due to slow stock rotation: risk of potential obsolescence of products in stock;
- Lack of a cash management tool.

A simple deterioration in cash flow can lead the company to request very short-term financing (overdraft, overdraft facility, etc.) from its bank. If the company fails to negotiate this bank loan or if it exceeds the authorization limit of its credit, it risks going out of business and its fate will be in the hands of the bank[13].

Equity analysis Sign of deterioration: negative equity: A cumulative negative result over time can impact the company's equity. When the equity becomes negative, a legal formality may be necessary to replenish the capital. According to the Commercial Code, a company of the SARL type is obliged to reconstitute its equity, if this is less than half of the share capital. If no action is taken within two years to rebalance the situation, the company's activity may be dissolved[15].

To replenish its capital, the company has several options:

- Carry out a capital increase (contribution in cash);
- Carry out a capital increase by incorporating reserves;
- Carry out a capital reduction (by absorbing losses);
- Making profits and absorbing losses;
- Carry out the free revaluation.

Analysis of indebtedness and compliance with deadlines: Signs of degradation[16]:

- Excessive indebtedness (ratio: high indebtedness/equity);
- An increase in financial costs;
- The reaching of credit authorization limits (inability to negotiate a new bank overdraft);
- Missed deadlines (suppliers, state, etc.);
- Repayment difficulties (low repayment capacity).

To calculate the company's repayment capacity:

"Repayment capacity = financial debts / CAF "

This index must be as low as possible, if this is not the case, this means that the company's debt is too high given the wealth it creates. Most banks are likely to refuse to grant him a new loan. Excess financial debt can also have a direct impact on cash flow, since it is accompanied by payment deadlines and substantial interest to be honored. In the event of repayment difficulties, the company's creditors may demand payment of their debt, which may lead to the liquidation of the company if it no longer manages to follow[17].

Profitability analysis:

Profitability remains one of the most important criteria for the health of the company. Whatever difficulty it encounters, the effect is immediately felt in terms of profitability. It therefore represents an indicator whose causes may be temporary or, on the contrary, very profound[18].

- Economic profitability (gross operating surplus / net fixed assets + WCR): This ratio makes it possible to calculate whether the investments made have been profitable or not. It should be as high as possible. And its weakness can come from: the underutilization of fixed assets, unfavorable operating conditions, a bad investment or a long delay between investment and sales.
- Financial profitability (Net income for the year/Equity): This ratio makes it possible to measure the company's ability to make profitable equity capital. If this ratio is lower than the monetary investment rate, investors will hesitate to invest in this company.
- Growth financing (Self-financing / (WCR + fixed assets)): This ratio is an indicator of the company's ability to generate own resources to finance the increase in its WCR and new investments. The value of this ratio must be greater than 1.
- Reimbursement capacity (CAF/ financial debts): This indicator measures the level of the company's ability to honor its debts. This ratio is widely used by bankers.

The deterioration in profitability ratios varies from company to company. However, we can encounter companies that have profitability ratios close to those of failing companies, these difficulties do not lead them to a situation of filing for bankruptcy, at least for several years. Other signs can explain the financial deterioration of a company:

- Conflicts between the partners, deteriorated social climate, requests for exit from the capital of certain partners/shareholders;
- Insufficiently qualified personnel, lack of training, lack of motivation, difficulties in recruiting, strikes, resignation of executives, etc.;

Certainly, the existence of difficulties that cannot be overcome means that the debtor was not able to overcome his difficulties on his own without a plan. Therefore, the difficulties are of a serious nature and may lead the debtor to cessation of payments. In this case, no preventive procedure will be possible. The prevention mechanism in terms of business difficulties is not sufficient for the purpose of protecting the business, it is necessary to follow the rescue mechanisms[19].

Managing an SME in a crisis context (business rebalancing)

Let us first note that the survival of the SME in a context of crisis is at stake because generally this company is less well protected than a large company[20]. Indeed, the large company can distribute the losses of some of its activities on others remained profitable, while the SME, generally located in a niche of specialization, cannot persist in the long term in the deficit. Moreover, the differences in financial and/or administrative structure between small and large companies are so significant that in different aspects it is not wise to consider the two companies as being of the same category. Similarly, managing an SME in a crisis context involves certain strategic skills that the managers of these companies cannot ignore[21]. This issue of SMEs, which needs to be clarified, has until now remained a marginal subject due to the weakness of formal planning in these companies in general and particularly in crisis situations[22].

Given its lack of various resources (financial, human and organizational), SMEs are more vulnerable than large companies to the consequences of crises[23]. Indeed, this chronic lack of varied resources is a main factor in the weakness of its room for maneuver as well as its submission to environmental constraints. In a turbulent environment, this company, while being a rather passive actor, is therefore pushed to follow the changes in its context. Moreover, and despite its limited resources, this company finds itself in a continual struggle for survival. This leads him to value the potential of his resources as well as the internal skill of his manager to generate sustainable competitive advantages[24].

Some legal measures to prevent difficulties make it possible to rebalance the financial structure of the company, we quote the essential of them[25]:

- Debt rescheduling: It is a procedure which consists in rearranging the schedule of the loan granted to the company: extension of the duration of the loan, modification of the loan rate, reduction of the amounts of the monthly payments to be paid by the company his creditor.
- The ad hoc mandate: It is a preventive and confidential procedure for the amicable settlement of difficulties, which makes it possible to restore the financial situation of a company before it becomes insolvent. In this

procedure, two opposing parties are brought together through a third party called ad hoc agent whose role is to promote dialogue between them within the framework of a supervised procedure.

- The conciliation procedure: Also confidential in a more protective framework than the ad hoc mandate, this procedure aims to find an amicable agreement between the company and its main creditors and partners, and therefore to put an end to the financial difficulties of the company and the cessation possible payments.
- Backup procedure: It is a procedure whose objective is to avoid the receivership of a company, it allows to freeze the liabilities prior to the opening, and the prohibition to pursue the debtor to obtain the payment of these liabilities (suspension lawsuits). The company can thus continue its activity, maintain its loans and settle its liabilities thanks to a safeguard plan at the end of a so-called observation period in which the conditions for the continuation of the activity and the methods of repayment of liabilities.
- Legal redress: This penultimate step assumes that the company is insolvent and that its recovery is possible. Its main objective, as for the safeguard procedure, is to allow the continuation of the company's activity, the maintenance of employment and the settlement of liabilities, thanks to a recovery plan. The latter is carried out after a 6-month observation period during which an economic and social assessment of the company is established. The recovery plan is put in place when the company's activity is considered viable. Otherwise, a judicial liquidation procedure is opened.
- Judicial liquidation: This procedure assumes that the company in difficulty is in cessation of payment and that its recovery is almost impossible. It puts an end to the activity of the debtor; his goods are sold to reimburse the various creditors. From the judgment which pronounces the judicial liquidation, the company must immediately cease its activity.

III. The crisis in Lebanon

The following section presents the different types of crises and highlights the crisis in Lebanon.

<u>*Types of seizures*</u>

Gundel[26] who questioned why to classify crises and how to classify them, developed a matrix which subdivides crises into four main types combining two dimensions: the "predictability" dimension of the crisis and the " influence" on the organization before and during the crisis situation, and which are:

- Unexpected crisis: this is a rare, unpredictable crisis situation with little influence. Companies report a lack of preparation and planning for this type of crisis.
- Conventional crisis: this is a predictable crisis situation with a high degree of influence. Companies have some knowledge (probability of occurrence, risk analysis) of this type of crisis.
- The fundamental crisis: this is a crisis situation which represents the most dangerous type for organizations. It is unpredictable and uncontrollable due to a lack of knowledge about the response to it. It occurs by surprise but rarely.
- Insurmountable or insoluble crisis: this is a predictable crisis situation; it is a crisis that can be anticipated but due to a lack of preparation, the possibility of influence is low.

Unlike conventional and fundamental crises, considered as extreme cases and the unexpected crisis, which is quite rare, the insoluble crisis has the duality of being a predictable event that is difficult to manage at the same time.

<u>*Lebanese crisis*</u>

Lebanon's financial crisis, which led to the collapse of the Lebanese pound, had a particularly negative impact on SMEs that were already struggling to stay alive in the Lebanese economy. From the end of 2019, and with the beginning of the popular revolution of October 17, the Lebanese currency fell to an all-time low and lost more than 80% of its value. SMEs, considered a lifeline for many local communities, have had to bear the brunt of these challenges, especially in the capital where many have been physically affected by the Beirut port explosion. "SMEs operate in a very delicate environment, the economy is going through an unprecedented financial crisis due to the combination of two extreme factors: the insolvency of the central bank and commercial banks, and severe stagflation" Given the nature of the Lebanese economy which is largely a consumer market with a strong dependence on services and trade, SMEs continue to be highly dependent on trade and are now unable to manage the complexity of this situation compared to major market players[27].

The lack of access to market data on consumer behavior and industry trends prevents companies from increasing the reach of their products and services. Therefore, efforts should be made to adapt marketing and sales strategies based on first-hand market research and best practices to maximize the reach of products and services[28].

Hope for renewal

As SMEs fight to remain the catalyst for entrepreneurship, innovation and economic growth. Solutions continue to emerge today as communities and local businesses strive to move besides state corruption to form their own collectives of success and resilience. Lebanon is also experiencing an influx of international support from global entities such as the World Bank Group, the European Union (EU) and the United Nations (UN) who have recently launched a framework for Reform, Recovery and 18-month Reconstruction of Lebanon (3RF) aimed at meeting the needs of the population affected by the explosion, in particular SMEs and local businesses that need continuous and sustainable support to maintain and develop their activities[29].

Euromena Consulting's goal has always been to position businesses for greater growth by supporting their social and economic viability in key target sectors. While the road to economic recovery may be long and arduous given the state of political stalemate in which Lebanon finds itself, new avenues of development can be found, such as increasing the capacity of SMEs to supply goods and services that will soon disappear from the import-dependent Lebanese market and, therefore, stimulate local production and economic recovery[29]. As SMEs struggle to remain the catalyst for entrepreneurship, innovation and economic growth, our role is to support them in every way possible to build their capacity, improve their access to markets and, in general, to develop the business environment by attracting investment and generating worldwide interest in Lebanon[30].

SME financing solutions:

Slowdown in activity, fixed charges and taxes that do not drop... small businesses are victims of the crisis. Under the effect of extended payment terms and the increase in working capital, the cash hole is widening and can be fatal to the company: it is the main difficulty for SME managers. It is necessary to act quickly to find the financing which will allow the company to continue its activity, the time to generate new income and to restart the machine. Banking and accounting financing solutions[25,29].

a) Factoring: The bank takes the customer invoice to its account by applying a commission. This is generally quite high, insofar as the regulatory constraints are minimal, and that with the sale, the company no longer has responsibility for the invoice, in the event of non-payment. There are several types of factoring, among them: online factoring, one-time factoring.
b) Cash credit: At the first signs of weakness, the first financing solution for small businesses can be bank credit. At the first warning signs, the banker can grant you additional credit, or cash facilities or the authorization of a larger overdraft. This solution lends itself to limited and/or occasional needs, for small amounts. The company must present a good management of its finances, and a good general health.
c) Discount: As a form of short-term professional credit, the discount is a way of obtaining cash quickly: the bank pays the company a cash advance, in exchange for the transfer of a commercial paper. , with interest rates and commission included in the contract.
d) Assignment of receivables: When the needs are more recurrent or the amounts are high, the bank can resort to the assignment of receivables: it buys back its receivables from the company, while taking a commission on the amount returned by the debtor customer. If it fails, the company is jointly and severally liable: this is its big difference with factoring.
e) Lease-back or sale-leaseback: In the short term, lease-back makes it possible to quickly free up cash. The company can use an asset, for example a car – while transferring ownership to a third party in the form of rent. This limits large investments – capital and management – in material goods.
f) Securitization: Securitization makes it possible to increase its liquidity in the short term, by selling its trade receivables to investors on the markets. Highly decried during the subprime crisis, this montage is once again in the news. So the bank plays a key role in the financing of SMEs and a capital role in the recovery of companies in difficulty. Indeed, the object of our research to know the decision of the leaders to save their SME during the Lebanese crisis during the period of difficulty of the banks.

In addition, the survival of companies in difficulty is now of major importance and requires legislative intervention to modify the current bankruptcy law, which has a punitive aspect, so as to integrate the concept of "rescuing companies in difficulty"[31]. In Lebanon, a bill aimed at modifying Book 5 of the Lebanese Commercial Code, and replacing Title V on the right of bankruptcy with "a right of judicial safeguard, reorganization and liquidation" has been transmitted by decree to the Council of Ministers in Parliament, which has not yet voted on it. For this, SMEs in Lebanon have recourse to[32]:

- Self-financing as a rescue method
- Reduce operating costs to safeguard financial performance.
- Financial speculation as a solution to save oneself
- Bank indebtedness as a method to safeguard financial status

Given the specificity of the Lebanese crisis as well as the specificity of the Lebanese SME, the objective of this research is to understand how the managers of these SMEs manage to obtain financing to deal with this crisis.

At the end of this first part, this frame of reference which led to the problematic of the present research, will allow us to clarify our research questions by emphasizing the importance of the relationship between theory and practice. It will serve as a monitor guiding us to identify and analyze the gaps between the theory (frame of reference) and the data emerging from the field.

IV. Research methodology

The research methodology employed in this study is geared towards testing hypotheses and gaining insights into the mechanisms of rescuing distressed companies, specifically focusing on Small and Medium Enterprises (SMEs) in North Lebanon. The quantitative method has been chosen to assess these hypotheses, involving the distribution of a structured questionnaire to SMEs working across diverse sectors in North Lebanon. To ensure a robust and comprehensive study, a survey was meticulously crafted and distributed to a representative sample of 250 SMEs encompassing a wide spectrum of activities. From this distributed survey, a total of 230 responses were collected, thereby forming the core dataset for analysis.
To ensure the validity and rigor of the results obtained, the collected quantitative data will be analyzed using the Statistical Package for the Social Sciences (SPSS) software.

The methodology adopted serves as an active agent of observation, study, critical analysis, and discourse, falling within the realms of both problem identification and problem-solving. In this study, the primary focus is on the identification of challenges faced by SMEs in Lebanon, with a subsequent exploration of potential rescue mechanisms aimed at mitigating these challenges.

To provide a structured framework for the investigation, four key assumptions have been formulated:

- Hypothesis 1: SMEs in North Lebanon employ self-financing as a primary method for rescuing their operations.
- Hypothesis 2: SMEs in North Lebanon strategically reduce operational costs to ensure the preservation of their financial performance.
- Hypothesis 3: SMEs resort to financial speculation as a proactive strategy to secure their stability and well-being.
- Hypothesis 4: SMEs utilize bank debt as a strategic tool to fortify and maintain their financial standing.

These hypotheses serve as critical building blocks for the study, providing a framework for the exploration of potential rescue mechanisms. Furthermore, these hypotheses serve as the foundation for identifying both independent and dependent variables within the research scope.

Study Variables:
Following the formulation of the four hypotheses, a clear distinction emerges between the independent and dependent variables associated with each hypothesis.

Independent Variables:

- Self-financing
- Cost reduction strategies
- Financial speculation practices
- Utilization of bank debt

Dependent Variables: The central focus of the study lies in understanding the impact of the identified independent variables on the financial performance of SMEs.

By adopting this meticulously structured research methodology, the study aims to provide comprehensive insights into the dynamics of rescuing distressed SMEs in North Lebanon. The methodological approach, encompassing hypothesis testing, variable analysis, and a substantial survey sample, offers a robust framework for understanding the strategic measures employed by SMEs to safeguard their financial well-being and ensure sustained viability in a challenging business landscape. The survey's sample size of 230 responses, determined using the Qualtrics sample calculator, is demonstrated to be acceptable, exceeding the requirements for a 95% confidence level and a 7% margin of error (ideal sample size 193)[33].

V. Results and discussions

After collecting answers, information, techniques and guidelines from our survey, we proceed by the classification and analysis in order to answer our research problem.
Figure 1 illustrates a predominant distribution of responses within the commercial sector, constituting the majority at 45.91%.

Figure 1: Sector Distribution

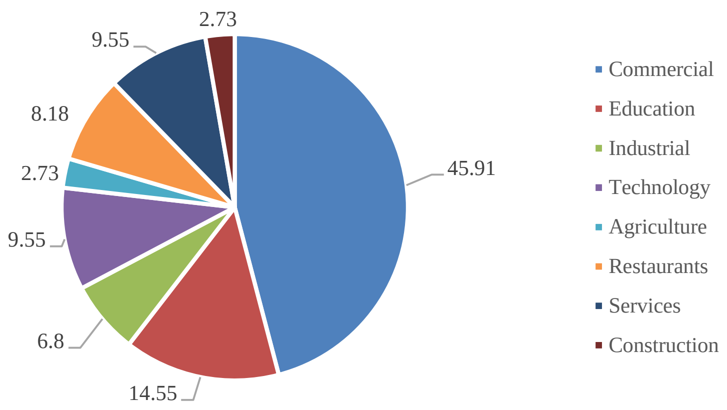

Table no 1 provides an overview of the internal consistency assessment of various factors within the study. The table presents the factors under investigation, the number of questions associated with each factor, and their corresponding Cronbach's Alpha values, indicating the reliability of the factor's measurement scale.

The factors and their attributes are as follows:
Self-financing: This factor consists of 4 questions and demonstrates strong internal consistency with a Cronbach's Alpha value of 0.833.
Cost Reduction: Comprising 4 questions, this factor displays a good level of internal consistency with a Cronbach's Alpha value of 0.767.
Financial Speculation: This factor involves 3 questions and shows acceptable internal consistency, as indicated by a Cronbach's Alpha value of 0.703.
Bank Indebtedness: Consisting of 3 questions, this factor exhibits solid internal consistency with a Cronbach's Alpha value of 0.809.
Financial Performance: Spanning across 6 questions, this factor demonstrates high internal consistency, reflected by a Cronbach's Alpha value of 0.891.

All cronbach's alphas are greater than 0.7 which means that the factors are reliable and validated and can be tested by inferential tests.

These Cronbach's Alpha values signify the degree of interrelatedness and reliability of the questions within each factor. The data presented in Table 1 originates from the analysis conducted using SPSS, enhancing the credibility and robustness of the results. This table serves as a critical tool for assessing the consistency and validity of the survey instrument in capturing the nuances of the study's variables and factors.

Table 1: Internal consistency of factors

Factors	Number of questions	Cronbach's Alpha
self-financing	4	0.833
cost reduction,	4	0.767
financial speculation	3	0.703
bank indebtedness	3	0.809
Financial performance	6	0.891

Source: SPSS

Supposed that:
H0: there is no relationship between the independent and dependent variables (the financial performance of SMEs.)
H1: there is a relationship between the independent and dependent variables.

Table 2 presents the outcomes of the analysis as follows:
The statistical significance level (alpha) is observed to be less than 0.05. This result leads to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1).
The Pearson correlation coefficient yields a value of 0.422. This value signifies an average positive correlation.
Based on these findings, it can be concluded that there exists a moderate and positively proportional relationship between self-financing and the financial performance of SMEs. The statistical significance level, along with the Pearson correlation coefficient, underscores the validity of this relationship. The results presented in Table 2 contribute to an enhanced understanding of the link between self-financing practices and the financial performance of SMEs, affirming their interdependency within the context of this study.

Table 2: Correlation between self-financing and financial performance of SMEs

		Autofinancing	Performance
Autofinancing	Pearson	1	.422**
	Correlation		
	Sig. (2-tailed)		<.001
	N	220	220
Performance	Pearson	.422**	1
	Correlation		
	Sig. (2-tailed)	<.001	
	N	220	220

** Correlation is significant at the 0.01 level (2-tailed)

Table 3 provides an overview of the findings as follows:
The statistical significance level (alpha) is noted to be below 0.05, leading to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1).
The Pearson correlation coefficient yields a value of 0.486. This value indicates an average positive correlation.

In light of these results, it can be inferred that an average and positively proportional relationship exists between cost reduction strategies and the financial performance of SMEs. The significance of the statistical level and the calculated Pearson correlation coefficient reinforce the presence of this relationship. The insights derived from Table 3 contribute to a deeper understanding of how strategic cost reduction practices interplay with the financial performance of SMEs, underscoring their consequential connection within the scope of this study.

Table 3: Correlation between cost reduction and financial performance of SMEs.

		Reduction	Performance
Reduction	Pearson	1	.486**
	Correlation		
	Sig. (2-tailed)		.000
	N	220	220
Performance	Pearson	.486**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	220	220

** Correlation is significant at the 0.01 level (2-tailed)

Table 4 provides a comprehensive insight into the findings as follows:
The statistical significance level (alpha) is identified to be below 0.05, leading to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1).
The Pearson correlation coefficient is determined to be 0.421. This value indicates an average positive correlation.

Based on these results, it is reasonable to deduce the existence of an average and positively proportional relationship between financial speculation strategies and the financial performance of SMEs. The statistical significance level, in conjunction with the calculated Pearson correlation coefficient, accentuates the robustness of this relationship. The implications derived from Table 4 deepen the understanding of how financial speculation practices intersect with the financial performance of SMEs, emphasizing their consequential interrelation within the context of this study.

Table 4: Correlation between financial speculation and SME financial performance.

		Speculation	Performance
Speculation	Pearson	1	.421**
	Correlation		
	Sig. (2-tailed)		.000
	N	220	220
Performance	Pearson	.421**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	220	220

** Correlation is significant at the 0.01 level (2-tailed)

Table 5 offers a comprehensive summary of the findings as follows:
The statistical significance level (alpha) is found to be below 0.05, leading to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1).

The Pearson correlation coefficient is determined to be 0.152. This value signifies a weak yet positive correlation.

From these outcomes, it is reasonable to infer that a weak and positively proportional relationship exists between bank indebtedness and the financial performance of SMEs. The statistical significance level, coupled with the calculated Pearson correlation coefficient, underscores the existence of this relationship, albeit with limited strength. The insights derived from Table 5 contribute to a nuanced understanding of the interplay between bank indebtedness and the financial performance of SMEs, highlighting a connection that, while modest, remains significant within the scope of this study.

Additionally, as there are multiple independent variables at play, the study employs a multiple linear regression test to further examine the relationships. The forthcoming section will provide the results of this test, enhancing the depth of understanding regarding the interdependent nature of these variables and their impact on SMEs' financial performance.

Table 5: Correlation between bank indebtedness and financial performance of SMEs

		Indebtedness	Performance
indebtedness	Pearson	1	.152**
	Correlation		
	Sig. (2-tailed)		.024
	N	220	220
Performance	Pearson	.152**	1
	Correlation		
	Sig. (2-tailed)	.024	
	N	220	220

** Correlation is significant at the 0.05 level (2-tailed)

Table 6 presents a comprehensive overview of the findings, highlighting the following insights:

- **R (Multiple Correlation Factor):** The table indicates that the multiple correlation factor, denoted as "R," is measured at 0.598. This value signifies a substantial level of correlation, characterized as "good."
- **R2 (Proportion of Variabilities):** The table also provides the value of R2, which indicates the proportion of variabilities. In this case, the value of R2 is calculated as 0.357. This value represents the degree to which the variation in the dependent variable (financial performance) can be accounted for by the independent variables. Specifically, this indicates that approximately 35.7% of the variation in the financial performance of SMEs can be explained by the identified independent variables.

Taken together, these outcomes provide valuable insights into the predictive power of the model. The substantial multiple correlation factor (R) underscores a robust level of correlation among the variables, suggesting that the independent variables collectively have a significant influence on the financial performance of SMEs. Additionally, the R2 value demonstrates a noteworthy level of predictability, signifying that a considerable proportion of the variation in financial performance can be attributed to the interplay of the identified independent variables. These findings, as presented in Table 6, enhance our comprehension of the holistic impact of these independent variables on the financial performance of SMEs, thus contributing to the overarching objectives of the study.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.598[a]	.357	.345	.50774

[a]Pedictors: (constant), indebetdness, speculation, autofinancing, reduction

Table 7 provides a comprehensive overview of the Anova regression test results, offering the following key insights:

- **Significance Alpha:** The table indicates that the significance alpha value is less than 0.05. This outcome leads to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1). The obtained significance level underscores the presence of a statistically significant relationship.
- **Fisher Factor:** The Fisher factor, with a value of 29.852, attests to its significance as a measure. This value is indicative of the overall significance of the regression model.

Based on these findings, it can be inferred that the collective influence of self-financing, cost reduction, financial speculation, and bank indebtedness significantly affects the financial performance of SMEs. The rejection of the null hypothesis underscores the credibility of this assertion. Moving forward, the study aims to delve deeper into the specific influence of each independent variable by analyzing their respective coefficients.

The outcomes presented in Table 7 amplify our understanding of the interplay between the independent variables and the financial performance of SMEs. These results pave the way for a more detailed examination of the individual contributions of self-financing, cost reduction, financial speculation, and bank indebtedness to SMEs' financial performance through the analysis of their coefficients.

Table 7: ANOVA[a] regression test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.783	4	7.696	29.852	.000[b]
Residual	55.427	215	.258		
Total	86.210	219			

[a]Dependent Variable Performance
[b]Pedictors: (constant), indebetdness, speculation, autofinancing, reduction

Table 8 provides a comprehensive breakdown of the coefficients for the independent variables in relation to the dependent variable, offering the following significant insights:

- **Observations:** Upon careful analysis of the table, it becomes evident that the independent factors exert an influence on the financial performance of SMEs, with one exception. Bank indebtedness presents a significance alpha value of 0.485, which surpasses the threshold of 0.05. This result indicates the acceptance of the non-impact of independent variables on the dependent variable in the case of bank indebtedness.
- **Coefficients:** The table reveals the specific coefficients attributed to each independent variable. Notably, the self-financing coefficient is calculated as 23.2%, the cost reduction coefficient stands at 26.2%, and the coefficient for financial speculation is 21.5%. These coefficients quantify the degree of influence each independent variable holds over the dependent variable.
- **Interplay:** An interesting observation emerges from the coefficients. The coefficients of cost reduction and self-financing are notably higher, suggesting a more pronounced mutual influence between these variables.

In light of these findings, an equation can be formulated to represent the regression model that predicts the financial performance of SMEs:
Financial Performance = 0.262 * Cost Reductions + 0.232 * Self-financing + 0.215 * Financial Speculation + 0.959

This equation encapsulates the nuanced relationship between the independent variables—cost reductions, self-financing, and financial speculation—and the financial performance of SMEs. The outcomes delineated in

Table 8 enhance our understanding of how these specific factors interact and contribute to SMEs' financial performance, paving the way for a more informed approach to strategic decision-making within this context.

Table 8: The coefficients[a] of the independent variable by the dependent variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.959	.247		3.879	.000
Autofinancing	.232	.052	.274	4.486	.000
Reduction	.262	.062	.276	4.232	.000
Speculation	.215	0.57	.239	3.762	.000
Indebetdness	.032	.045	.041	.700	.485

[a]Dependent Variable Performance

Table 9 outlines the validation process for the hypotheses, providing a comprehensive overview as follows:

- **Hypothesis 1:** The table confirms that SMEs in North Lebanon employ self-financing as a method of rescue, as the coefficient value is calculated at 0.232. Importantly, the significance level (Sig.) associated with this coefficient stands at 0.000, which is lower than the critical threshold of 0.05. This outcome validates the hypothesis, leading to its acceptance.
- **Hypothesis 2:** The validation process demonstrates that SMEs in North Lebanon indeed reduce operating costs to safeguard financial performance. The coefficient value for this hypothesis is 0.262, and the significance level is 0.000, both of which are below 0.05. Consequently, the hypothesis is validated and accepted.
- **Hypothesis 3:** The table establishes that SMEs in the region resort to financial speculation as a means of safeguarding themselves. With a coefficient value of 0.215 and a significance level of 0.000, both below 0.05, this hypothesis is validated and accepted.
- **Hypothesis 4:** The validation process, however, reveals that SMEs using bank debt as a method to safeguard financial status is not substantiated. The coefficient value for this hypothesis is calculated as 0.015, and the significance level is 0.485, which exceeds the threshold of 0.05. Consequently, this hypothesis is dismissed due to the lack of statistical significance.

In summary, Table 9 underscores the validation outcomes of the hypotheses. Hypotheses 1, 2, and 3 are validated and accepted based on their coefficients' values and the associated significance levels. On the other hand, Hypothesis 4 is not substantiated, as the coefficient's value and significance level do not meet the criteria for validation. These results provide critical insights into the relationship between the independent variables and the financial performance of SMEs, allowing for more informed conclusions and strategic decision-making.

Table 9: Validation of assumptions

No	Hypotheses	Coefficient	Sig.	Validation
H1	SMEs in North Lebanon use self-financing as a method of rescue	0.232	0.000<0.05	**Accept**
H2	SMEs in North Lebanon reduce operating costs to safeguard financial performance	0.262	0.000<0.05	**Accept**
H3	SMEs have resorted to financial speculation as a solution to save themselves	0.215	0.000<0.05	**Accept**
H4	SMEs use bank debt as a method to safeguard financial status	0.015	0.485>0.05	**Dimiss**

VI. Conclusion

In conclusion, this scientific paper has delved into the intricate landscape of rescuing distressed Small and Medium Enterprises (SMEs), focusing specifically on the context of North Lebanon. The exploration was anchored by a comprehensive review of pertinent theoretical frameworks, progressing from the elucidation of business difficulties to the importance of preventative measures and culminating in the strategies for rescuing SMEs.

To address the fundamental research inquiry—"How to save a company in difficulty?"—a meticulously structured methodology was employed, marked by a deduction-driven approach that derives hypotheses from the data amassed through a questionnaire. This study presented four distinct hypotheses, each probing a specific aspect of SME resilience. Notably, SMEs' employment of self-financing, reduction of operational costs, engagement in financial speculation, and reliance on bank debt were all subject to scrutiny.

The validation and assessment of these hypotheses were carried out through a quantitative method, leveraging statistical and numerical data. The collection of data from SMEs through questionnaires provided a solid foundation for analysis. The computer program "SPSS IBM" facilitated the analysis, utilizing the Pearson correlation test and the Anova multiple regression test to confirm the relationships among variables.

Results from the correlation test unveiled substantial and statistically significant connections between independent and dependent variables, underscoring the influence of independent factors on SME financial performance. However, bank indebtedness emerged as an exception, with an insignificant alpha value of 0.485, suggesting its non-impact on the dependent variable.

Further examination of the coefficients highlighted the varying degrees of influence exerted by each independent variable. Notably, self-financing, cost reduction, and financial speculation demonstrated coefficients of 23.2%, 26.2%, and 21.5% respectively, indicative of their roles in shaping SMEs' financial performance.

This research's originality lies in its focus on a neglected research domain, shedding light on financial aspects as consequences rather than causes of SME crises. It has opened pathways for future research, nurturing a deeper understanding of turnaround strategies for SMEs.

In the practical realm, the study emphasizes the significance of external intervention and the prioritization of human resources in SME recovery endeavors. Strategic decisions should align with both financial and operational capabilities.

While this research offers insightful recommendations and potential avenues for further exploration, it is not without limitations. These limitations prompt suggestions for future research endeavors, thereby contributing to the continuous expansion of our understanding of SME dynamics and crisis management.

References

[1]. Sachdev, Naresh. (2023). Entrepreneurial Resilience: What Makes Entrepreneur Start Another Business After Failure. Asian Journal Of Economics, Business And Accounting. 23. 46-58. 10.9734/Ajeba/2023/V23i181057.

[2]. Amonhaemanon, Dalina. (2023). Financial Stress And Gambling Motivation: The Importance Of Financial Literacy. Review Of Behavioral Finance. 10.1108/RBF-01-2023-0026.

[3]. Doumpos, M., Zopounidis, C. Business Failure Prediction: A Comparison Of Classification Methods. Oper Res Int J 2, 303–319 (2002). Https://Doi.Org/10.1007/BF02936387

[4]. Rus, Luminita & ZĂPODEANU, Daniela & Carmen, Scorte & MOCIAR-COROIU, Sorina. (2022). INDICATORS AND 3R-TYPE MEASURES IN OVERCOMING FINANCIAL DIFFICULTIES OF COMPANIES. The Annals Of The University Of Oradea. Economic Sciences. 31. 153-163. 10.47535/1991AUOES31(2)015.

[5]. Usykova, Olena. (2023). Models Of Bankruptcy Risk Analysis. Modern Economics. 38. 164-170. 10.31521/Modecon.V38(2023)-25.

[6]. Nehme, Massaad & Makdissi, Riad & Mekdessi, Selim. (2022). Impact Of Exchange Rate Variation On The Financial Policy Of Lebanese Smes. IOSR Journal Of Economics And Finance. 13. 37-45. 10.9790/5933-1306023745.

[7]. Makdissi, Riad & Chahine, Giovanni & Mekdessi, Selim. (2022). Financial Resilience Of Family-Owned Businesses To Crises In Lebanon. 24. 24-32. 10.9790/487X-2412042432.

[8]. Makdissi, Riad & Tannous, Jimmy. (2020). Funding Challenges Facing Smes' Growth In Lebanon. International Journal Of Business And Economics Research. 9. 50. 10.11648/J.Ijber.20200901.16.

[9]. Fluhrer, Peter & Brahm, Taiga. (2023). Positioning In Smes: Entrepreneurs' Perceptions And Strategies. Journal Of Research In Marketing And Entrepreneurship. 10.1108/JRME-09-2021-0120.

[10]. Machado, Hilka & GAZOLA, SEBASTIÃO & Fabrício, Joiceli & Añez, Miguel. (2016). WOMEN ENTREPRENEURS: REASONS AND DIFFICULTIES FOR STARTING IN BUSINESS. RAM. Revista De Administração Mackenzie. 17. 15-38. 10.1590/1678-69712016/Administracao.V17n3p15-38.

[11]. Nair, Sujith & Blomquist, Tomas. (2018). Failure Prevention And Management In Business Incubation: Practices Towards A Scalable Business Model. Technology Analysis & Strategic Management. 31. 1-13. 10.1080/09537325.2018.1495325.

[12]. Tucker, Patrick. (2023). Reactions And Business. 10.4324/9781003328070-6.

[13]. Britaev, Dzambolat & Krotov, Aleksandr & Vedyashova, Anna. (2023). ANALYSIS OF THE ORGANIZATION'S CASH FLOWS. EKONOMIKA I UPRAVLENIE: PROBLEMY, RESHENIYA. 4/3. 96-102. 10.36871/Ek.Up.P.R.2023.04.03.011.

[14]. Akindiji, Racheal. (2023). Debt Vs. Equity Financing.

[15]. Kwakye, Teddy & Ahmed, Kamran. (2023). Business Strategy And The Cost Of Equity: The Mediating Role Of Accounting Information Quality. Journal Of Applied Accounting Research. 10.1108/JAAR-05-2022-0120.

[16]. Stupnytskyi, Viktor & Filipishyna, Liliya & Chumak, Oksana & Gonchar, Viktoriya & Komandrovska, Veronika & Iefimova, Ganna. (2023). Environmental Compliance And Business Strategies Practices Of Entrepreneurial Ventures. E3S Web Of Conferences. 408. 10.1051/E3sconf/202340801025.

[17]. Makdissi, Riad & Nehme, Anita & Chahine, Rachelle. (2020). The Influence Of Financial Culture On SME's Financial Performance. Journal Of Financial Risk Management. 09. 1-22. 10.4236/Jfrm.2020.91001.

[18]. Annisa, Salsa & Wibowo, Hardiyanto & Dirgantari, Novi & Winarni, Dwi. (2023). Asset Structure , Profitability And Business Risk On Capital Structure. Jurnal Manajemen Bisnis, Akuntansi Dan Keuangan. 2. 47-62. 10.55927/Jambak.V2i1.2621.

[19]. Makdissi, Riad & Khawaja, Danie & Mekdessi, Selim. (2016). Smes Awareness Of Global Performance Issues; Case Of Lebanon And Romania. IOSR Journal Of Business And Management (IOSR-JBM). 18. 49-56. 10.9790/487X-1810014956.

[20]. Lagadec, Patrick & Phelps, Jocelyn. (1991). Preventing Chaos In A Crisis: Strategies For Prevention, Control, And Damage Limitation.

[21]. John Spillan, Michelle Hough (2003). Crisis Planning In Small Businesses: Importance, Impetus And Indifference - European Management Journal, Volume 21, Issue 3, Pages 398-407, ISSN 0263-2373, Https://Doi.Org/10.1016/S0263-2373(03)00046-X.

[22]. Runyan, Rodney. (2006). Small Business In The Face Of Crisis: Identifying Barriers To Recovery From A Natural Disaster 1. Journal Of Contingencies And Crisis Management. 14. 10.1111/J.1468-5973.2006.00477.X.

[23]. Brouard, François & Larivet, Sophie. (2010). Essay Of Clarifications And Definitions Of The Related Concepts Of Social Enterprise, Social Entrepreneur And Social Entrepreneurship. Handbook Of Research On Social Entrepreneurship. 29-56.

[24]. Makdissi, Riad & Khawaja, Danie & Dubruc, Nadine & Mekdessi, Selim. (2017). The Stakeholders: A Key Player For Lebanese Smes In Difficult Times. Journal Of Business And Management. 19.

[25]. Riad Makdissi, Anita Nehme, Massaad Nehme. "Credit Risk Management, Case Study Of Bank Of Beirut - Lebanon." IOSR Journal Of Economics And Finance (IOSR-JEF), 11(1), 2020, Pp. 47-54.
[26]. Gundel, S. (2005). Towards A New Typology Of Crises. Journal Of Contingencies And Crisis Management, 13(3), 106–115. Https://Doi.Org/10.1111/J.1468-5973.2005.00465.X
[27]. Mekdessi, Selim & El-Hawli, Sara & Makdissi, Riad. (2021). The Impact Of Current Crises On Employment -Empirical Study On Food Sector Smes In North Lebanon. IOSR Journal Of Economics And Finance. 12. 28-47. 10.9790/5933-1205085847.
[28]. Makdissi, Riad & Hammoudy, Samer & Mekdessi, Selim. (2021). Improving The Competitiveness Of Smes Through Management Control. Empirical Study For North Lebanon Smes. IOSR Journal Of Business And Management. 23. 19-29. 10.9790/487X-2310031929.
[29]. Makdissi, Riad & Kaddour, Ziad & Mekdessi, Selim. (2023). Impact Of Funding Difficulties On The Sustainability Of Lebanese Non-Governmental Organizations. IOSR Journal Of Economics And Finance. 13. 10-24. 10.9790/5933-1306041024.
[30]. Mekdessi, Selim & Makdissi, Riad & Jazzar, Ghady. (2021). E-Commerce And Financial Performance During The COVID-19 Period: The Case Of Smes In Lebanon. IOSR Journal Of Business And Management. 23. 8-16. 10.9790/487X-230906816.
[31]. Latha, CH & Kaur, Jaspreet & S, Gokilavani & Vanlalhlimpuii,. (2023). Mediating Role Of Business Tactics On The Relationship Between Entrepreneurial Resilience And Business Survival – A Study Across Micro Entrepreneurs In Bangalore. 10.1007/978-3-031-26953-0_22.
[32]. Mekdessi, Selim & Makdissi, Riad & Jazzar, Ghady. (2021). E-Commerce And Financial Performance During The COVID-19 Period: The Case Of Smes In Lebanon. IOSR Journal Of Business And Management. 23. 8-16. 10.9790/487X-230906816.

[33]. Https://Www.Qualtrics.Com/Blog/Calculating-Sample-Size/