

## BUSINESS FAILURE IN THE GAZA STRIP BANKERS AND BUSINESS EXPERTS' VIEWPOINTS

Yousif H. M. Ashour\* & Majed M. El-Farra\*\*

The Islamic University of Gaza  
P.O. Box 108 Gaza, Gaza Strip

### فشل منظمات الأعمال في قطاع غزة "وجهات

### نظر المصرفيين والخبراء"

ملخص يناقش البحث مشكلة ارتفاع معدل الفشل بين منظمات الأعمال في قطاع غزة ، ولقد ركز البحث على أهم العوامل التي ساهمت في فشل الأعمال في غزة ، وهذه العوامل هي : نقص التمويل ، وعدم القدرة على إدارة السيولة النقدية ، وعدم توفر الخدمات المصرفية المرضية ، وممارسات إدارية غير سليمة لدى مدراء الأعمال ، ونقص الخبرة في إدارة الأعمال ، وعدم توفر الفهم السليم لمفهوم الشركة ، ونقص المواد الخام ، وعدم الفهم السليم لمفهوم التسويق . ولقد اقترحت الدراسة بالقيام بمزيد من الأبحاث حول فشل الأعمال في غزة ، ولقد خلصت الدراسة بالعديد من التوصيات التي يمكن أن تساعد في تخفيض معدل فشل الأعمال في قطاع غزة .

**Abstract** This paper examines the problems of high business failure rate in the Gaza Strip. It focuses on the factors, which contributed significantly to business failure in Gaza. These factors include, 'short of funds and lack of ability to manage liquidity', dissatisfaction of banking services, 'poor managerial practices and lack of experience in running businesses', lack of understanding of the concept of company, 'shortage of raw materials and poor maintenance procedures', and lack of understanding of the concept of marketing. The study recommends further studies to be conducted in certain areas of business Failure. In addition, the study includes several recommendations that may help in reducing business failure rate in the Gaza Strip.

### INTRODUCTION

The characteristics of business organisations in Gaza during the Israeli occupation (1967-1993) were relatively similar to the Palestinian

---

\* Associate Professor of Management Department of Management

\*\* Head - Department of Management

National Authority (PNA) period. Business organisations are still dominated by small-scale firms, labour intensive and low productivity.

This research investigates the problem of high failure rates in Gaza. The analysis reveals that there are six major factors that contribute to business failure, they include, 1) financial factors, 2) bank relations, 3) managerial factors, 4) accounting policies, 5) production factors, and 6) marketing issues.

This research consists of the following sections: 1) characteristics of business organisations in the Gaza Strip, 2) business failure in the Gaza Strip, 3) why business fails? 4) research queries and hypothesis, 5) discussion of research findings, 6) conclusions, 7) recommendations, and 8) further research.

The research employs descriptive, analytical, and empirical methods involving both qualitative and quantitative approaches. The fieldwork is based on personal interviews and a questionnaire specially developed for this study (see Appendices 1 and 2). Both primary and secondary data sources were used. The data collection was done in the following manner:

- 1) The authors conducted interviews with local bank managers and businessmen. In addition, interviews were conducted with local experts in the economic development of the territory, in order to benefit from their experience and evaluation of the economic activities of the Gaza Strip. The interviews were conducted in 1997 and 1998.
- 2) Questionnaires specifically designed for this research were distributed at 67 bankers in the Gaza Strip. The questionnaires were distributed in April 1998.
- 3) Academic work on the subject such as books, special studies and reports, and other library-housed materials were collected through library research. In addition, relevant information from leading Journals and magazines were collected.

Overall, this study relied on a variety of sources and used a selective method in gathering the relevant information from each source in order to fully benefit from all available sources.

## **1- CHARACTERISTICS OF BUSINESS ESTABLISHMENTS IN THE GAZA STRIP**

During Israeli occupation period (1967-1993) Gaza's economy remained undeveloped (World Bank, 1993). Business establishments were mainly dominated by small-scale establishments and with low capitalisation levels (Central Bureau of Statistics (CBS), 1994). The Israeli occupation

## BUSINESS FAILURE IN THE GAZA STRIP BANKERS

policies had contributed significantly to the underdevelopment of Gaza's economy (El-Farra and Macmillan, 2000). In addition, there were some other internal constraints which contributed to the problem. The internal constraints were mainly attributed to the local business owners and managers for their lack of experience in management, and in production and marketing (El-Farra and Wakelam, 1999).

During the Palestinian National Authority (PNA) period (1994-1999) the characteristics of Gaza's business establishments were very similar to the pre-1994 period. In 1997 (Table 1) Gaza's economy consists of 22,495 establishments with total employment at about 53,946 persons (PCBS, 1998). Business establishments are still dominated by small-scale establishments with average employment size of about 2.4 persons. Table 1 reveals that 91 per cent of Gaza's establishments employ 4 persons or less. Only 3 per cent of Gaza's establishments employ 10 persons or more. In addition, Gaza's commerce sector dominates about 55 per cent (12,294 establishments) of overall establishments. While manufacturing sector controls about 17.5 per cent as a proportion of overall establishments. Low capitalization level was a characteristic feature of Gaza's establishments with average invested capital at about \$10,330 per establishment (UN, 1998). Low employment and low invested capital in Gaza's establishments are reflected negatively on the level of productivity in Gaza's establishments. In 1994 the average annual productivity per engaged persons in the West Bank and Gaza Strip were only \$6944 (UN, 1998).

**Table 1 - Number of Establishments in operation by Principal Economic Activities and Employment Size in the Gaza Strip, 1997**

<b>Economic Activities</b>	<b>0-4</b>	<b>5-9</b>	<b>10-19</b>	<b>20-49</b>	<b>50+</b>	<b>Total</b>	<b>Per cent</b>
Agriculture	904	15	1	1	0	921	4.1
Manufacturing	2972	628	242	92	10	3944	17.5
Electricity and water Supply	648	6	0	1	0	655	3.0
Construction	130	42	27	16	4	219	1.0
Wholesale, retail & repairs	11914	305	65	9	1	12294	55.0
Hotel & restaurants	674	22	6	4	0	706	3.0
Transport, storage & communications	269	23	12	2	5	311	1.0
Financial intermediation	136	9	19	10	2	176	0.7
Real estate	736	50	19	2	1	808	3.6
Education	294	137	36	9	2	478	2.0

Health & social work	671	61	37	16	9	794	3.5
Others	1079	67	30	6	2	1184	5.0
Total (per cent)	91.0	6.0	2.2	0.8	0.0	22,490	100.0

Source: Palestine Central Bureau of Statistics, (1998). *Population, Housing and Establishment Census 1997, Final Results: Establishments Report*. Ramallah-Palestine.

## **2- BUSINESS FAILURE IN GAZA**

To the researchers' knowledge no previous studies were conducted on business failure in the Gaza Strip. In addition, the surveys available on Gaza's business establishments neglect the start-up date of establishments. By analysing their dates of operation, an assessment can be made of the companies' movements (births and deaths), their ability to survive under fierce competition, and the heavy losses which affect the local economy because of firms' attrition rate and bankruptcy. The Union of Industrialists - Gaza survey (1993) was the first detailed work, which considered the date of operation of industrial establishments. However, this survey did not show how many establishments died after 1967. The analysis of the number of Gaza's manufacturing sector<sup>i</sup> shows that in 1993 only 127 of the 769 establishments which were operating pre-1967 survived (Union of Industrialists- Gaza, 1993; Israeli Central Bureau of Statistics (CBS), 1993; Arkadie, 1977). This indicates a dramatic fall in the number of pre-1967 establishments by 83.5 per cent. In other words only 16.5 per cent of all firms survived. Taking another example, the total number of industrial establishments in 1981 was estimated at 1,398 (CBS, 1982) of which only 525 firms survived by 1993, or 37.5 per cent. In other words 62.5 per cent disappeared from the market. This was the case during the Israeli occupation period. During the PNA period the situation looks even worse. Though there is no formal statistical figures to show how many firms leave the market every year; economic indicators revealed that business failure in Gaza is becoming a serious problem and that it needs focus of attention. These indicators may be summarised as follows:

1. Since 1993, Gaza's economy has been subject to significant and sustained external shock, resulted mainly from Israeli closures which caused 18 per cent decline in per capita GNP during the period 1992-1996 (UN, 1998).
2. There are about 500 bankrupt court cases in the main court of Gaza in August 1998. These figures are expected to increase considerably in the coming years because, the conditions and the circumstances are at best the same. In addition, the dramatic increase in the number of bounced

## BUSINESS FAILURE IN THE GAZA STRIP BANKERS

cheques is another indication of high business failure rate of the Gaza Strip (see Table 2) (Abu- Warda: Interview, 1998).

3. Some money exchange dealers and businessmen who accepted deposits from the public in Gaza collapsed and failed to give back deposits (Ashour, 1999).
4. There is a significant increase in the number of bounced cheques in the Gaza Strips' Governerrates. For example, in 1996 and 1997 the number of bounced cheques increased from 19,304 to 51,148, or a high increase by 165 per cent. In addition, in 1999 the number of bounced accounted for 69,885 cheques compared to 19,304 in 1996 (Table 2).

**Table 2 – Number and Average Growth of Bounced Cheques in the Gaza Strip**

Years	Cheques Number in JD	Cheques Number in \$	Cheques Number in Israeli Shackels	Total	Average Change
1996	784	690	17,830	19,304	-
1997	1107	1806	48,235	51,148	165%
1998	1681	2728	56,763	61,272	20%
1999	1025	3260	65,600	69,885	14%

Source: Research and Monetary Policies Department, Palestine Monetary Authority (2000), *Statistical Pollettin*, Issue (22) May 2000.

### 3- WHY BUSINESSES FAIL?

Before answering this question we should define the concept of business failure. Business failure is a vague terminology because there are varying degrees of failure. It may be defined as:

*The condition of the firm when it is unable to meet its financial obligations to its creditors in full. It is deemed to be legally bankrupt and is usually forced into insolvency liquidation (Berryman, 1983, p.49).*

There are different viewpoints on the causes of business failure. Business experts are different in their views from business directors, bankers and official receivers.

According to the official receivers views (Brough, 1970), principal causes of business failure may be classified into 12 reasons. They are ranked in a respective order as follows: 1) mismanagement, 2) insufficient capital, 3) insufficient working capital, 4) Excessive drawing of business income by directors,5) inadequate accounting and book keeping system, 6)

inexperience, 7) gross mismanagement, 8) bad debts, 9) under estimating company strength and weaknesses, 10) pilfering or fraud, 11) over-trading and expanding too rapidly, and 12) increasing overheads.

In addition the directors of the insolvent companies offered different reasons for their lack of success than did the official receivers. For example, 'mismanagement' the main cause of failure according to the official receivers never admitted by the directors (Brough, 1970). The directors attributed their failure mainly to insufficiency of capital and working capital and bad debts (Brough, 1970).

Companies may fail for four general reasons as follows (Pratten, 1991): a) Business failure which may be caused by fierce competition from a new emergent large-scale company with low production costs; b) Economic instability; c) Financial failure and d) Management failure.

In addition, the fundamental characteristic that distinguishes small firms from large ones is their higher probability of ceasing to trade (Storey, 1994). According to a study in the USA on manufacturing establishments, firms employ 5-19 employees had an exit rate 104.7 per cent higher than plants with more than 250 employees (Dunne and Samuelson, 1989).

Hall said:

*It would appear that owners of young firms were more likely to suffer from inadequate funding, poor products and insufficient marketing. As their companies aged, however, they were more likely to be buffeted by strategic and environmental shocks for which they did not have the managerial skills to respond (1992; quoted in Storey, 1994, p. 105).*

#### **4- RESEARCH QUERIES AND HYPOTHESES**

This research tries to answer the following two questions:

First; what are the factors, which contributed to business failure in Gaza? And which factors were the most significant contributor to business failure?

Second; what is the strategy needed to overcome the issue of business failure in Gaza?

The main hypothesis of this research is that, various reasons contributed to business failure in Gaza. These reasons may be concluded in the following six factors: 1) financial factors;, 2) bank relations; 3)

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

managerial factors; 4) accounting policy, 5) production factors; and 6) marketing issues.

To accept or reject this argument, however, six hypotheses will be analyzed and tested. The analysis will focus on individual and groups of reasons contributed to business failure in Gaza. The hypothesis may be summarised as follows:

Hypothesis 1; it is expected that insufficient capital and inability of managing will contribute to business failure in Gaza.

Hypothesis 2; it is expected that inability of managing relations with banks will contribute to business failure in Gaza.

Hypothesis 3; it is expected that inability of drawing sound accounting policies will contribute to business failure in Gaza.

Hypothesis 4; it is expected that mismanagement of establishments and inability of managing relations with partners will contribute to business failure in Gaza.

Hypothesis 5; it is expected that high production cost and poor product quality will contribute to business failure in Gaza.

Hypothesis 6; it is expected that general political and economic factors will contribute to business failure in Gaza.

### **5- DISCUSSION OF RESEARCH FINDINGS**

The findings of the fieldwork showed that there are six major factors contributed to high business failure rate in the Gaza Strip. These findings are presented as follows:

#### **1. Financial Factors**

Shortage of funds is one of the most serious problem facing Gaza's establishments (El-Farra and Wakelam, 1999). When bank managers were asked whether the lack of working capital was an issue, which may contribute to business failure in the Gaza Strip; fifty four per cent of the research sample answered that this variable contributed sometimes to the business failure and 37.3 per cent revealed that lack of working capital was always a problem and it participated considerably to business failure. In addition, the T test indicated that this factor was contributed significantly to the problem of business failure in the Gaza Strip.

Lack of ability to manage liquidity was also another financial issue, which contributed to business failure in Gaza. A significant 51 per cent of the respondents believe that this shortcoming sometimes contributed to the business failure in Gaza, while 39.4 per cent of the bank managers considered the lack of ability to manage liquidity was always a significant contributor to the business failure in Gaza. The T test results showed that this factor has contributed significantly to the problem of high business failure rate in the Gaza Strip.

## **2. Bank Relations**

The results of the T test revealed that the factors 'high cost of the bank finance and lack of ability of getting bank finance' did not contribute to the business failure in Gaza. Probably because, this result was based on the bankers' viewpoint and the situation from other experts (business counselors and consultants) revealed different story. It is indicated that banks, which were operating in the Gaza Strip were not serious in financing businesses in Gaza. At the end of 1996, the banks' deposits were estimated at about \$1.674 billion and their credit to deposits ratio was calculated in 1996 at about 25 per cent only (calculated from Bsaso, 1997). The low credit provided to local customers reflects that banks probably are not serious in lending local businesses for investment. Bsaso (1997) in this respect emphasized the political situation in the region, the legal framework of banking system and the lack of qualified bankers in the Gaza Strip.

The dissatisfaction of Palestinian businesses with the banking services was illustrated by a poll conducted in 1999 by Nabil Kukali (Al-Nahar, 1995). In this survey, a substantial majority of the sample (70.5 per cent) in the West Bank and Gaza Strip expressed their discontents with the performance of banks, especially in respect of offering facilities for small-scale projects<sup>ii</sup>.

In addition, the T test results showed that relying on outside finance more than business equity significantly contributed to the business failure in Gaza. The external sources of funds came from banks, friends and NGO, which became active in Gaza since late 1980s. Furthermore, about 96 per cent of research sample believe that the most ceased businesses, failed in managing their relations with banks. This factor contributed significantly to the problem of 'high business failure rate in the Gaza Strip'.

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

### **3. Managerial Factors**

For the purposes of this paper managerial factors, are the management principles and functions. Management may be defined as:

*The process of planning, organizing, leading and controlling the efforts of organization members and of using organizational resources to achieve stated organizational goals (Hannagan, 1995, p. 4).*

This study examines how the concept of management and its functions have been poorly understood and implemented by failed Gaza's business firms. The fieldwork revealed that a high 94 per cent of the research sample believed that management conflict between partners contributed significantly to the problem of business failure in Gaza. In addition, the T test showed that lack of management experience in running business contributed significantly to the problem of business failure. The results of the fieldwork indicated that 96 per cent of the research sample believe that lack of management experience contributed to the business failure in Gaza.

Many experts emphasized the significant contribution of management conflict to business failure in Gaza saying that, teamwork between partners and managers is mostly not available in Gaza's business firms. "Most joint ventures in Gaza failed to survive because those involved find it difficult to work as a team" (El-Farra and Wakelam, 1999, p. 72).

Lack of experience in running businesses in Gaza, exposed businesses to a very high risk. Ninety four per cent of the study sample considered the factor 'lack of experience exposed businesses to a high risk' significantly contributed to the high business failure rate in Gaza. The T test revealed that this factor played a significant role to Gaza's business failure.

Furthermore, the management of Gaza's failed businesses lacked the ability to foresee market problems or any other external forces, which may influence business. A high 90 per cent of research sample considered business inability to predict market and external changes as a significant element, which contributed to the business failure in Gaza. Most failed establishments were randomly run and lacked plan or

a counter plan to overcome any expected hostile environment (see section 4).

#### **4. Accounting Policy**

There is a general lack of understanding of the concept of company in Gaza. This may be realised from lack of separation between the companies and managers/owners assets. The results of the fieldwork revealed that Gaza's failed businesses did not have appropriate accounting policies. A very high per cent of research sample (91) mentioned that failed business firms were mixing together personal and firm expenditures and they never used appropriate accounting system. The T test results revealed that this factor contributed significantly to the business failure in Gaza. In addition, 90 per cent of the sample respondents emphasized that, no use of professional accountants, was another factor, which contributed to a business failure. The T test results indicated that this factor participated significantly to the business failure problem in Gaza. Lack of appropriate bookkeeping and the absence of sound accounting system in Gaza's business organisations were also stressed by several studies (see for example, Policy Research and Incorporated, 1992; El-Farra & Macmillen, 2000). During the Israeli occupation of the Gaza Strip, the absence of accurate business records were often an excuse to Israeli government in imposing arbitrary taxes on Gaza's businesses. Many writers considered the Israeli discriminatory and arbitrary taxes significant constraints to Gaza's business development (JMCC, 1992; El-Farra and Macmillen, 2000). In addition, lack of accurate internal business records has deprived businesses from an important source of data and information to plan and predict for business future. "Sound planning helps the company to anticipate and respond quickly to environmental changes and to be better placed for sudden developments" (Kotler and Armstrong, 1990, p. 27). Lack of Gaza's business planning was emphasized by many experts interviewed (Rayer; Moamer; Sha'ban; Halabi: Interviews, 1997).

#### **5. Production Factors**

Gaza has limited natural resources. It relies mainly on materials imported from foreign suppliers. A very high per cent of research sample (93) indicated that the shortage of raw materials contributed to the problem of Gaza's business failure. Shortage of material could be attributed to two major factors:

- 1- Repeated Israeli closures to the Palestinian territory especially during the period 1995-1996. As a result, Gaza's businesses were

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

prevented from vital importing and exporting economic activities, which consequently forced businesses to stop production either because of lack of production inputs or lack of markets. The closures mean that no one was allowed to travel into or out of Gaza area (Khalidi: Interview, Al-Quds, 1996). There was a consensus among research sample that Israeli closure policy contributed significantly to the problem of Gaza's business failure.

- 2- Most failed companies largely ignored the maintenance of adequate level of stocks. Lack of capital, shortage of facilities and management policies towards stock levels may be contributed to the shortage of materials of Gaza's failed firms. Scarcity of raw materials resulted in rising the raw materials prices. The vast majority (85 per cent) of research sample mentioned high production direct cost as a factor, which may contribute significantly to the business failure.

Most of Gaza's organisations are labour intensive. The majority of industrial firms (78 per cent) rely on mechanical, semi-automatic and manual tools. Large firms use fully automatic machinery more than smaller ones (Hazboun et al, 1995). A significant 94 per cent of experts interviewed said that most failed companies were unable to invest in new technology. Probably this was attributed to lack of personal, and other financial resources. The majority (93 per cent) of Gaza's firms are sole proprietorships (PCBS, Organization Reports, 1998), where the literature on this form of ownership revealed that one of the disadvantages of sole proprietorship is the limited financial resources (Hall, Jones and Raffo, 1997). In addition, in 1993 an industrial survey was conducted by Union of Industrialists, Gaza (1993) revealed that almost all total capital invested (99.62 per cent) in Gaza's industrial sector was financed by personal resources, which are usually limited.

It was reported by Policy Research Incorporated (1992) that industrial maintenance was a serious problem in Palestinian territories. Several aspects of the maintenance problems in the West Bank were cited as follows (1992, pp. 27-28):

- A. during start-up phases of development of specific industries, human resource needs are rarely studied and usually underestimated;
- B. maintenance requirements are not assessed until the first instance of equipment break-down, personnel are not aware of correct maintenance

- procedures, and managers often prefer to wait until equipment failure, rather than stopping production for regular maintenance;
- C. company owners/managers often do not ensure that new (or second-hand) equipment has the requisite technical manuals and service contracts, nor do they arrange for training of technicians in equipment maintenance and repair;
  - D. on-site repair and maintenance capability is poor and managers hesitate to call on outside expertise for equipment repair.

Similar results were reached by this study. A great majority (90 per cent) of research sample indicated that failed companies lacked systematic maintenance. In addition, several interviews conducted with business experts in 1997 expressed their dissatisfaction with maintenance procedures in Gaza's manufacturing firms. They stated that managers often wait until equipment break-down rather than conducting preventive maintenance in free times to avoid blockage of production (Halabi; Moamer; Rayes; Sha'ban: Interviews, 1997). Such practices may significantly to Gaza's business failure.

## **6. Marketing Issues**

If we agree with the concept of marketing as 'the management process, which identifies, anticipates and supplies customer requirements efficiently and profitably' (Lancaster and Massingham, 1993, p. 4), then the focus of marketing should be on customer needs, emphasizing the importance of customer satisfaction. Whereas a selling concept would place the emphasis on the company's existing products and would call for heavy selling efforts to achieve profitable sales (Kotler and Armstrong, 1990). Previous studies on Gaza's manufacturing firms revealed a lack of understanding of the concept of marketing; where to many people, marketing is little more than selling (El-Farra and Wakelam, 1999). Gaza's organisations lack marketing efficiency because of limited promotional skills and lack of awareness of proper marketing techniques. It has resulted in a fierce competition facing Gaza's businesses from foreign products. The vast majority (93 per cent) of bankers interviewed indicated that local products suffer from the fierce competition of foreign products. Low competitive position of local products probably ascribed to low product quality and high direct product costs (see section 5). Production is viewed in the Gaza Strip as the most important business function. Business management in Gaza tends to define 'capacity' as 'production capacity' rather than in terms of marketing, which includes the capacity of markets to absorb the products. In addition, when management performance is judged by size of output, quality is often sacrificed. Gaza's

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

business organisations came to know Total Quality Management (TQM) in 1995 (Sha'ban: Interview, 1997). The concept of TQM, touches every aspect of the firm including the quality of raw materials used, product control techniques, the appearance of the building, the way of treating customers, the way employees are organized and organization's internal communication system (Hannagan, 1995). Before 1997 non- of Gaza's business firms achieved the international quality standard ISO 9000 (Rayes; Sha'ban; Halabi: Interviews, 1997). Many of Gaza's business firms produce low quality products by using cheap raw materials; sacrificing quality for prices (Sha'ban; Moamer; Rayes; Halabi; Abu Assi: Interviews, 1997). The vast majority of research sample (95.5 per cent) revealed that low product quality contributed significantly to business failure. The bad practices in production have created local customer hostility to products produced in Gaza and contributed to intensifying the competition among local industries. The weak competitiveness of Gaza's products contributed to a high loss making, where 95.5 per cent of research sample said that failed companies suffered from high loss making. An additional indicator of lack of experience of Gaza's businesses was that, allowing high rate of sales on credit. About 96 per cent of research sample revealed that most failed companies allowed a very high rate of sales on credit. It has caused bad debts, which resulted in serious cash flow problems. Cash flow problems played a significant role in Gaza's business failure.

### **6- CONCLUSIONS**

This paper examined the factors, which contributed to business failure in Gaza. It revealed that during the Israeli occupation, small-scale ones with low capitalisation levels dominated Gaza's business organisations. The characteristics of Gaza's business firms during the PNA period are relatively similar to the occupation period. Gaza's business organisations failed to grow beyond its traditional structural parameters. Business firms are still distinguished with low employment, low investment, low productivity and high failure rates. Many economic and statistical indicators revealed that Gaza's business organisations suffer from high failure rates.

There are different views on the causes of business failure. These views varied from business experts, bankers, to business owners. There are many factors contributed to high business failure rate in the Gaza Strip.

Shortage of funds and lack of ability to manage liquidity participated significantly to business failure in Gaza. Lack of banks' seriousness in lending

local businesses for investment contributed significantly to business shortage of capital. In addition, relying on outside finance<sup>iii</sup> more than business equity contributed significantly to business failure.

Wrong managerial practices in Gaza's businesses contributed significantly to high business failure rate. Management conflict between partners, lack of managerial experience and random behaviour of management participated significantly to business failure in Gaza.

Lack of understanding of the concept of company, absence of appropriate accounting system and lack of using professional accountants contributed significantly to Gaza's high business failure.

Israeli closures to the Palestinian territories and inadequate levels of stock in Gaza's businesses contributed to high shortage of materials which apparently contributed significantly to business failure in Gaza.

There was a wide spread misunderstanding of the concept of 'marketing', which to most firms was synonymous to 'selling', and this contributed to a high business failure. High competition, poor product quality and the expansion of sale on credit contributed significantly to a high business failure in Gaza.

## **7- RECOMMENDATIONS**

The findings of the study conducted by Smallbone et al (1992) revealed that surviving firms made over its life five types of adjustment which include: 1) product and market adjustments; 2) production adjustments; 3) ownership and organizational adjustments; 4) employment and labour process adjustments; and 5) location adjustments.

To prevent failure the following steps should be done;

- 1) It is crucial to undertake further field studies on sub-sectoral levels, to define more specifically suitable programs for vocational training and rehabilitation for each sub-sector. The needs and wants of businesses should be clearly identified. In addition, providing advice and consultations to businesses would help in reducing bankruptcy rate.
- 2) Merger with a healthy company could help in reducing the bankruptcy rate in Gaza. Large businesses are more likely to survive and grow compared to small ones (Storey, 1994).

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

- 3) Improve universities' education in Gaza and developing interaction between universities and local businesses. In addition, university recruitment terms and conditions should be altered to encourage research and development of local business environment.
- 4) Improve the efficiency of decision-making and managerial practices in planning, cash-flow management, pricing and marketing, in order to improve the efficiency and competitive position of Gaza's business firms.

### **8- FURTHER RESEARCH**

Business failure is a wide topic to be investigated in one research therefore, further research is urgently needed in business failure in Gaza to explore the topic from different standpoints. Some aspects, however, are recommended. These aspects are as follows:

First: to investigate business failure in different sectors and subsectors of the economy with special attention given to the construction industry. The construction sector should be examined because of high expansion of the sector during the past few years (PCBS, several issues) and high failure rates in the sector.

Second: this research presented bankers and business experts' viewpoints on why businesses fail in Gaza. There is a need to investigate business failure from the failed businessmen viewpoints.

### **REFERENCES**

#### **1. Books and Journals**

*Al-Nahar*, 23 September 1995.

Arkadie, Brian (1977) *Benefits and Burdens: A Report on the West Bank and Gaza Strip Economies Since 1967*, USA: Carnegie Endowment for International Peace.

Ashour, Y. (1999) "Tqyeem Dour Aserafa fi Falesteen fi Zaman Al-Ihtilal Al-Askari Al-Isra'ele (1967-1993)" [Evaluation of Banking Role in Palestine During the Israeli Military Occupation (1967-1993)], *Journal of Faculty of Law*, Alexandra University, No. 2 1999.

Berryman, J. (1983) "Small Business Failure and Bankruptcy: A survey of Literature". *International Small Business Journal*", Vol. 1, No. 4, 47-59.

Brough, R. (1970) "Business Failure in England and Wales", *Business Ratios*, 8-11.

- Bsaso, Fu'ad (1997) "Dour Al-Jehaz Al-Masrefi fi Ettanmehhey Asena'eyyeh" [The Role of Banks in Industrial Development], Paper presented in Workshop, *The Industrial Sector in Palestine - Reality and Prospects*: Gaza 5-6 January 1997.
- Central Bureau of statistics (CBS) (1994) *Statistical Abstract of Israel*, Jerusalem.
- Central Bureau of statistics (CBS) (1993) *Statistical Abstract of Israel*, Jerusalem.
- Central Bureau of statistics (CBS) (1992) *Statistical Abstract of Israel*, Jerusalem.
- Dunne, T. Robert, M.J. and Samuelson, L. (1989) "The Growth and Failure of US Manufacturing Plants", *Quarterly Journal of Economics*, November.
- El-Farra, M. and Macmillen, M. (2000) "External Constraints on Manufacturing Development in Israeli-Occupied Gaza" *Middle Eastern Studies*, Vol. 36, No. 1, January 2000.
- El-Farra, M. and Wakelam, A. (1999) "Internal Constraints on the Process of Industrialization in Gaza" *British Journal of Middle Eastern Studies*, Vol. 26, No. 1.
- Hall, D., Jones, R. and Raffo, C. (1997) *Business Studies*, Chambers, Ian (ed.), Ormiskik: Causeway Press Ltd.
- Hannagan, T. (1995) *Management: Concepts and Practices*, London: Pitman Publishing.
- Hazboun, et al. (1995) *Possibilities for Industrial and Entrepreneurial Development in the West Bank and Gaza Strip*, Jerusalem: Institute for Israel Studies.
- Hunter R. (1983) *Production: Core Business Studies*, London: Mitchell Beazley.
- JMCC (1992) *Israeli Obstacles to Economic Development in the Occupied Palestinian Territories*, Jerusalem.
- Khalidi, M. (1996), *An Interview with Al-Quds Newspaper*, (9539) 17/3/1996.
- Kotler, P. and Armstrong, G. (1990) *marketing An Introduction*, Second Edition, US: Prentice-Hall.
- Lancaster, G. and Massingham, L. (1993) *Essentials of Marketing: Text and Cases*, Second Edition, London: McGraw-Hill Book Company.
- Palestine Central Burrau of Statistics (PCBS), (1998). *Population, Housing and Organization Census 1997, Final Results: Organisations Report*. Ramallah-Palestine.

## **BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

Policy Research Incorporated (1992) *Development Opportunities in the Occupied Territories (West Bank and Gaza Strip): Industry*, Clarksville, Maryland.

Pratten, C. (1991) *Company Failure*, Paper prepared for The Financial Reporting and Auditing Group of the Institute of Chartered Accountants in England and Wales.

Research and Monetary Policies Department, Palestine Monetary Authority (2000), *Statistical Pollettin*, Issue (22) May 2000.

Smallbone, D., North, D. and Leigh, R. (1992) 'Managing Change for Growth and Survival: The study of Mature manufacturing Firms in London During the 1980s', working Paper No. 3, Planning Research Centre, Middlesex Polytechnic.

Storey, D. (1994) *understanding the Small Business*, London: Solidus (Bristol) Ltd.

Union of Industrialists -Gaza (1993) *The Reality of Industry in the Gaza Strip: Results of Comprehensive Field Survey*, Gaza.

United Nations (UN) (1998) *The West Bank and Gaza Strip Private Economy: Conditions and Prospects*, Special Report, Office of the Special Coordination in the Occupied Territories.

World Bank (1993) *developing the Occupied Territories: An Investment in Peace*, Vol. 1, Washington, D.C. The World Bank.

### **2. Interviews**

Abu Assi, Alam, Director of Alam Eldin Centre for Management and Investment, Lecturer in Business School, Islamic University, Gaza, interview conducted at his office, 14 May 1997.

Ashour, Yousif, Islamic University of Gaza, former Manager of Cairo-Amman Bank, Lecturer at the Islamic University, Gaza, Interview conducted at his home, 3 June 1997.

Halabi, Haleem, Project Consultant of Small Business Support Project, Gaza, Interview conducted at Lameraj Restaurant, 25 May 1997.

Ismail, Omar Shaban, Small Business Training Officer, Development and Planning Department, UNRWA - Gaza, Interview conducted at his office, 5 June 1997.

Moamer, Faris, Former Head of Business School at The Islamic University of Gaza, Consultant and Manager to a number of companies in Gaza, Interview conducted at his home, 5 May 1997.

Rayas, Bashir, Project Manager of Small Business Support Project, Manager and Owner of a number of private establishments, Interview conducted at Lameraj Restaurant, 25 May 1997.

Abu-Warda, Prosecuting Attorney, Gaza Supreme Court, Interview conducted at his office, 5 August 1998.

**APPENDICES**

**APPEDIX 1 : QUESTIONNAIRE**

How often do the following financial factors cause business to fail?

	Always	Sometimes	Rarely
--	--------	-----------	--------

1. Financial factors

Lack of Capital			
Lack of Working Capital			
Lack of ability to manage liquidity			

2. Bank factors

High cost of bank finance			
Relying on outside (bank) finance			
Lack of ability to get bank finance			
Misunderstanding bank relations			

3. Accounting policies factors:

Mix together Personal and firm expenditure			
Increased debt sales			
No use of Accounting system			
No use of professional accountant			

4. Managerial factors:

Lack of managerial personal experience			
Inability to set up a business plan			
High risk included in the business			
Inability to foresee market problems (Outside forces)			

5. Partners factors:

Management conflict between partners			
Ambiguity in Legal relations between partners			
Oral agreements not written ones between partners			

6. Production factors:

Lack of skilled workers			
Lack of raw materials			
Lack of systematic maintenance			
Lack of machines renewal			
High production direct costs			

## BUSINESS FAILURE IN THE GAZA STRIP BANKERS

High overhead costs			
7. Competition factors:			
Fierce home competition			
Fierce foreign competition			
Reduced products quality			
8. General Political and economical factors:			
Inability to get a formal license			
Taxes and tariffs policies			
General governmental restrictions			
Israeli closure policy			
9. Others:			
Lack of legal consultation			
Bad quality visibility studies			
Increased loss making			

### APPEDIX 2 FREQUENCIES

Table no. 1	
Oral agreements not written ones	
Always	31.7
Sometimes	53.3
Rarely	15.0
Total (n=67)	100.0%

Table no. 2	
High risk included in the business	
Always	31.3
Sometimes	62.7
Rarely	6.0
Total (n=67)	100.0%

Table no.3	
Outside forces	
Always	26.9
Sometimes	62.7
Rarely	10.4
Total (n=67)	100.0%

Table no.4 Lack of skilled workers	
Always	23.9
Sometimes	52.2
Rarely	23.9
Total (n=67)	100.0%

Table no.5 Lack of raw materials	
Always	43.3
Sometimes	49.3
Rarely	7.5
Total (n=67)	100.0%

Table no.6 High production direct costs	
Always	34.3
Sometimes	50.7
Rarely	14.9
Total (n=67)	100.0%

Table no.7 High overhead costs	
Always	22.4
Sometimes	58.2
Rarely	19.4
Total (n=67)	100.0%

Table no.8 Lack of systematic maintenance	
Always	35.8
Sometimes	53.7

**BUSINESS FAILURE IN THE GAZA STRIP BANKERS**

Rarely	10.4
Total (n=67)	100.0%

Table no.9 Lack of machine renewal	
Always	37.3
Sometimes	56.7
Rarely	6.0
Total (n=67)	100.0%

Table no.10 Fierce local Competition	
Always	19.4
Sometimes	61.2
Rarely	19.4
Total (n=67)	100.0%

Table no.11 Fierce foreign Competition	
Always	52.2
Sometimes	40.3
Rarely	7.5
Total (n=67)	100.0%

Table no.12 Reduced products quality	
Always	50.7
Sometimes	44.8
Rarely	4.5
Total (n=67)	100.0%

Table no.13	
-------------	--

Increase dept sales	
Always	50.7
Sometimes	44.8
Rarely	4.5
Total (n=67)	100.0%

Table no.14 Increased loss making	
Always	49.3
Sometimes	46.3
Rarely	4.5
Total (n=67)	100.0%

Table no.15 Taxes and tariff policies	
Always	38.8
Sometimes	46.3
Rarely	14.9
Total (n=67)	100.0%

Table no.16 Governmental restrictions	
Always	28.4
Sometimes	56.7
Rarely	14.9
Total (n=67)	100.0%

Table no.17 Israeli closure policy	
Always	68.7
Sometimes	31.3
Rarely	0
Total (n=67)	100.0%

## BUSINESS FAILURE IN THE GAZA STRIP BANKERS

### APPEDIX 3

	t	Sig. (2-tailed)
Lack of Capital	1.695	.095
Lack of Working Capital	3.726	.000
Lack of ability to manage liquidity	3.897	.000
High cost of bank finance	-1.527	.132
Relying on outside finance	6.770	.000
Lack of ability to get bank finance	-.893	.375
Mix together Personal & firm expenditure	4.220	.000
No use of Accounting system	4.885	.000
No use of professional accountant	2.267	.027
Lack of legal consultation	5.885	.000
Not getting a formal license	-1.537	.129
Bad quality feasibility studies	6.394	.000
Lack of experience	4.969	.000
Misunderstanding bank relation	3.903	.000
management conflict	3.883	.000
Ambiguity in Legal relations	1.731	.088
Oral agreements not written ones	1.932	.058
High risk included in the business	3.710	.000
Outside forces	2.267	.027
Lack of skilled workers	.000	1.000
Lack of raw materials	4.726	.000
High production direct costs	2.337	.022
High overhead costs	.376	.708
Lack of systematic maintenance	3.266	.002
Lack of machines renewal	4.402	.000
Fierce home competition	.000	1.000
Fierce foreign competition	5.777	.000
Reduced products quality	6.464	.000
Increase dept sales	6.464	.000
Increased loss making	6.268	.000
Taxes and tariff policies	2.799	.007
Governmental restrictions	1.694	.095
Israeli closure policy	12.024	.000

---

<sup>i</sup> The manufacturing sector was considered because of lack of data on the whole economic sectors.

<sup>ii</sup> Bearing in mind that the vast majority of Gaza's business firms are dominated by small-scale ones (see Table 1).

<sup>iii</sup> Which came mainly from NGOs and informal sector.