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Exploring the Determinants of Applying Supply Chain Management (SCM) in the Egyptian Small and Medium Enterprises (SMEs)

Thesis

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In the name of Allah, the Most gracious, the Most Merciful

"And Allah taught Adam all the names..."

Al-Baqarah (2:31)

It was narrated that...

Anas bin Mâlik said: The Messenger of Allah (PBUH) said "**Seeking knowledge** is a duty upon every Muslim". "

(Sunan Ibn e Majah, Book of Sunnah, Hadith no 224, Classified as Sahih By Allama Albani)

Zirr bin Hubaish said: "I went to Safwân bin 'Assâl Al-Murâdi and he said: What brought you here?" I said: '**I am seeking knowledge.**' He said: I heard the Messenger of Allah (PBUH) say: "There is no one who goes out of his house in order to seek knowledge, but the angels lower their wings in approval of his action."

(Sunan Ibn e Majah, Book of Sunnah, Hadith no 226, Classified as Sahih By Allama Albani)

Dedication

*Every challenging work needs self-efforts as well as guidance of elders
specially those who are very close to our heart.*

My humble effort I dedicate

To

Nagah & Fouad

*My Mom and Dad whose affection, love, encouragement and prayers of
day and night make me able to get success and honor...*

Hazem & Khaled

*My brothers who've been always there for me as supportive friends
before being magnificent brothers*

Mohamed Tonsy

*My husband, for his patience, love, and friendship, I would've done
nothing without him by my side*

And finally to

Younis

*My son, for letting me experience the kind of love
that people freely die for*

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*Life is full of challenges and the completion of this degree was one of those challenges for me. I owe many thanks to my Director of Study; Professor **Dr. Khaled Kadry Elsayed** Dean of faculty of commerce, Ain shams University for his valued and unlimited support on this journey, a process that was both rewarding and enjoyable. His feedback and guidance was always timely, thoughtful and encouraging and provided me with the opportunity to broaden my knowledge and to make significant progress.*

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ABSTRACT

In Egypt, small and medium enterprise (SMEs) represent a large portion of all economic establishments and employment opportunities; however their role in the economic development of the country is limited due to lack of efficiency.

This research sheds the light on the current state of implementing supply chain management (SCM) in the Egyptian SMEs, through the study of various challenges which they are facing in applying the SCM that would help in inventory management improvement, establishment of supplier relationships, customer responsiveness, information technology systems improvement, and the creation of competitive advantage for the channel, which will eventually help in lowering costs and increase gains to both SMEs and the country. A pilot study was carried to gain a better insight on the study sector. Followed by, a survey distributed among different small and medium enterprises in great Cairo, Giza, and Damietta governorates, yielding 103 valid responses. A statistical analysis of the survey is introduced including both descriptive and inferential statistical analyses. Ten main difficulties hindering SC performance were identified. Moreover, an exploratory analysis of the survey showed that the main concerns to SC managers are related to Telecommunication infrastructure, workforce availability and the knowledge, skills, and abilities for managing the supply chain. The study therefore recommends environmental, organizational, and managerial solutions to ease the implementation of the standards and principles of Supply Chain Management in the Egyptian Small and Medium Enterprises considering the end goal to maintain their competitiveness, operating economically, rationally and systematically.

Keywords: Small and medium enterprises, Supply chain management, Difficulties, Pilot study, Survey, Egypt.

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CHAPTER (1)

AN OVERVIEW

1.1. Introduction

Throughout the world SMEs are playing a critical role in absorbing labor, penetrating new markets and generally expanding economies in creative and innovative ways. The stimulation of SMEs must be seen as part of an integrated strategy to transform the Egyptian economy to ensure that it becomes more diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes.

Moreover, SMEs are of great importance to the economy since it can be a mechanism to stimulate economic growth, thereby employment creation, in the country. This study attempted to establish whether the environmental, organizational, and related-supply chain determinants, are factors hindering the application of Supply Chain Management in the Small and Medium Enterprises.

Supply chain management (SCM) has increasingly become important to enhance competitive strength, and it is commonly argued that present day competition is between integrated supply chains rather than individual organizations. Studies of companies exploiting the benefits of SCM have indicated improvements in individual supply chain functions ranging from 10 to 80 percent (Wagner et al., 2003). Reduced software costs, industry-wide learning of best practices and increased probability of having to compete against rivals enjoying the advantages of SCM are driving forces behind adoption of the SCM concept (Arend and Wisner, 2005).

Several authors have defined supply chain management (SCM) in a variety of ways. Hong and Jeong (2006), defines SCM as a set of approaches utilized to effectively integrate suppliers, manufacturers, logistics, and customers for improving the long-term performance of individual companies and supply chain as a whole. SCM can also be defined as an actor-oriented approach focusing on how to organize and manage the flow of materials from “point of origin” to “end-user” as the point of departure (e.g. Vaaland and Heide, 2006). Arend and Wisner (2005) perceives SCM as a relation-oriented approach focusing on the relationships between the actors in the supply chain, and how co-operation and mutual interests can lead to improvements. Lastly, Lambert et al (1998) uses process-oriented approach to define SCM as “the integration of key business processes from end-user to original suppliers that provide products & services and information that add value to customers and other stakeholders.

In Small and Medium sized Enterprises (SMEs) context Supply chain is defined as a set of business activities including purchase from open/spot market, manufacturing or processing of subcomponents/subassembly within the plant and delivery to large enterprises using hired transportation to enhance value of end product and in-turn to ensure long-term regular purchase orders. Superior features and quality, as well as superior customer service, are ways that SMEs often use to differentiate their products and services from those of the more commoditized Large Enterprises (Les) (Porter, 1985). Supply chain inefficiency is one of the most prevalent issues facing the small to mid-size enterprise (Lewis, 2005).

Supply chain management (SCM) enhances the competitive strength, by the adoption of it in the SMEs which play a critical role in employment creation and thereby enhancing the economic growth as well as penetrating new

markets. By figuring out and solving the determinates hindering the adoption of SCM in the SMEs we can help in inventory management improvement, establishment of supplier relationships, customer responsiveness, information technology systems improvement, and the creation of competitive advantage for the channel.

1.2. Research Problem

Despite the increasing attention being paid by all modern enterprises to supply chain management practices globally, small and medium-sized office supplies firms still lag behind in embracing the SCM practices. A study conducted by Thakkar et al (2012) concluded that supply chain management issues are more comprehensively explored in the context of large enterprises but less attention is paid to SMEs.

Most SMEs that are currently operating in Egypt do not apply SCM although that SCM is the systematic, strategic coordination of the traditional business functions, for the purpose of improving the long-term performance of the individual companies and the supply chain as a whole (Mentzer et al., 2001).

Against this background, it is necessary to discuss the factors that affect the growth of SMEs in developing countries. This is an important area which should be addressed if the full potential of SMEs as a vehicle for economic growth, improvement of standard of living and employment creation is to be realized (Mawadza, 2006).

Therefore, studying the determinants hindering the application of SCM in SMEs may add knowledge value to SME system.

1.3. Research Objectives

This research aimed at:

- Understanding what are the main environmental difficulties affecting the application of SCM in SMEs
- Discovering whether the organizational determinants have a great impact on applying the SCM in the SMEs
- Determining which supply-chain related issues might hinder the application of SCM in SMEs?

1.4. Research Importance

SMEs are important in that they contribute significantly to economic growth through employment creation. Employment creation leads to more people having disposable income which results in an increase in the demand for goods and services. Disposable income also results in more purchases of goods and services which lead to economic growth. As a result of increased economic growth, the general standard of living of people can be improved.

SMEs are a vital component of every country's economy and their success is a critical aspect. Innovation is mainly achieved through SMEs hence they must be fully supported and guided against failures. It is of great importance to identify and understand the challenges faced by SMEs in Egypt to develop. This is due to the fact that SMEs are the corner stone of the Egyptian economy and also many economies in the world. SMEs must be nurtured and supported to ensure their survival, growth and development and they must be guarded against any failure. This study is of value to the owners and managers of SMEs, as different recommendations will be made to assist SMEs in their long term development and growth.