ANALYSIS OF THE LEGAL, FINANCIAL, AND ORGANIZATIONAL DETERMINANTS OF BUSINESS FAILURE: A CASE OF AN EMERGING MARKET

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Abstract

The research examines the financial, legal, and organizational factors of business failure in Moroccan companies. It highlights the importance of understanding these determinants for formulating effective preventive measures and supporting business stability. The literature review explores the definition of business failure in Moroccan companies, legal determinants such as the legal framework and bankruptcy procedures, and financial determinants such as financial ratios and factors specific to Moroccan companies (Sami, 2013). The research methodology proposes using financial, legal, and organizational data, along with statistical analyses, to obtain relevant results using the structural equation modeling (SEM) method through SmartPLS 3.3.2 software. It detects a significant involvement of legal, financial, and organizational factors. The article acknowledges the limitations in analyzing the determinants of business failure in Moroccan companies due to incomplete and unreliable data. It emphasizes the need for in-depth studies on specific factors and the importance of external factors such as the economic and political context. Legal, financial, and organizational determinants are identified as important, but a broader consideration of internal and external factors is recommended to better understand business failure. Extensive research could lead to more effective preventive measures and interventions.

Keywords: Business Failure, Structural Equation Modeling, SEM, Financial Determinants, Organizational Factors, Moroccan Companies

Authors' individual contribution: Conceptualization — N.A.; Methodology — M.K.; Investigation — N.A. and M.K.; Resources — N.A.; Writing — N.A. and M.K.; Supervision — M.K.; Funding Acquisition — N.A.

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1. INTRODUCTION

Morocco's economic landscape has undergone a major transformation in recent decades, with an increase in the number of companies operating in a variety of sectors. However, business survival and growth remain a major challenge. Business failure is a complex issue that can have adverse economic and social consequences, particularly in terms of job losses, unpaid receivables and supply chain disruption (Xu et al., 2014; El Manzani et al., 2018).

The last few decades have witnessed drastic changes in the structure of the Moroccan economy in terms of the number and types of companies operating in different fields including manufacturing, service, agriculture, and technology. This growth continues to confirm the country's on-going economic transformation, attempts to liberalize

the economy, and globalization. Nevertheless, the problems of businesses' survival and growth remain considerable even with these advances. Business failure is a very complex issue and has a number of catastrophic effects both at an economic and social level, especially for developing countries such as Morocco (Nokairi, 2019). This result suggests that economic misfortunes may occur as businesses fail, employees lose their jobs, and subsequently, communities face problems too. Also, nonperforming claim receivables are a menace to the solvency of other enterprises, likewise the small and medium-sized enterprises (SMEs), as they develop the problems of liquidity and defaults. In addition, disruptions resulting from business failure affect the supply chain and operations of both the upstream and downstream—the completeness of the sector is impacted. They can also cause a loss of consumers' trust and market insecurity, which makes the process of their restoration more difficult. According to Levratto (2013), its nature can be elaborate and multiple with several factors which include inadequate capital management, legal constraints, and lack of structures that support the business. Hence, the idea of tackling business failure in Morocco should not be done in isolation but rather would involve the legal frameworks, the financial simulation, and the organizational structures that are responses that make the businesses prone to failure in a country that is experiencing an economic revolution.

Additionally, the research conducted by Fève et al. (2021) on costly default and skewed business cycles offers valuable insights into the dynamics of business cycles and the implications for financial stability. These findings are highly relevant to understanding the challenges businesses in Morocco may encounter.

Moreover, the work of Petter et al. (2008) provides a framework for measuring information systems success. While this work may not be directly related to Moroccan business failure, it underscores the importance of effective information systems and data management in modern businesses.

Finally, limited access to essential financing is a major obstacle for many businesses in Morocco, an issue that has been explored by researchers such as Stiglitz in relation to the imperfections of financial markets (El Mandili & Elabjani, 2023).

In addition, Putrihadiningrum and Violita (2023) explore the influence of Benjamin Graham's selection criteria on stock market returns. Although their research focuses on a specific area, it can offer useful insights for investors and companies looking to optimize their financial performance in Morocco. By using this research as a reference, stakeholders can develop targeted strategies and preventive measures to strengthen Morocco's economic ecosystem and foster corporate stability and sustainability.

Finally, the classic work of Jensen and Meckling (2019) explores the theory of the firm, highlighting managerial behavior, agency costs, and ownership structure. This perspective offers important insights for firm management and decision-making within the Moroccan business environment.

Against this backdrop, it is imperative to gain an in-depth understanding of the factors contributing to the economic challenges facing Moroccan companies. Contreras et al. (2023) offer insights into the effect of bank failures on small business lending and income inequality. These analyses can help inform economic policies aimed at supporting businesses in Morocco.

In addition, Pandey and Pandey (2015) highlight the importance of research methodology in the social sciences. This perspective can be invaluable to researchers and policymakers seeking to better understand Morocco's economic challenges and develop policies based on solid data.

The literature on corporate failure has predominantly focused on financial dimensions, overlooking the legal and organizational aspects that may also contribute to business insolvency. This gap in the existing body of work highlights the need for a broader, multi-dimensional approach to understanding corporate failure. This study aims to address this gap by exploring not only the financial but also the legal and organizational factors influencing the likelihood of business failure. By integrating these dimensions, this research seeks to provide a more comprehensive framework for analyzing corporate sustainability and the factors contributing to its decline, particularly within the Moroccan context. By integrating these dimensions, this research seeks to provide a more comprehensive framework for analyzing corporate sustainability and the factors contributing to its decline. In this respect, our basic problem is as follows: *What are the financial, legal, and organizational factors that can assess the risk of failure of Moroccan companies?*

To address the issue of business failure in Morocco and identify the key financial, legal, and organizational factors that contribute to this risk, we adopted a structural equation modeling (SEM) approach using SmartPLS 3.3.2 software. The first step involved collecting relevant financial, legal, and organizational data from a representative sample of Moroccan companies.

Using SEM, we examine the relationships between these factors and their impact on the risk of business failure. Through path analysis, we assess both the direct and indirect effects of financial, legal, and organizational determinants. The measurement model is tested for reliability and validity, and the structural model is evaluated to determine the explanatory power of the proposed relationships.

This methodology provides valuable insights into the most significant factors influencing business failure in Morocco and offers a comprehensive framework for business failure risks, helping to inform more effective decision-making and risk management strategies within the Moroccan business environment.

The rest of the paper is structured as follows. Section 2 provides a review of the relevant literature, outlining existing studies, identifying research gaps, and establishing the theoretical framework of the study. Section 3 presents the research methodology, detailing the study's design, data collection methods, and analysis processes. Section 4 focuses on the analysis and results, employing appropriate methods to test the hypotheses and presenting the findings. Section 5 discusses the results. Section 6 concludes the paper.

2. LITERATURE REVIEW

This research study delves into the analysis of corporate insolvency in Morocco, exploring various key elements and measures associated with this phenomenon. It begins by defining the notion of

Moroccan corporate failure and presents the indicators and measures generally used to assess this phenomenon. The theoretical framework for understanding corporate failure draws on Jensen and Meckling's (2019) seminal work on the theory of the firm. This theory highlights managerial behavior, agency costs, and ownership structure as crucial factors influencing corporate performance and, consequently, the likelihood of failure.

Additionally, the study considers the role of financial management in corporate insolvency by incorporating insights from the work of Zhang et al. (2020) on open-loop equilibrium strategy for mean-variance asset-liability management portfolio selection with debt ratio considerations. This research provides valuable insights into the optimization of financial resources and risk management, which are integral to understanding and mitigating corporate failure risks.

In assessing the legal factors influencing corporate default in Morocco, it is essential to consider the regulatory framework within which companies operate. This framework is explored in relation to its impact on corporate default likelihood, drawing on Jöreskog and Sörbom's (1993) work on SEM. SEM can be applied to examine the complex interplay between legal variables and corporate failure.

Moreover, the study investigates the macroeconomic conditions that may influence corporate default, taking inspiration from Ma'aji et al.'s (2023) research on macroeconomic conditions and corporate default clustering. Understanding how broader economic factors affect corporate insolvency is crucial for a comprehensive analysis.

As this research study reviews empirical studies to deepen our understanding of the specific legal and financial determinants of Moroccan corporate failure, it also considers Shapere's (1964) concept of paradigm shifts and scientific revolutions. This framework can help contextualize the evolution of research in this field, emphasizing the importance of revisiting and updating the understanding of corporate failure in light of new empirical evidence and theoretical insights.

This present literature review aims at exploring the organizational factors related to business failure in Morocco, and the research identifies the relationship between human resource management aspects concerning the organization. Employing legal, financial, and organizational perspectives, it focuses on longstanding factors that lead to business failure, with attention to how the legal environment, finance, and organizational factors strangle Moroccan businesses. Legal issues include uncertain and slow decisions on legal matters, funding problems such as poor cash flow and inadequate funds, as well as inadequacies among marketers and leaders, including ineffective human resource management practices and the absence of strategic management in business failure. This review highlights the challenges faced by Moroccan firms and proposes strategies to enhance business sustainability and resilience.

2.1. Financial determinants of Moroccan business failure

According to theorists (Beaver, 1966; Altman, 1968; Zizi et al., 2020), there are several financial determinants of Moroccan business failure, there are several financial determinants of Moroccan business failure.

2.1.1. Analysis of the main financial ratios used to predict business failure

Analysis of key financial ratios can provide insights into a company's financial health, and help predict the risk of default (Zizi et al., 2020).

Financial ratios are essential tools for assessing a company's financial health and operational efficiency. Liquidity ratios, such as the current ratio and the general liquidity ratio, measure a company's ability to meet short-term obligations. The current ratio, which compares current assets to current liabilities, indicates short-term solvency, with a ratio below one suggesting potential cash-flow issues. The general liquidity ratio, which includes liquid assets and inventories, also signals a risk of default if it falls below one.

Debt-to-equity ratios, including the total debt ratio and the long-term debt ratio, assess financial structure and reliance on borrowing. The total debt ratio measures total debt relative to equity, with high levels indicating financial strain. Similarly, the long-term debt ratio focuses on long-term financing reliance, where excessive use may heighten financial vulnerability.

Profitability ratios, such as the profit margin and the return on assets, evaluate a company's earnings potential. The profit margin, representing net profit as a percentage of sales, highlights profitability, with lower ratios indicating challenges. The return on assets measures how efficiently assets generate profits, where low returns suggest inefficient resource use.

Finally, coverage ratios, like the interest ratio, examine a company's capacity to cover interest expenses. By comparing earnings before interest and taxes to interest obligations, a ratio below one reflects potential payment difficulties. Together, these ratios offer a comprehensive analysis of a company's financial stability and performance.

2.1.2. Financial factors specific to Moroccan companies likely to influence default

There are several financial factors specific to Moroccan companies that can influence their risk of default. The main factors to be taken into account are:

Excessive debt: A high level of debt can increase the risk of business failure. If a Moroccan company has taken out large loans without adequate repayment capacity, it may encounter financial difficulties and be exposed to an increased risk of failure (Reinhart & Rogoff, 2009).

Insufficient cash flow: Cash flow problems can be a major factor in business failure for Moroccan companies. If a company does not generate enough cash to cover its operating expenses, debt payments, and other financial obligations, it can find itself in financial distress (Minsky & Kaufman, 1986).

Low or negative profitability: A Moroccan company with low or negative profitability over an extended period may be vulnerable to failure. If revenues are insufficient to cover costs and expenses, the company may face financial difficulties that could lead to bankruptcy (Miotti & Plihon, 2001).

Economic and political instability: Morocco's economic and political environment can also influence the risk of business failure. Factors such as political instability, regulatory changes, economic fluctuations, and financial crises can create challenges for Moroccan companies and increase their risk of failure (Khattab et al., 2015).

The hypotheses relating to financial variables are based on the analysis of various financial ratios to assess their role in predicting default.

H1-1 (VF1): The leverage ratio (debt/equity) may indicate the existence of a default.

H1-2 (VF2): The gross margin ratio is a potential indicator of default.

H1-3 (VF3): The profitability ratio can also reveal default risk.

H1-4 (VF4): The liquidity ratio plays a decisive role in identifying a default.

These hypotheses make it possible to systematically examine the impact of each financial indicator on the probability of default.

2.2. Legal determinants of Moroccan business failure

Moroccan business failure can be influenced by a variety of legal factors (Mrani & Adil, 2023). Important legal determinants may contribute to business failure in Morocco, namely:

Legislative and regulatory framework: The laws and regulations governing the creation, management and dissolution of businesses can play a crucial role in their survival. If the legal framework is complex, unclear or unfriendly to businesses, this can increase the risk of failure.

Bankruptcy proceedings: Bankruptcy and insolvency proceedings can have a positive effect on a company's situation. If the procedures are long, costly and inefficient, this can make it difficult for companies in difficulty to restructure or get back on their feet (Lupu, 2015).

Market regulation: Market regulation in certain sectors can play a decisive role in business failure. Excessive or inappropriate regulations can hamper a company's competitiveness and make it difficult for it to survive in a competitive environment.

Business environment: The fundamental state of business, including access to finance, corruption, bureaucracy and the efficiency of the judicial system, can also have an impact on business failure. An unfavorable business environment can make it difficult for companies to thrive and meet the challenges they face.

Protection of intellectual property rights: The protection of intellectual property rights is essential to encourage innovation and the creation of sustainable businesses. If intellectual property rights are not adequately protected, this can discourage investment and lead to increased business failure.

However, it should be noted that business failure is a complex, multi-factorial process, and legal factors are only part of the equation. Economic, financial, managerial, and external factors can also play an important determinant in explaining the failure of Moroccan companies.

Legal variables are critical in assessing default risks, encompassing various regulatory dimensions.

H2-1 (EE1): The legislative and regulatory framework significantly influences default risks.

H2-2 (EE2): Market regulation serves as a crucial indicator of default probability.

H2-3 (EE3): The business environment signals an increased likelihood of default.

H2-4 (EE4): The protection of intellectual property rights is a significant factor in indicating default risks.

These hypotheses emphasize the critical role of legal factors in understanding and predicting default scenarios.

2.3. Organizational determinants of Moroccan business failure

Organizational determinants play an essential role in understanding and preventing business failures in Morocco. By identifying such factors as ineffective management, insufficient managerial skills, inappropriate organizational structure, lack of internal control, deficient corporate culture, resistance to change, lack of clear strategy and quality-related issues, managers and decision-makers can take proactive steps to strengthen their organization and reduce the risk of failure. By proactively recognizing and addressing these drivers, companies can improve their operational efficiency, market competitiveness and ability to adapt to changing challenges. Thus, effective management of these organizational determinants is crucial to the sustainability and success of Moroccan companies (Malécot, 1991).

The organizational structure of a Moroccan company can play a role in its ability to cope with default. An effective organizational structure can help minimize risk and promote financial stability. According to Casalegno and Bourion (2009), elements of organizational structure can influence the failure of Moroccan companies.

Corporate governance plays a fundamental role in ensuring proper management and supervision. A clear hierarchical structure and well-defined responsibilities promote efficient coordination and minimize potential risks. Robust internal control systems enable early detection of errors and fraud, thus preserving financial integrity. The skills of executives and senior managers in key areas ensure informed strategic decisions. Finally, a corporate culture conducive to innovation, adaptability, and responsibility strengthens the company's resilience in the face of challenges. All these elements combine to reduce the risk of failure and ensure the long-term viability of Moroccan companies.

Organizational variables offer critical insights into internal factors that may lead to failure. The hypotheses are as follows:

H3-1 (CD1): The property structure is used to indicate the existence of a fault.

H3-2 (CD2): Competitiveness indicates the existence of a fault.

H3-3 (CD3): Corporate culture is an indicator of organizational failure.

H3-4 (CD4): Corporate strategy indicates the existence of a failure.

2.4. Additional dimensions of organizational and financial failure

To enhance the comprehension of organizational and financial failure, two more dimensions, factoring, and financial failure, are examined. These dimensions highlight structural and financial elements that substantially affect the probability of failure. Factoring dimensions illuminate certain organizational traits that may contribute to financial instability:

H4-1 (DF1): Company age can lead to financial failure.

H4-2 (DF2): Company size can lead to financial failure.

H4-3 (DF3): The company's workforce can lead to financial failure.

The financial component highlights the significance of essential financial indicators in forecasting default.

H5-1 (GG1): Financial default is related to autonomy.

H5-2 (GG2): Financial default is associated with solvency.

H5-3 (GG3): Financial default is linked to liquidity.

3. RESEARCH METHODOLOGY

3.1. The selection of the sample

Our methodological approach is based on a survey conducted with a sample of companies operating in Morocco. In more detail, we have limited the choice to 200 companies, of which half were operating, and the other half were in a legal state of default. That is why we needed to make sure that all the companies included in the sample are reliable and have been existing for over 10 years on the market. Furthermore, we endeavored to choose a sample as heterogeneous as possible to minimize the sectoral effect on the region's economy. The sectors noticed were trading (43.03%), service-seeking sectors like transport, hotel, restaurant, financial, services, and banking (26.65%), construction and real estate (14.83%), and industrial (9.98%). With regard to each of the companies under study, information was gathered on ratios seen as variables within the statistical test. This data was collected by utilizing information published by the Moroccan Office of Industrial and Commercial Property (OMPIC) on Moroccan companies, which also maintains the Central Commercial Register. This register lists both legal entities and individuals engaged in commercial activities within the national territory. Additionally, insights were gathered by surveying 40 Moroccan accountants and chartered accountants.

3.2. Structural equation modelling

The use of the SEM is a statistical approach that encompasses several procedures such as multiple regression, factor analysis, and analysis of covariance. This method enables a theoretical model to be tested using a series of regression equations, making it possible to analyze complex socio-economic phenomena involving multiple variables and their interactions. In recent decades, management researchers have increasingly adopted causal modeling techniques, notably covariance-based structural equations, due to their growing success.

3.3. Research data collection

To examine the gathered data, we employed the partial least squares (PLS) technique to conduct component-based SEM using SmartPLS 3.3.2 software. Following the three-step procedure outlined by Gerbing and Anderson (1992), the researchers proceeded with the data analysis in the following manner.

Firstly, descriptive statistics were computed to provide an overview of the data and understand the central tendencies, variations, and distributions of the variables. This step allowed for a comprehensive understanding of the data characteristics. Secondly, the measurement model was estimated to ensure the validity and reliability of the constructs. This involved assessing the relationships between the latent variables and their corresponding indicators or elements. By examining the factor loadings, composite reliability, and average variance extracted (AVE), the researcher ensured that the measurement model adequately reflected the constructs being studied.

Finally, the structural model was evaluated to examine the hypothesized relationships between the variables. This step involved analyzing the path coefficients, t-values, and R-squared values to assess the significance and strength of the relationships. It allowed for hypothesis testing and verification of the model's relevance. By following this three-step approach, the researchers ensured a thorough analysis of the data, from descriptive statistics to construct validity and reliability, ultimately leading to the evaluation of the structural model and hypothesis testing.

3.4. Measurement of the variables

Table 1 presents the framework used to define and measure the organizational, legal, and financial variables examined in the study. Each variable is assessed using precise and consistent criteria to ensure reliability and accuracy in the analysis. This structured approach captures the multidimensional aspects of the determinants of business failure, providing a robust foundation for the study's findings.

Table 1. Measurement criteria of the variables

Category	*Sub-variable*	*Sources*	*Definition/measurement criteria*
Financial variables	*Leverage ratio*	Audrino et al. (2019)	Defined as the balance between the company's debts and equity, indicating its reliance on external financing.
	Gross margin	Zambrano Farias et al. (2021)	Reflects the profitability of core activities after deducting direct costs, measuring operational efficiency.
	Profitability	Zizi et al. (2020)	Assessed by financial performance metrics, such as return on assets and overall profitability relative to revenues.
	Liquidity	Bicu-Lieb et al. (2020)	Evaluated through the company's ability to meet short-term financial obligations, indicating financial stability.
Legal variables	*Legislative and regulatory framework*	Ma'aji et al. (2023).	Analyzed through the stability, clarity, and predictability of business laws and their impact on organizational activities.
	Market regulation	Mahariyani et al. (2020)	Measured by the ease of market entry, fair trade practices, and compliance with competition standards.
	Intellectual property protection	Fève et al. (2021)	Examined based on leaders' perception of institutions' ability to safeguard rights and historical intellectual property disputes.
	Business environment	Xing et al. (2023)	Includes access to financing, absence of corruption, and the quality of infrastructure critical to business operations.
Organizational variables	*Property structure*	Sunder and Prashar (2020)	Defined based on ownership type (family-owned, private non-family, public, mixed) and the share distribution among key stakeholders.
	Competitiveness	Bloise et al. (2013)	Evaluated by the perceived market position and the company's capacity to innovate, including new product/service launches.
	Corporate culture	Zaman, 2024	Assessed through internal values, collaboration practices, and alignment of strategic goals within the organization.
	Corporate strategy	Casalegno and Bourion (2009)	Focused on strategic directions such as geographic/sectoral diversification and investment intensity in innovation.
Additional dimensions	*Company age*	Kücher et al. (2020)	Measured as the number of years since the company's establishment.
	Company size	Ben Hassine and Mathieu (2018)	Categorized into small, medium, or large enterprises.
	Workforce composition	Charreaux (2006)	Assessed based on the level of qualification.
	Financial autonomy	Aglietta and Valla, (2017)	Reflecting the degree of independence from external financing.
	Solvency	Gilles (2009)	Measured by the company's ability to meet long-term obligations.
	Liquidity	Gilles (2009)	Measured by the company's ability to meet short-term obligations using its available assets.

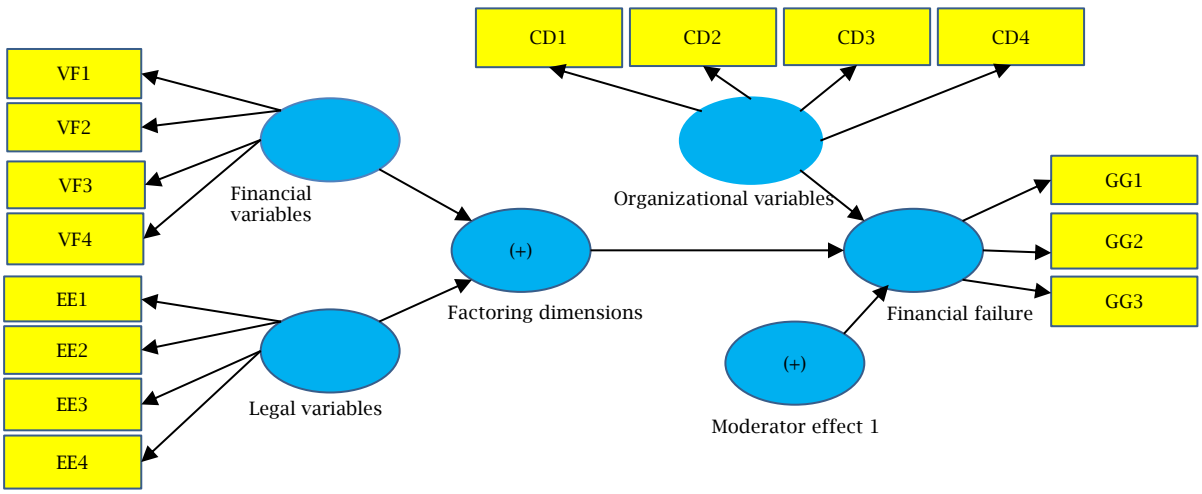
Source: Authors' elaboration.

4. ANALYSIS AND RESULTS

4.1. Measurement model

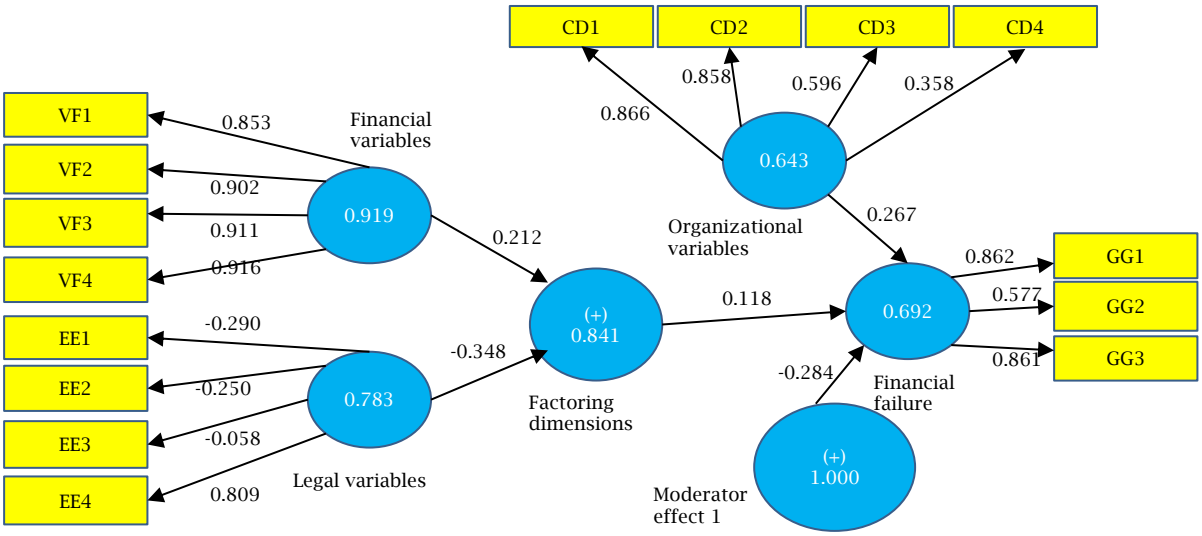
The measurement model, depicted in Figure 1, shows the connections between the indicators or elements and the latent variables they assess. It also outlines the anticipated relationship between these variables. The model reveals that financial knowledge comprises two facets: subjective knowledge and objective knowledge, along with their quantifiable elements. Additionally, it presents the expected association between the independent variable, financial knowledge, and the dependent variable, investment intention. Moreover, the model incorporates perceived risk as a moderating variable capable of influencing this relationship.

Figure 1. The measurement model



Following Jöreskog and Sörbom (1993), the concept of purification plays an essential role in the SEM approach. It enables us to identify and eliminate the least significant elements in practical applications. In our initial purification model, we aim to validate the existence of a significant relationship between all elements and variables, whether to explain the phenomenon of "corporate financial failure", or to carry out a moderation analysis.

Figure 2. The results of the model calculation



In this analysis, we examined item indicators, item loadings/weights, Cronbach's alpha, composite reliability, and average extracted variance (AVE). Variables are grouped into categories: financial variables, legal variables, organizational variables, and factoring dimensions (Table 2).

For the financial variables, we have the indicators VF1, VF2, VF3, and VF4. The item loading for VF1 is 0.853, indicating a strong correlation between the item and the financial variable, demonstrating that VF1 effectively measures the construct. VF2, VF3, and VF4 were subsequently filled in with reliable values of 0.902, 0.911, and 0.916, respectively, further confirming the robustness of these indicators in representing the financial variable. Cronbach's alpha for this category is 0.9187, which suggests excellent internal consistency among the indicators. Additionally, the composite reliability value of 0.9041 indicates a high overall reliability of the measurement model. Finally, the AVE is 0.80, meaning that 80% of the variance in the financial variable is explained by its indicators, reflecting a strong level of construct validity.

For the legal variables, we have the indicators EE1, EE2, EE3, and EE4. The item loading for EE1 is -0.290, indicating a moderate negative correlation with the economic variable, suggesting that this indicator may inversely measure certain aspects of the construct. EE2, EE3, and EE4 were subsequently filled in with values of -0.250, -0.058, and 0.809, respectively. These values reflect varying levels of correlation with the construct, with EE4 showing a strong positive correlation compared to the others. Cronbach's alpha for this category is 0.7833, indicating a moderate level of internal consistency among the indicators. The composite reliability is 0.0266, which highlights low overall reliability, suggesting potential concerns with the measurement model. Finally, the AVE is 0.20, implying that only 20% of the variance in the economic variable is explained by its indicators.

For the organizational variables, we have the indicators CD1, CD2, CD3, and CD4. The item loading for CD1 is 0.866, indicating a strong correlation between the item and the organizational variable, indicating that CD1 effectively captures the construct's essence. CD2, CD3, and CD4 were subsequently filled in with values of 0.858, 0.596, and 0.358, respectively, reflecting varying degrees of alignment with the underlying construct. Cronbach's alpha for this category is 0.8596, suggesting a high level of internal consistency among the indicators. The composite reliability is 0.7348, which indicates a moderate overall reliability of the measurement model. Finally, the AVE is 0.895, signifying that 89.5% of the variance in the organizational variable is explained by its indicators, thereby confirming the strong explanatory power of the construct.

For the factoring dimensions, we have the indicators DF1, DF2, and DF3. The item loadings for DF1, DF2, and DF3 are 0.879, 0.906, and 0.826, respectively, indicating a high correlation between items and factor dimensions. Cronbach's alpha for this category is 0.8409, suggesting excellent internal consistency. Composite reliability is 0.9421, indicating high overall reliability. The AVE is 0.78, meaning that 78% of the variance in the factoring dimensions is explained by their indicators.

Finally, for the financial failure variable, we have the indicators GG1, GG2, and GG3. The item loadings for GG1, GG2, and GG3 are 0.862, 0.577, and 0.861, respectively, indicating a moderate to strong correlation between the items and the financial failure variable. Cronbach's alpha for this category is 0.2122, suggesting low internal consistency. Composite reliability is 0.3652, indicating low overall reliability. The AVE is 0.87, meaning that 87% of the variance in the financial failure variable is explained by its indicators.

These results suggest varying levels of internal consistency for the different categories of variables. Financial variables and factoring dimensions appear to be more consistent, while legal, and organizational variables show lower internal consistency.

Table 2. Significance of first purification variables

Item indicators	*Item loadings/weights*	*Cronbach's alpha*	*Composite reliability*	*AVE*
Financial variables				
VF1	0.853	0.9187	0.9041	0.80
VF2	0.902			
VF3	0.911			
VF4	0.916			
Legal variables				
EE1	-0.290	0.7833	0.0266	0.20
EE2	-0.250			
EE3	-0.058			
EE4	0.809			
Organizational variables				
CD1	0.866	0.8596	0.7348	0.895
CD2	0.858			
CD3	0.596			
CD4	0.358			
Factoring dimensions				
DF1	0.879	0.8409	0.9421	0.78
DF2	0.906			
DF3	0.826			
Financial failure				
GG1	0.862	0.2122	0.3652	0.87
GG2	0.577			
GG3	0.861			

Source: Authors' elaboration.

We also performed a discriminant analysis to examine the overlap between different compositional measures, as recommended by Petter et al. (2008). In this discriminant analysis, correlations between variables were compared with the AVE squared of the same variables.

Table 3. Presentation of research hypotheses

	Moderator effect 1	*Factoring dimensions*	*Financial failure*	*Financial variables*	*Organizational variables*
Moderator effect 1	1.0000				
Factoring dimensions	-0.2339	0.8613			
Financial failure	-0.3205	-0.0451	0.7810		
Financial variables	-0.0752	-0.1681	0.5105	0.8948	
Organizational variables	-0.2221	0.0693	0.2473	0.1274	0.9678

Source: Outputs of statistical analysis.

The findings displayed in Table 3 demonstrate that the values situated along the diagonal of the matrix, which symbolize the square root of the AVEs, consistently surpass the non-diagonal elements within the corresponding row and column. This observation suggests that the relationship of each variable with itself is more pronounced than its connection with the other variables under investigation. These outcomes affirm the distinctiveness and validity of our study.

4.2. Goodness of Fit

According to Tenenhaus (2008), a measure called the Goodness of Fit (GoF) is suggested as a comprehensive indicator of the model's overall performance. The GoF metric is calculated by taking the geometric mean of two components: the AVE and the average R^2 values of the endogenous variables. This approach accounts for both the measurement and structural models of the study, incorporating their combined influence.

Table 4. Presentation of Goodness of Fit

	Initial sample (O)	*Sample average (M)*	*Standard deviation (STDEV)*	*t-value (| O/STDEV |)*	*p-value*
CD1 <- Organizational variables	0.9687	0.9500	0.1804	5.3684	0.0000
CD2 <- Organizational variables	0.9669	0.9492	0.1713	5.6449	0.0000
DF1 <- Factoring dimensions	0.8296	0.8114	0.1854	4.4757	0.0000
DF2 <- Factoring dimensions	0.8392	0.7945	0.2046	4.1012	0.0000
DF3 <- Factoring dimensions	0.9128	0.8283	0.2051	4.4509	0.0000
Factoring dimensions * Organizational variables <- Moderator effect 1	1.1612	1.1329	0.0881	13.1790	0.0000
GG1 <- Financial failure	0.8012	0.7343	0.1926	4.1599	0.0000
GG2 <- Financial failure	0.6326	0.6269	0.2557	2.4738	0.0137
GG3 <- Financial failure	0.8875	0.7671	0.2805	3.1636	0.0017
VF1 <- Financial variables	0.8396	0.7700	0.3143	2.6709	0.0078
VF2 <- Financial variables	0.8902	0.8180	0.3136	2.8384	0.0047
VF3 <- Financial variables	0.9209	0.8332	0.3147	2.9263	0.0036
VF4 <- Financial variables	0.9258	0.8416	0.3130	2.9577	0.0032

Source: Outputs of statistical analysis using SmartPLS 3.3.2 software.

The results presented in Table 4 show the characteristics of the initial sample (O), the sample average (M), standard deviation (STDEV), t-value (| O/STDEV |), and p-value for different variables.

For organizational variables (CD1 and CD2), the initial sample values are 0.9687 and 0.9669, respectively. The standard deviations are 0.1804 and 0.1713, and the t-values are 5.3684 and 5.6449. The corresponding p-values are all close to zero (0.0000), indicating high statistical significance.

For the factoring dimensions (DF1, DF2, and DF3), the initial sample values are 0.8296, 0.8392, and 0.9128, respectively. The standard deviations are 0.1854, 0.2046, and 0.2051, and the t-values are 4.4757, 4.1012, and 4.4509. The associated p-values are all close to zero (0.0000), indicating high statistical significance.

The moderating effect between factoring dimensions and organizational variables is also assessed. The initial sample value for this moderator effect is 1.1612, with a standard deviation of 0.0881 and a t-value of 13.1790. The corresponding p-value is close to zero (0.0000), suggesting high statistical significance.

For the financial failure variable (GG1, GG2, and GG3), initial sample values range from 0.8012 to 0.8875. Standard deviations range from 0.1926 to 0.2805, and t-values vary from 2.4738 to 4.1599. The associated p-values indicate high statistical significance for all variables.

For financial variables (VF1, VF2, VF3, and VF4), initial sample values range from 0.8396 to 0.9258. Standard deviations range from 0.3143 to 0.3130, and t-values vary from 2.6709 to 2.9577. The associated p-values indicate statistical significance for all variables, albeit slightly lower than for the other variables.

These results demonstrate high levels of statistical significance for most of the variables studied, confirming the importance of these variables in the research context.

4.3. Structural model

The structural model investigates the proposed connections between exogenous and endogenous variables. A summary of the path coefficients and regression outcomes for the structural model is presented in Table 5. This table outlines the coefficients that signify the magnitude and direction of the relationships between the variables.

Table 5. Results of path coefficients and regression analysis in the structural model

Hypothesis	*Relationship*	*p-value*	*t-value*	*Decision*	*Adj R^2*
H1	Financial variables -> Financial failure	0.000	2.394	Supported	0.435
H2	Financial variables -> Factoring dimensions	0.000	2.674	Supported	
H3	Organizational variables -> Financial failure	0.000	1.893	Supported	
H4	Factoring dimensions -> Financial failure	0.001	3.948	Supported	
H5	Moderator effect 1 -> Financial failure	0.002	2.874	Supported	

Source: Outputs of statistical analysis using SmartPLS 3.3.2 software.

These results of the path coefficient analysis of the structural model and its regression, presented in Table 5, highlight a number of significant relationships. *H5*, concerning the moderator effect 1 on financial default, is confirmed with a p-value of 0.002 and a t-value of 2.874, which contribute to an adjusted coefficient of determination (Adj R^2) of 0.435. Similarly, *H1* to *H4* are also confirmed, highlighting significant relationships between the various dimensions of factoring, financial variables, the various dimensions of factoring and organizational variables, on the one hand, and financial default, on the other. This study also highlights the importance of these factors in understanding the mechanisms underlying financial failure situations.

In summary, the findings demonstrate substantial correlations among the variables investigated in the structural model, which enhance our comprehension of the factors that impact financial failure. The model's modified R^2 score of 0.435 indicates that a significant amount of variability in financial failure can be explained by the model.

Table 6 presents the evaluation of effect sizes for the relationships between different constructs in the analysis. The results highlight that these relationships are statistically significant but exhibit small effect sizes.

The results of the analysis indicate that the relationships between the different constructs are characterized by small effect sizes:

- Financial variables on financial failure have an effect size of 0.043, still qualified as small.
- The financial variables on the factor dimensions show an effect size of 0.032, indicating a small relationship.
- Organizational variables on financial failure show an effect size of 0.021, considered small.
- The dimensions of the financial failure factor have an effect size of 0.028, also considered small.
- Moderator effect 1 on financial failure has an effect size of 0.037, indicating a small effect size.

These results suggest that the relationships between these constructs are statistically significant, but their effects are relatively limited.

Table 6. Evaluation of effect size (f2)

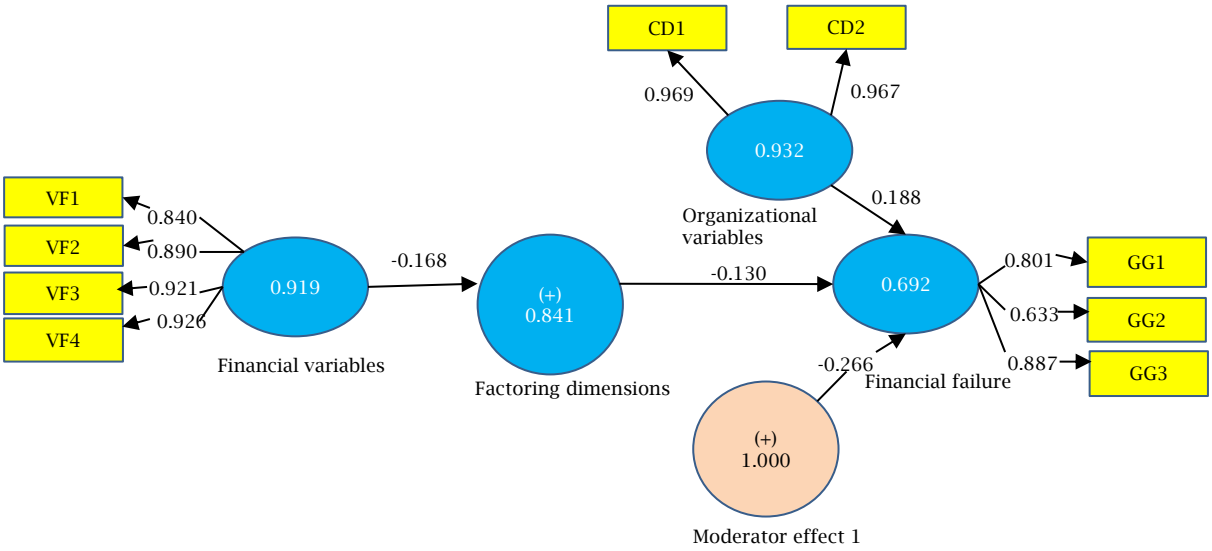
Constructs relation	*f2*
Financial variables -> Financial failure	0.043
Financial variables -> Factoring dimensions	0.032
Organizational variables -> Financial failure	0.021
Factoring dimensions -> Financial failure	0.028
Moderator effect -> Financial failure	0.037

Source: Outputs of statistical analysis using SmartPLS 3.3.2 software.

According to Xu et al. (2014), financial knowledge and perceived risk have a limited impact on intention to invest. Moreover, perceived risks have a moderate effect on the relationship between financial knowledge and intention to invest.

To assess the ability of the independent variables to predict the dependent variable, we used a measure of predictive relevance called Q2, which obtained a value of 0.322. According to Martynova et al. (2018), this value indicates an acceptable predictive relevance of the model.

Figure 3. This study's final structural model



The results of the analysis were used to build the final structural model of this study, which is shown in Figure 3.

5. DISCUSSION OF RESULTS

Evaluating results and discussions through hypothesis is an essential part of scientific research. Hypotheses enable potential relationships between variables and phenomena to be established and rigorously tested. In this general introduction, we will discuss the process of formulating hypotheses, their importance in scientific research, and how they lead to results and discussions (Shapere, 1964).

H1: Financial variables -> Financial failure.

This hypothesis confirms that certain financial variables have a direct impact on financial failure. This may be linked to the capital structure theory developed by Modigliani and Miller (1963), which argues that an organization's financial structure, such as its level of indebtedness, can affect its financial stability and risk of failure. It should be noted that capital structure theory does not hold that debt levels are the sole determinant of financial failure. The results highlight that a company's financial stability is influenced by multiple factors, including profitability, resource management, economic conditions, and market competition (Asli et al., 2020). *H1-1* confirms the leverage ratio's role in balancing debt and sustainability, while *H1-2* emphasizes the gross margin as a key indicator of operational efficiency. *H1-3* establishes profitability as a cornerstone of financial performance, and *H1-4* underscores the liquidity ratio's importance in maintaining short-term solvency. These findings collectively demonstrate the interconnected nature of financial determinants in ensuring stability.

H2: Financial variables -> Factoring dimensions.

This hypothesis asserts that financial variables, such as financial ratios or performance measures, influence the dimensions mentioned in the previous hypothesis. Reference can be made to the theory of financial analysis, which emphasizes the use of various financial indicators to assess the performance and financial dimensions of an organization (Jensen & Meckling, 2019).

According to theorists such as Benjamin Graham, David Dodd, and John Burr Williams, the theory of financial analysis emphasizes the importance of financial variables in assessing the performance and financial dimensions of an organization (Bali, 2011).

Putrihadiningrum and Violita (2023) are considered to be the fathers of fundamental analysis, developed approaches to assessing a company's value by focusing on key financial measures such as price/earnings ratio, price/book ratio and dividend yield. According to their theory, these financial variables can indicate a company's financial health and ability to generate profits.

Williams (2014) introduced the concept of net present value (NPV) in the book "The Theory of Investment Value". This theory maintains that the value of a company is determined by the present value of its future cash flows. Thus, financial variables such as cash flows, discount rates and growth rates are essential for assessing the financial performance and economic dimensions of an organization.

Overall, the theory of financial analysis emphasizes the use of financial indicators to assess the performance and financial dimensions of an organization (Beaver, 1966). Financial variables, such as financial ratios or performance measures, are considered key indicators for understanding a company's financial health and its potential for success or failure (Altman, 1968).

H3: Organizational variables -> Financial failure.

This hypothesis suggests a relationship between organizational variables and financial failure. We may think of the contingency theory developed by Galbraith (1968), which highlights the importance of organizational factors such as structure, decision-making processes, and control systems in an organization's performance and financial risk.

These confirmed and partially confirmed hypotheses highlight the relationships between variables and their role in predicting financial failure. The structure of property ownership (*H3-1*) and competitiveness (*H3-2*) are key indicators of organizational failure. Corporate culture (*H3-3*, partially confirmed) and corporate strategy (*H3-4*, partially confirmed) also play significant roles,

where misalignment or ineffective planning can lead to failure. Together, these variables underscore their interconnectedness in understanding financial failure.

H4: Factoring dimensions -> Financial failure.

According to this hypothesis, it can be suggested that there are some dimensions, especially particular aspects of financial or managerial performance, which are highly associated with forthcoming financial failure. Such dimensions may include a balance of cash flow, debt equity, profitability, and efficiency of operations, and these are relative factors in the financial strength of any organization. From these dimensions, one can get clues on which of the figures could be indicating a particular company is on the brink of financial distress. An analogy can be made to the transaction cost theory, which, according to Ghertman (2003), implies that costs directly linked to managing transactions inside an enterprise may have a major effect on its financial performance. In this theory, it is argued that if an organization experiences high transaction and supply chain costs (TSCs), be they internal, contractual, or supply chain vendor and buyer relationship focused, then there will be a resulting decrement in operational efficiency and consequent pressure on its balance sheet. These inefficiencies, therefore, multiply themselves on profitability, cash flows and consequently the viability of the firm.

The transaction cost theory suggests that firms in high transaction cost environments face lower margins, as resources are diverted to managing these costs, impacting performance and increasing the risk of failure. High administrative costs, complex procurement, and supplier management can erode profits and cash flow, making financial failure more likely. Additionally, these costs lead to inefficiencies, delays, and missed opportunities. The hypotheses further highlight factors contributing to financial failure. *H4-1* suggests that company age increases failure risk, *H4-2* associates company size with failure, and *H4-3* links workforce efficiency to failure risk. The financial component confirms that key indicators predict default, with *H5-1* linking autonomy to default, *H5-2* connecting solvency to default, and *H5-3* showing liquidity's impact on failure. These findings emphasize the need to reduce transaction costs and improve financial management to avoid failure.

H5: Moderating effect 1 -> Financial failure.

This hypothesis mentions the existence of a moderating effect, which could be similar to the contingency theory developed by Woodward (1967). According to this theory, the external environment and certain internal factors moderate the relationship between variables and organizational results, such as financial failure. In this case, moderator effect 1 represents a specific factor that influences the relationship between variables and financial failure.

6. CONCLUSION

The general conclusion of the article on the analysis of legal, financial, and organizational determinants of Moroccan business failure highlights several important points. Firstly, it is emphasized that business failure is a complex, multifactorial problem, influenced by legal, financial, and organizational factors.

With regard to legal determinants, the article highlights the importance of existing legislation and its application in the Moroccan context. It points out that gaps in the legal framework can contribute to business failure, particularly in terms of protection of intellectual property rights, market regulation and bankruptcy procedures.

On the financial front, the article highlights the importance of financial management and the ability of companies to manage cash flow, debt, and profitability. It also highlights the importance of access to finance, particularly for small and medium-sized businesses, and points out that financial difficulties can lead to business failure.

Concerning organizational determinants, the article highlights the importance of corporate governance, human resource management, and the innovative capacity of companies. It points out that shortcomings in these areas can affect the viability and competitiveness of companies, contributing to their failure.

The analysis of legal, financial, and organizational determinants of Moroccan business failure provides valuable theoretical and practical insights. Theoretically, it emphasizes that business failure is a multifaceted and interdependent phenomenon, necessitating the development of empirically validated models to capture these interconnections within the Moroccan context. It also raises critical questions about the robustness of existing management theories and resilience strategies before failure occurs.

From a managerial perspective, the findings highlight the importance of addressing legal, financial, and organizational vulnerabilities. Business leaders are encouraged to strengthen corporate governance, optimize human resource practices, improve financial system management, and ensure compliance with legal frameworks. These measures aim to enhance resilience and minimize failure risks.

Moreover, the study underscores the value of integrating external factors and refined data-gathering techniques to inform risk prevention strategies. Insights from the research can guide policymakers, financial institutions, and business managers in implementing policies and practices that mitigate failure risks. It also offers actionable recommendations on governance, financial management, and legal adherence.

This research is subject to several limitations that should be acknowledged. Firstly, the sample size remains restricted, potentially limiting the representativeness and generalizability of the findings. Expanding the sample in future studies could better capture the diversity of Moroccan businesses. Secondly, the study relies on specific methodologies, which may omit critical perspectives; incorporating mixed methods or longitudinal approaches would enhance analytical depth. Lastly, the analysis predominantly focuses on internal factors within companies, overlooking the significant influence of external determinants such as political, economic, ecological, cultural, technological, and societal contexts.

To build on the insights of this study, future research should aim for more comprehensive data collection and adopt rigorous methodologies. Investigating the interplay between internal and external factors could yield a more nuanced understanding of the determinants of business

failure. Additionally, leveraging the findings of this research to design proactive measures for preventing business failure could address its far-reaching socio-economic impacts. Policymakers, business leaders, and researchers alike should explore strategies that foster resilience and sustainability in the entrepreneurial ecosystem.

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