How are small businesses in Libya financed?

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Abstract—This paper is based on research into the views of small business about access to finance in Libya. It is worth noting from the outset that this research was conducted before the recent uprising in Libya, and whilst the situation in Libya will have changed as a result of the uprising there are aspects of the research that lead to conclusions about post-uprising economic development. The research yielded a number of interesting findings. The research showed that the small business owners were seeking external funding for business expansion, but this funding was not often provided by bank finance. The study suggested that the owner managers of small businesses in Libya are heavily dependent on their savings, family and friends to fund their businesses at start-up. Retained earnings, family, trade credit and business partners were the main sources of funding in the expansion stage. A number of difficulties and constraints were highlighted in the raising of external finance including the lack of business planning and financial management skills, cultural factors, the absence of some institutional sources of funding, financial information, restrictions on bank lending, and aspects of government policy. Some of these difficulties were common to small business finance in many parts of the world; others were applicable to other countries in the North Africa region; some were specific to the Libyan context. This research provides a richer understanding of the funding interactions in economic development.

Keywords—Small business, Libyan economy, external finance, internal finance.

I. INTRODUCTION

The vast majority of the businesses in the world’s economies can be defined as small enterprises. The statistics suggest (European Commission, 2002) that there were more than 20 million firms in Europe in 2001. These firms provide employment to more than 120 million people. In the UK in 2003 the number of small businesses, estimated at 3.8 million, was the largest since data collection began and small businesses (fewer than 50 employees) accounted for more than 99% of all businesses in the UK [3]. The number of enterprises has increased significantly in Italy, France, Germany and Japan [3].

The past thirty years have also seen increasingly rapid advances in the contribution of small businesses to most economies, forming an important route to economic development [14]. The small business, as well as being considered as one of the most important factors of economic development, plays a major role in supporting economic renaissance [4].

Developing countries have also taken great interest in the small business sector, particularly after the failure of many large firms [12]; [2]. For example, in Egypt private small and medium businesses (non agricultural) account for more than 98% of all private businesses, and create more than 75 per cent of jobs [13]. In recent years Libya has developed a major interest in small business. At the moment a major problem faced by small businesses in Libya is financing; consequently, this study shall explore how small businesses are financing in the Libyan environment.

II. THE COMMON SOURCES OF SMALL BUSINESS FINANCE

In terms of small business finance, there are a variety of sources: internal sources such as profits; personal savings; family finance; friends, and partners. On the other hand, there are external sources: financial intermediaries (such as banks) venture capital agencies and government institutions [5]. However, a small business, in the first period, depends on internal finance more than any other finance, including personal savings, retained earnings or contributions from family or friends or any other relatives or business associates [17]. Owners of small businesses face more difficulties obtaining external finance than large firms, especially at start-up, because they have limited financial information and credit history. Owners and managers of smaller businesses frequently lack business experience and a track record as entrepreneurs. The first period of growth is marked by uncertainty both in production and marketing.

The Libyan economy is heavily dependent upon oil revenue and remains largely state controlled and regulated. In Libya in 2006, the share of non-hydrocarbon GDP (in total) was estimated at 26.2% [8]. However, the Libyan government has recently sought to establish other sectors to sustain the national economy. The small business sector has been promoted by the government [10], as the most productive sector in the economy with the potential to contribute towards a high percentage of the country's GDP in the future. Small business plays a key role in economic development, particularly for developing countries. It offers opportunities for job creation, poverty reduction and establishes the foundation for trading between nations. The situation in Libya is that it is a relatively wealthy country; the sixth in GDP per capita in Africa [11]. It is in the top third of countries according to the UN human development index [16], one of the smallest in the economic region. This economic development has created a structure where there are fewer large and foreign owned firms and a larger number of small firms particularly in the service sector. It has been observed in
a study of African countries that the factors of size and ownership of firms are the key quantitative determinants of financial constraints [9]. The provision of finance is often cited as a constraining factor in transition economies [7]. Although several attempts have been recently made by the Libyan government to privatize the public sector institutions and to allow persons to take a share in the national economy, as efforts to channel the Libyan economy from a socialist-oriented economy direction to a market economy, the quality of financial services markets is still poor. Furthermore, equity markets scarcely exist and debt markets are crude. The Global Competitiveness Report 2008-2009 ranked Libya as the last country but one (133) on financial market sophistication in a survey of 134 countries. In the same survey Libya ranked 131 on financing through local equity markets, and 83 on ease of access to loans. Venture capital availability is almost completely absent in the Libyan financial market, reflected in Libya being classified 115 from 134 countries on the availability of venture capital finance [15].

The absence of financial markets makes the banking sector to shoulder a major responsibility for Libyan development. Libya has a highly concentrated and limited banking sector.

III. METHODOLOGY

The main research is divided into two phases. The first phase involves semi-structured interviews (face to face) with 27 owner-managers of small businesses (6-25 employees). Gilmore et al (2001) suggest that semi-structured interviews are particularly effective for collecting data from owner-managers of small business [6]. The second phase of the study involves qualitative interviews with 5 formal providers of financing for small firms in the Libyan environment (lending managers in the head offices of the Libyan banks).

The sample was selected from the business population of Tripoli (the capital city of Libya), where the small business sector is the largest and most diverse in Libya and from Misurata, considered to be the city of trade and industry in Libya. The qualitative sampling was designed to reflect the diversity of the business population and owner-manager experience and to generate the maximum richness of data. The sample also included male and female owner-managers.

IV. FINDINGS

The research confirmed that external finance plays an insignificant role in the Libyan financial market. Essentially, the equity market is practically non-existent in Libya and the quality is low. The debt markets are more developed than equity markets, but they are constrained and weak. However, the Libyan banking sector is immature and highly concentrated, because government controls their activities. In addition, the Lending managers stated that there are some reasons for the lack of the number of businesses that borrow from their banks such as absence reliable information on the financial conditions of borrowers. Additionally banks have difficulties in evaluating the risk of lending to small business, which causes an increase in the percentage of collateral required; as much as 125 percent of the sum of the loan is demanded in some cases.

In some ways the situation in Libya was similar to the situation in developed economies. Most businesses start small but the reasons are different. Often small businesses find a niche where they can exploit their position in the market with a niche or skill. In this case the restrictions on businesses required them to remain small distributors of products. There is some support for the view that the informal finance sector is important in the Libyan economy, and in the period of reconstruction the operation of this informal mechanism would seem important to re-building. It seems difficult to disagree with the view that there is a limited culture of entrepreneurship in Libya [1].

REFERENCES

Groups and Teams: A Review of Bad Apple Behavior

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Abstract—The purpose of this conceptual paper is to broaden the understanding of the three negative member (bad apple) behaviors put forth by Felps, Mitchell and Byington – withholding of effort, interpersonal deviance and negative affect. The impact of these negative member behaviors on other team members, the factors that moderate these relationships and ways to control this bad apple effect are presented with supporting evidence from a few empirical works done in the last five years. A review of previous empirical findings indicate that perceived co-worker loafing clearly leads to counterproductive work behavior towards co-workers and interpersonal deviants affect the task cohesion of the group. However, presence of affectively negative individuals is empirically proven to improve the group performance, especially when the group task is related to creativity or information processing.

Keywords—bad apples, loafing, deviance, negative affect, group performance.

I. INTRODUCTION

Organizations resort to teams and groups to a great extent to create value through efficiencies and synergies. Members of diverse origins, knowledge, qualification and emotions are brought together and are expected to achieve the collective goals of the group. However, not all members bring about positive impact on the performance or output. Negative members, or ‘bad apples’ have significant impact on the team members and in some cases, have the potential to have serious detrimental effects on the overall team performance. Hence it is essential to gain better understanding of the various types and levels of impact, bad apples can have on other team members and how this in turn influences performance.

The article by Felps, Mitchell and Byington [1] gives an integrated model of ‘how, when and why’ the behaviors of one negative member can have damaging effects on group performance. Withholding of effort, interpersonal deviance and negative affect are identified as the three main negative team member behaviors. Initially, the team members realize this behavior and take some corrective actions to control these negative member behaviors. However, if it is not feasible to control or transform the bad apple in a peaceful manner, the other team members resort to defensive mechanisms. Evidently, this leads to negative impact on overall performance, wellbeing and viability of the group. Thus [1] suggests that the low group performance can be linked to the presence of bad apples. However the model fails to link negative member behaviors to specific defensive behaviors and shortfalls in group processes. The focus of this review is to isolate the three negative member behaviors and study how each of them affect the other team members and their overall effect on group performance.

II. WITHHOLDING OF EFFORT

Social loafing is the deliberate withholding of effort by a member in the hope that other group members will compensate. The teammates, when they realize this behavior, try to transform the bad apple through motivational interventions [1]. If it proves ineffective, the team members resort to defensive behaviors, such as revenge, denial, exploding, etc... Reference [2] argues that this type of counterproductive work behavior is not spontaneous, but is a result of a sequence of cognitive stages. They explain this behavior using the cognitive stage model developed by [3]. When the individual notices a discrepancy between the expected behavior and the actual behavior of a co-worker (in this case, loafing or withdrawal of effort), a sense of injustice arises. The individual then tries to attribute the blame to either the organization or the specific co-worker (refer fig. 1). In the first case, it leads to counterproductive work behavior towards the organization (CWB-O, such as work sabotage, work avoidance, etc...) whereas the latter leads to counterproductive work behavior towards the individual (CWB-I, such as gossip, abuse, threat towards others, etc...). Reference [2] indicates that revenge motive plays the role of a cognitive mediator in this perceived co-worker loafing and CWB relationship.