AN EXPLORATION OF INFLUENCES ON THE GROWTH OF SMALL FIRMS IN LIBYA

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ABSTRACT

The development of small businesses and the increasing role they are playing as engines of economic growth, employment generation and social change is making them a subject of major strategic importance to governments, and growing interest to researchers. Small businesses are increasingly regarded as both indicators of the economic dynamism of an economy, and agents of economic growth: in the developing economies small businesses are also regarded as being capable of improving standards in areas such as training, technical expertise and management throughout an economy. Of particular concern in many economies, especially those such as Libya which are in transition to a free-market model, is the contribution small businesses can make to employment growth outside of the public sector.

The broad aim of the research discussed here was to enhance understanding of the factors influencing the growth of Libyan small manufacturing firms from the perspective of owner-managers and to develop an explanatory conceptual framework that aids this understanding. As secondary aims, it also seeks to inform government policy and to contribute to the success and growth of the sector overall.

Informed by a comprehensive literature review, the research approach was to investigate and interpret the opinions, experience, attitudes and ideas of a sample of owner-managers with respect to the factors that they considered to be of the greatest influence on the growth of small manufacturing firms. Because of the lack of prior research, the study was exploratory in nature and a qualitative methodology was employed, employing a grounded approach with qualitative content analysis,

Following a pilot study, the researcher conducted twenty-eight semi-structured interviews with the owner-managers of small manufacturing businesses: the sample consisted of owner-managers located in two Libyan cities, Tripoli and Misurata. Tripoli is Libya’s capital, economic centre and overwhelmingly the area with most manufacturing output, while Misurata is the second largest manufacturing centre and the focus of much investment in infrastructure by the Libyan state.

The interviews were designed to explore four sets of factors that may influence the growth of small manufacturing firms in Libya: the characteristics of the owner-manager, the characteristics of the firm, the business's strategy and factors in the external environment. The interviews generated a substantial amount of rich data and this was interpreted and analysed on a cross-case basis and the findings were organised according to these four sets of factors.

The research produced a range of interesting findings, many of which confirmed those of other studies in developed countries, such as the importance of owner-manager growth aspirations, education, experience and networks, the firm's age and location and aspects of its strategy such as marketing, innovation and training. Other findings reflected relatively widespread issues in developing economies, such as shortages of skills and finance, infrastructural inadequacies, bureaucracy and corruption. However, the research also highlighted a number of issues that are specific to Libya, or whose impact is different or more extreme because of the combination of political, economic and socio-cultural circumstances.

It is concluded that Libya's combination of a bloated public sector with widespread corruption, slow transition from a socialist economy, frequent changes in economic policy, large informal sector, weak legal enforcement and predominance of family and personal relationships has created a particularly challenging environment for small businesses. As the research demonstrates, some owner-managers have found ways to overcome these problems and achieve high levels of growth but many others find their growth severely constrained by these environmental issues.

The research is exploratory in nature and many of the issues discussed merit further research, in particular to inform future policy and support. Key areas for future research are outlined and tentative recommendations are made for future government policy with respect to the Libyan small firm sector.

Note: the fieldwork for this thesis was carried out prior to the popular uprising in Libya, which began in February 2011 and resulted in a change of government. References to government policy throughout the thesis refer to the previous government, with the exception of the policy recommendations in Chapter 6, which refer to the new government of Libya.

DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed …………Iman Hajjaji……………….. Date ………25/07/2012…….

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LIST OF ABBREVIATIONS

ADB	African Development Bank
CED	Committee of Economic Development
LCSM	The Life Cycle Stage Model
LNIID	Libyan National Institution for Information and Documentation
NGOs	Non-Governmental Organisations
ODA	Overseas Development Administration
OECD	Organization for Economic Cooperation and Development
O-M	Owner-Managers
SB	Small Business
SBA	Small Business Administration
SMEs	Small and Medium Sized Enterprises
SPCEP	Secretariat of the Popular Committee for Economic Planning
USAID	United States Agency for International Development
WBES	World Business Environment Survey

CHAPTER ONE: INTRODUCTION

1.1 Libya and its Economy

Libya is the fourth largest country in Africa, occupying an area of almost 1.8 million square kilometers. The Libyan population is 5,850 million, of whom most if not all are Muslims (NAID 2006). Arabic is the official language, while English and Italian are also used in business and trade. Libya is a developing country (Twati & Gammack, 2006) but is a major oil exporter, with relatively large surplus revenues. In recent years the Libyan government has instituted economic reforms, with the aim of moving towards a market economy and opening the door for foreign investments (Central Bank of Libya 2009).

Figure 1.1: Map of Libya

Source: Graphic Maps (2010)

Despite significant efforts over the past twenty years the Libyan economy remains highly dependent on hydrocarbons, the oil and gas industries accounting for nearly 70% of GDP, generating over 90% of government revenues and representing only approximately 5 % of total employment. According to a recent report by The African Development Bank (2010) the lack of diversification in the economy has impacted on job creation with overall unemployment levels in 2006 estimated at 20.7%, and up to 30% for people under 25. These effects have been exacerbated by a lack of human capital and skills development in key areas and by the dearth of backward and forward linkages emanating from the capital-intensive oil and gas sectors.

However, during the past twenty years, a number of notable changes have been witnessed across the Libyan economy in terms of government policies and structures, with such changes leading to a number of fundamental impacts on small firms, their respective sectors, and national economic growth as a whole. These developments have their roots in the Libyan economic crisis of the late 1980s and early 1990s, with the degradation of world oil prices (El Nakhat, 2006). Accordingly, the economy was restructured by the government, which saw the need to issue a number of different acts and regulations permitting the private sector to adopt a role within the national economy, as highlighted by Twati & Gammack (2006). It is recognised that such programmes and initiatives have resulted in significant development within the Libyan small business sector and its overall economy (El Nakhat, 2006). Furthermore, Elsharif (2002, cited in El Nakhat, 2006) suggests that these developments have had a particular impact on the small business sector and its growth.

1.2 Small Businesses in Libya

In Libya, the small business sector has received much interest and attention in recent years, with recognition that the growth of small businesses is influenced by a number of different factors in both environmental and business contexts. It is recognised that the capacity of management to deal with growth-related issues, as well as efficient development in regard to public support policies, can be improved through ensuring an enhanced understanding of the processes involved.

In Libya, 180,000 private businesses are registered with the tax authorities, although this figure is in reality much greater because the size of the informal economy is estimated to be as much as 30% - 40% of the official GDP (Porter & Yergin, 2006). Elsharif (2002, cited in El Nakhat, 2006) argues that small Libyan firms have long been experiencing a large number of problems in regards to the legal framework and policy instability, as well as a lack of capital to be directed towards growth, issues that have caused the demise of many businesses. In addition, many small firms in Libya are constrained by inadequate equipment and knowledge, skills, and experience in a number of different areas, including financial management, general management, and marketing. There is still a need for more efficient regulation and a stable legal framework so as to eradicate some obstacles to economic growth. Such stability would ultimately facilitate growth among small businesses, thus delivering a larger number of employment opportunities as well as greater wealth across the nation (Porter & Yergin, 2006).

The Libyan government now believes that the small business sector has the potential to become a growth engine for Libya's private sector. Currently the small business sector is dominated by the production of food products, wood products, metal and construction materials. Some small firms also engage in the production of clothing, ceramics and bricks, grain milling and press and publication goods. Small-scale manufacturing firms have the potential to link into economic growth opportunities through the development in areas such as tourism (e.g. production of souvenirs). There is also scope for them to expand activities in the glass and leather goods industries, fisheries and tourism (African Development Bank, 2010).

The Libyan indigenous private sector in general and small businesses in particular lack business know-how and face problems of economies of scale, and poor managerial, financial and marketing capabilities. In addition, whereas the macroeconomic environment is favourable, the overall regulatory framework still needs to be streamlined and improved. Transaction and start-up costs for developing and sustaining businesses are high, and uncertainty often prevails. Another challenge to the development of a thriving small business sector is the limited presence and influence of a culture of entrepreneurship within the population. The incentive and legal framework, and the institutional coordination are reported to undermine the emergence of a sustainable small business sector (African Development Bank, 2010).

Further information on Libya's economy and government economic policy can be found in Appendix 1.

1.3 The Libyan Manufacturing Sector

1.3.1 Number of enterprises and total output

In 2002, the number of enterprises comprising the manufacturing sector amounted to 32,492, and of these, 29,646 were small manufacturing enterprises (El Nakhat, 2006). Table 1.1 shows the number of manufacturing enterprises operating in Libya and their contribution to Libyan industrial production.

Table 1.1: Number of manufacturing enterprises operating in Libya and their contribution to Libyan industrial production

Size of Manufacturing Enterprises	Number of Firms	Per cent %	Contribution to Industrial Production (LMD*)	Per cent %
Large and Medium	2,846	9	919	69.5
Small and Micro	29,646	91	404	30.5
Total	32,492	100	1,323	100

*Libyan Million Dinar. Source: (El Nakhat, 2006, p59)

Of these 29,646 small manufacturing enterprises, most were operating in the main Libyan coastal cities; Tripoli, Misurata and Benghazi. Tripoli is the capital city, economic centre and overwhelmingly the area with most manufacturing output, while Misurata is the second largest manufacturing centre. The city of Benghazi, is large and economically active city and has a relatively small manufacturing base.

1.3.2 Manufacturing activities and subsectors

Table 1.2 shows the relative balance of manufacturing activities within the above totals.

Table 1.2: Number of enterprises by the manufacturing activity

Manufacturing Activity	Number of Enterprises	%
Repair activities	14,750	55.3
Metal and tools products	3,923	14.72
Food, drinks and tobacco products	2,745	10.3
Garment and textile products	1,865	7.0
Furniture products	1,057	4.0
Chemical-Plastic products	939	3.52
Non-metal products	678	2.54
Other products	384	1.44
Paper-Printing products	244	0.91
Basic Metal products	61	0.22
Total	26,646	100.0

Source: (El Nakhat, 2006, p 60)

Among these manufacturing enterprises, repair activities had by far the largest representation, accounting for 55.3 per cent of the total. Among the manufacturers of new products, metal and tools products, food and drinks and garment manufacture were the largest subsectors by number of enterprises.

1.3.3 Contribution to employment

The data accompanying the public census of population 2006 suggest that small and medium businesses did not employ more than 11% of the total manpower, and accounted for only 4% of the total local production (Al Zletni, 2008). However, this does not take into account most of Libya's large informal sector (see 1.2 above). Porter and Yergin (2006) stated that the total Libyan public and private manpower was 1,551,000, of which the private sector, including large firms, employs 612,000 or 39.5%. Of this private sector employment, 183,000 jobs were in the manufacturing sector, which thus accounts for 12% of the total Libyan workforce. These findings serve to illustrate the chronic under-representation of manufacturing in the Libyan economy, which was one of the motivations for conducting this research.

1.4 Libyan Cultural Characteristics

In contrast to societies in the Western world, in the majority of Arab countries a fundamental role continues to be played by traditional social institutions, such as family, in regard to economic and political culture. When considering the social formation of modern-day Libya, there are a number of key institutions involved, namely extended family, the tribe, and the village, with all three recognised as playing a key role within communities and also in relation to individual lives. Khorwatt (2006) suggests that the Libyan family unit includes parents and offspring, as well as their own families, in addition to aunts, uncles, cousins, nieces and nephews, and grandparents (El-Fathaly & Palmer, 1980). Moreover, Agnaia (1996) points out that both society and families are vulnerable to experiencing shame and fame as a result of family members' activities, owing to the Libyan personality being so closely aligned with family.

The two most fundamental aspects of Libyan culture are language and religion, which are Arabic and Islam respectively. Importantly, these factors create the overall foundation for the social homogeneity of Libyans, as advocated by Farley (1971); thus, it can be stated that family, language and religion all have a critical role to play in influencing the behaviours and attitudes of Libyan individuals and Arabic society

(Aghila, 2000). In this regard, it has been postulated by Zarrugh (1959) that a number of changes and influences in terms of religion, politics and society are attributed to the many years under Arabic, Turkish and Italian dominance; however, despite such changes, Arabic culture and Islamic religion have remained.

It is recognised that the religion of Islam adopts a fundamental role within the culture of Libya, as highlighted by Vandewalle (2006). Without question, the attitudes, structure and values of Libyan society are all impacted by Islam, which is recognised by Obeidi (1996, p. 38) as being a primary unit of identity and loyalty. In this same regard, it is stated by Twati (2006) that religion across Libya is known to take into account numerous political and societal considerations in regard to behaviours and principles.

In Arabic culture, societal relationships are viewed as being one of the most valuable and unique of characteristics. However, although it is recognised that Libyans may come from a number of different families and tribes, all of which have strong societal links, the Libyan economic environment is nevertheless impacted by culture. Twati (2006) has studied the influence of business and societal culture in relation to the application of management information systems within the context of the Arab world. As a result, it was established that Libyan culture continues to illustrate those qualities established by Hofstede (1980), namely high power distance, uncertainty avoidance, and masculinity. For instance, in Libyan business culture, supervisors are not expected to take advice, feedback or opinions from their staff; in actual fact, the offering of such by subordinates is prohibited. As a result, centralised decisions and management are commonplace within Libya (Twati, 2006).

Barakat (1993) highlights the positioning of the Arab family as a central socio-economic unit, as a basic production unit and the overall core of socio-economic activities and social organisation in an Arab context. Importantly, many such family businesses have advanced and developed, subsequently becoming an extended family institution and a pyramid-hierarchy-type structure, which can be seen most clearly in terms of age and gender. Accordingly, it is recognised as being the underlying social organisation unit in both modern-day and conventional Arabic society.

1.5 The Research

1.5.1 Evolution of the topic

The author started his first business with a friend while a university undergraduate, the business was very successful and it persuaded him and a friend to start a more formal business after graduation, as a more promising future than going into employment. On the advice of friends and family involved in business that manufacturing was very difficult to make a success of, and was a very competitive environment, they started a small trading business, initially trading in their local area, before moving on to importing goods. This was the time of the opening up of the Libyan economy, and although successful at first, the competition from better capitalised trading companies eroded margins and made the business unprofitable. The author decided to return to academic study, to obtain an MSc in Business Studies and becoming a faculty member at the university, while retaining a strong interest in small businesses.

This new academic career gave the author the opportunity to pursue his interest in small business, including the supervision of undergraduate students in the area. When he was awarded a scholarship to study for a PhD in the UK, he was motivated to study small businesses in Libya due to his experience in this area and continuing interest in what caused, and constrained, the success and growth of such firms in the manufacturing sector. He was also convinced that the research would also be useful to this important sector of the national economy, which has great potential to create wealth and employment for Libya

1.5.2 Study Rationale

Although the growth of small firms has received a great deal of academic and governmental attention across developed countries, this is not necessarily the case in developing countries (Neshamba, 2000). In the view of Sleuwaegen & Goedhuys (2002), those frameworks and theories introduced in regard to firm growth are not adequate in describing the dynamics of firms within developing countries. In recent years, more research has sought to describe and explain the growth of small firms in developing countries. This research embraces two different perspectives, the first of which focuses on the obstacles and issues experienced by such firms in regard to the external environment (Goedhuys & Sleuwaegen, 1999; Teal 1998; Mambula, 2002;

Sleuwaegen & Goedhuys, 2002; Bigsten *et al*., 2003). The other studies have focused on internal issues such as entrepreneurial skills and lack of technical and managerial abilities (Neshamba, 2000). With this in mind, this particular study seeks to integrate both of these perspectives within one all-encompassing framework, aiming to deliver a comprehensive explanation of both internal and external factors that influence the growth of small businesses in Libya.

1.5.3 Research aim

The broad aim of this research is to enhance understanding of the factors influencing the growth of Libyan small manufacturing firms from the perspective of owner-managers and to develop an explanatory conceptual framework that aids this understanding. As secondary aims, it also seeks to inform government policy and to contribute to the success and growth of the sector overall.

1.5.4 Research objectives

There are six objectives associated with the research aim:

- To explore the influence of the owner-manager in facilitating or constraining growth, in terms of background, characteristics, skills and behaviour.
- To explore the impact of firm characteristics on growth.
- To explore the impact of business strategies and decisions on growth.
- To explore the factors in the external environment that constrains or support growth and the ways in which this occurs.
- To develop a conceptual model highlighting the influences of factors specific to the growth of the Libyan small manufacturing firms.
- To make tentative recommendations concerning the support of Libyan small firms in achieving growth and contributing to the economic development of Libya.

1.5.5 Research Questions

The broad research question is as follows:

What are the significant factors that influence the growth of small businesses in Libya and how do these factors affect the firms' growth?

The specific research questions that derive from this broad question are as follows:

- Which characteristics of the owner-manager have a significant influence on small firm growth in Libya, and how do these characteristics affect the firm's growth?
- What are the characteristics of the firm that impact on small firm growth in Libya, and how do these characteristics affect their firm's growth?
- Which business strategies have a significant influence on small firm growth in Libya, and how do these strategies affect the growth of firms?
- Which factors in the external environment constrains or support growth of small firms in Libya and how do these impacts on the growth of firms?

1.6 The structure of the thesis

The following text provides an overview of the structure of the thesis, which is divided into six chapters:

Chapter One provides an introduction to the study, with some background information on Libya, its economy and its small business environment, (particulalrly its small manufacturing firms). The research is introduced and its aims, objectives and research questions are clarified.

Chapter Two consists of the literature review; the chapter discusses the various definitions of small businesses and their role and importance within developed and developing countries. Following this, there is an overview of the literature related to the growth of small businesses, its measurement and the theories that exist to explain this growth. Finally, the chapter discusses the findings of previous research concerning the factors that influence the growth of small firms, which provide a context for this research and guidelines for the research design.

Chapter Three is concerned with the study's methodology. Issues of research approach and philosophy are considered and inform a discussion of the research design. Sampling, data collection, data analysis and ethical issues are discussed in some depth and detail.

Chapter Four provides an overview and discussion of the study's findings, in which the interview data are analysed and interpreted in the context of issues arising from the literature review. The individual interview cases are introduced and discussed, followed by a cross-case analysis. The findings are interpreted and discussed in four main categories, representing the sets of factors that influence growth identified in the literature review. These are the factors related to the characteristics of the owner-managers interviewed, those relating to the characteristics of their firms, those related to the strategies that they adopted and finally the constraints of growth relating to the external environment in Libya.

Chapter Five seeks to highlight and discuss the key findings generated by the study, which are presented and summarised by means of a conceptual model. These findings are compared, contextualised alongside prior studies and prioritised according to their significance, in terms of their criticality to small firm growth and the degree to which they aid understanding of these issues in the specific context of Libya.

Chapter Six is the concluding chapter, in which the key findings are highlighted and contextualised. In this chapter, the most influential factors found to support or constrain growth are analysed in terms of the degree to which they are in conformance with other research findings, whether in general or with research specific to developing countries. The findings that reflect issues specific to Libya are identified and subjected to further analysis in order to provide an integrated understanding of the contextual factors that tend to support or inhibit the growth of small firms in the country. The knowledge contribution of the study is clarified and the limitations of this study are considered. The implications of the findings for future research and for government policy are discussed, with tentative recommendations made for future government policy and support for the Libyan small firm sector and for owner-managers of Libyan small businesses. The chapter concludes with a personal reflection by the author on the process of the research.

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CHAPTER TWO: LITERATURE REVIEW

2.1 Small Business

2.1.1 Defining the Small Business

This section reviews the various definitions appearing in the literature of what are generally referred to as small businesses. No universal definition of a small enterprise has as yet been agreed (Scarborough and Zimmerer, 1984; Back, 1985; Meredith, 1993), with the various offerings being essentially placed into two categories: those embodying qualitative characteristics, and those founded on quantitative characteristics of the particular enterprises involved (Back, 1995).

2.1.2 Qualitative Definitions

These definitions categorise small businesses according to their qualitative characteristics, and their great advantage is that they attempt to capture the essential nature of small business. However, they do differ according to national and sectoral context and in an attempt to indicate such variation, examples from the United States of America (USA), the United Kingdom (UK), Australia and Japan are presented for consideration.

A small firm is defined in the USA according to the four criteria identified by the 1947 Committee of Economic Development (CED). In this respect, such a business entity is one that is managed independently, is supplied with capital by the owner(s), operates within a local environment, and is small when compared to other companies in the same industry. Within the USA, the Small Business Administration (SBA) is empowered by the Small Business Act of 1953 to set standards in respect of the employment and sales targets that small businesses must comply with.

In the UK, the Bolton Committee (1971) has served as the defining body for small business, suggesting three criteria in this respect. From an economic perspective, small market share is a defining characteristic, placing the business in the position where it has no significant impact upon price or volume. Secondly, management of the small firm is in the hands of its owner(s), and thirdly the enterprise is independent of any larger firm, meaning that the decision-making is not controlled by outside influences.

Meredith (1986) focuses on the decision-making in small firms as being in the hands of the owner(s), who may in turn rely upon external expertise. McMahon et al, (1995:3) confirmed that many people think small business should be defined as: “a business in which one or two persons are required to make all the critical management decisions: finance, accounting, personnel, processing or servicing, marketing, selling, etc. without the aid of internal specialists and with specific knowledge in only one or two functional areas”. This view reflects one adopted in Australia, where The Wiltshire Committee of Inquiry of 1973 defined a small business as one in which all crucial decision-making is undertaken by one or two individuals without inputs from specialists internal to the firm.

Bennis (2001) identified several defining characteristics of small business, many of which stand as reasons why they are important to an economy. He makes the point that small businesses are usually lean and do not suffer the problems brought by bureaucratic methods, being in tune with their customers and the demands of the market. Additionally, the fact that their managers are owners introduces strong motivation to succeed, not only by the owner(s) but also by employees who can more easily recognise their own contribution to the firm’s success since the scale of the business is not so great as to make them feel like cogs in a wheel. Bennis (2001) also makes the point that in small businesses almost all employees have continuing personal knowledge of most aspects of the business, and this may derive from the strong upward, downward and lateral communication channels.

Qualitative definitions such as have been reviewed in this section bring the benefit of capturing the essential nature of small business, but at the same time they do not help in the collection of statistical detail and for this reason quantitative definitions are very useful.

2.1.3 Quantitative Definitions

Small businesses may also be defined according to their quantitative characteristics, which provide many opportunities for measurement. For example, data regarding the number of employees, sales revenue or turnover, total assets, and net worth may be utilised in determining whether a business is classified as small or otherwise. In fact, the number of employees has emerged as the most common criterion globally, although it is true that turnover and total assets are also used widely for such purposes

(McMahon *et al*, 1993). One noteworthy problem, however, is that some firms may be extremely successful in terms of high turnover and profits, but at the same time may operate with a relatively small number of employees (Wiklund, 1998), and likewise, some enterprises may big employers but not enjoy high turnover. Nevertheless, many studies (e.g. Fink, 1998; Dutta and Evrard, 1999; Drew, 2003), have adopted the local regulations as the benchmark when determining what counts as a small business.

The EU identifies a small business as a firm employing between 10 and 49 employees, and with a turnover of between 7 and 40 million Euros, while firms with fewer than 10 employees are defined as micro-businesses (see table 2.1).

Table 2.1: Official EU Definitions of Small Businesses

Criterion	**Micro**	**Small**	**Medium**
Max. number of employees	9	49	249
Max. annual turnover	-	7 million euro	40 million euro
Max. annual balance sheet total	-	5 million euro	27 million euro
Max. % owned by one, or jointly by several, enterprise(s) the same criteria	-	25%	25%

Source: Corbitt and Al-Qirim (2004)

Another factor to be taken into consideration is the variation across sectors and countries in such quantitative characteristics, since it may be that a firm regarded as small in one sector may be considered as large in another. Indeed, Back (1985) makes the point that in the USA and the UK, industry breakdown is taken into account in the definition of a small business. Likewise, differing standards may apply in developing countries from those in advanced economies.

According to the World Bank (IFG, 2002), a small enterprise is one that employs up to 50 people, has total assets of up to $3 and total sales of up to $3 million, whilst a medium enterprise employs up to 300 people, has total assets of up to $3 million and total sales of up to $3 million.

Back (1985) reported the figure of 500 employees to be the uppermost limit within small businesses in the USA, and 100 employees in Australia.

In Libya the Ministry of Manpower, Training, and Employment adopted the a national standard for small and medium businesses, which states that: "private productive or service businesses, and instruments for economic and social development, accommodate the strengths of youth, and which includes professional, administrative, and technical specifications which are suitable to operate efficiency'' (Al Zletni, 2008).

In the small businesses, the number of employees is not more than 25 members, and the maximum value of capital is not more than 2.5 million Dinars, while, in the medium businesses, the number of employees is not more than 50 and the maximum capital is not more than 5 million (see table 2.2).

Table 2.2: Libyan classification for productive, service, and commercial businesses

Used Standard		
Business	Size of employment	Size of fixed assets
Small	No more than 25	Less than 2.5 million Dinars
Medium	From 26 to 50	Less than 5 million Dinars
Large	More than 51	More than 5 million Dinars

Sources: General Peoples' Committee for Manpower and Training report (2004).

In this study, the researcher has adopted the Libyan national standard definition for small and medium-sized businesses.

Small firms are the focus of this particular research and medium-sized businesses have been excluded from the study sample. Reasons for this are that small businesses provide a sound representation of the significant majority of Libyan privately owned firms, as well as offering the most growth potential in the non-oil employment arena. Moreover, as will be discussed in depth later in this this chapter, it is the small firms that are most susceptible to the pressures that will be explored during the study.

2.2 Entrepreneurship, entrepreneurs and owner-managers

2.2.1 Entrepreneurship as a discipline

In the early 1980s, entrepreneurship was among the most recently-developed disciplines within the management sciences, at which time Churchill and Lewis

(1983) observed that it had emerged by adopting practices and theories from other sciences such as business, economics, psychology, sociology and, to a lesser extent, politics. As a result of such eclecticism, entrepreneurship has a number of diverse characteristics, and hence consequently emerged as a complex of theoretical underpinnings, which has resulted in intense academic debate about its nature.

2.2.2 The entrepreneur as a personality

Many attempts have been made to identify entrepreneurial attributes in terms of personal characteristics, attitudes, and management behaviours. McClelland (1961) conceived of the entrepreneur as a creature of venture, in whom several personal characteristics came into play to produce such an individual. Gartner (1985), having reviewed the available literature at the time, argued that when scrutinising the characteristics believed to identify entrepreneurs from non-entrepreneurs, no clear cut conclusions can be drawn, the implication of this position potentially being that it is possible to train people to become entrepreneurs. That said, many studies continued to focus on personal characteristics, Olson (1987) offering a definition of an entrepreneur as an individual predisposed to risk taking, who is able to innovate and simultaneously create and manage a business successfully such that it develops as a profitable entity. Mahmoud (1992, cited in Hebert and Link, 1998), citing Hebert and Link, 1998) added further characteristics of the entrepreneurial style, suggesting that the entrepreneur was indeed a risk-taker, able to provide financial capital, innovative ideas, make decisions with confidence, be a leader in an industrial field, be capable of management, of contracting, of arbitration, and finally, be able to prioritise the use of resources.

Robinson and Sexton (1994) noted that both demographic and individual difference factors were popular areas for investigation in entrepreneurship research during the 1990s. Yu (1999) concentrated on individuals who demonstrated themselves to be imitative and adaptive, while Hyrsky (1999) believed that entrepreneurs were characterised by high levels of work commitment and energy, the possession of economic values and the desire to obtain results. Additionally, they were identified as being innovative, capable of taking risks, ambitious and goal-oriented, and as being egotistical (Hyrsky, 1999; Georgelli et al, 2000).

2.2.3 Entrepreneurship as a style of management

Carland et al. (1984) argued that it was possible to describe entrepreneurship in relation to innovative behaviour as part of a strategy designed to pursue profitability and expansion. Covin and Slevin (1988) considered entrepreneurial style to be a reflection of how much top managers are predisposed to risk-taking in business decisions, and their propensity to initiate change, to innovate, and to take an aggressive stance with competitors. Entrepreneurship was described by Cheah (1992) as arbitrage, speculation, risk taking, innovation, planning and profit opportunities. The idea of value creation is articulated in a definition presented by Hisrich and Peters (1998), who describe entrepreneurship as a value-creation process in which time and effort, and risk-taking behaviour are combined to generate profit and personal satisfaction. Timmons (1994) considered entrepreneurship to be the outcome of many inputs - from individuals, situations, organizations, society and culture – but a phenomenon requiring substantial personal energy from the entrepreneur. Lumkin and Dess (1996) considered entrepreneurship to be associated not only with the launch of new initiatives, but also with the entry into a new or an already-existing market with novel or improved products/services. In their characterisation, they added autonomy and competitive aggressiveness as entrepreneurial qualities. Wickham (1998) proposed that entrepreneurship concerned itself in the main with management style, an approach which can be learnt, and that entrepreneurial management is about pursuing opportunity and driving change, and hence strategic in nature. According to Hill (2001), change is the fundamental element of entrepreneurship since those involved within it must adopt different stances as external circumstances demand over time.

2.2.4 The Entrepreneur and the Small Business Owner

Hodgetts and Kuratko (1995) note that the terms 'entrepreneur' and 'small business owner' are often interchanged but that it is important to note the differences. Storey (1982) uses the term 'entrepreneurship' to relate to activity undertaken by both individuals and groups of individuals, the entrepreneur being that individual charged with the key decision-making, or an individual such as an owner-manager who participates actively in the firm's management. Chell et al (1991) argue that it is desirable to employ the term 'entrepreneur' as referring to typologies of owner-manager engaging in a style considered to be entrepreneurial. Moran (1998) suggests the possibility that a subset of this population might be categorized according to a particular set of characteristics or criteria, as entrepreneurs or entrepreneurial.

It is acknowledged by the author that the Libyan population of owner-managers includes a wide variety of people, with a broad range of demographic characteristics and backgrounds. Furthermore, some of them may employ styles of management that could be described as entrepreneurial, while others may not. As this study's aim is a general one, to explore factors that impact on the growth of Libyan small firms, rather than to focus on entrepreneurial behaviour, the term 'owner-manager' is used to describe all individuals who own, or part-own, and manage an independent business enterprise, and is used throughout this thesis rather than 'entrepreneur'.

2.3 The Role and Importance of Small Businesses

2.3.1 Small Businesses in the Economy

During the last forty years, there has been a substantial amount of academic research directed towards small businesses, reflecting a number of different views of their benefit to national economies. Staley and Morse (1965) conducted one of the first studies of small firms, highlighting what they considered to be valuable and fundamental contributions made by such small businesses in regard to the overall development of the economy. In the UK The Bolton Report Bolton, (1971, P.71) identified the contribution made to the economy by small business as follows:

"The small firm provides a productive outlet for the energies of that large group of enterprising and independent people who set great store by economic independence and many of whom are antipathetic or less suited to employment in a large business but who have much to contribute to the vitality of the economy.

1. In industries where the optimum size of the production unit or the sale outlet is small, often the most efficient form of business organisation is a small firm. For this reason many important trades and industries consist mainly of small firms.
2. Many small firms act as specialist suppliers to large companies of parts, sub-assemblies or components, produced at lower cost than the large companies could achieve.

3. Small firms add greatly to the variety of products and services offered to the consumer because they can flourish in a limited or specialised market which it would not be worthwhile or economic for a large firm to enter.
4. In an economy in which ever-larger multi-product firms are emerging, small firms provide competition, both actual and potential, and provide some check on monopoly profits, and on the inefficiency which monopoly breeds. In this way they contribute to the efficient working of the economic system as a whole.
5. Small firms, in spite of relatively low expenditure on research and development by the sector as a whole, are an important source of innovation in products, techniques and services.
6. The small firm sector is the traditional breeding ground for new industries that is for innovation writ large.
7. Perhaps more important, small firms provide the means of entry into business for new entrepreneurial talent and the seedbed from which new large companies will grow to challenge and stimulate the established leaders of industry."

Since then, many researchers and other stakeholders have sought to evaluate the contributions made by small businesses to the economy and this has received considerable attention within the literature (Birch, 1979; Hisrich, 1986; Acs & Audretsch, 1990; Storey, 1994; Hill and McGowan, 1999; Frederick, 2000; Reid & Smith, 2002), with particular emphasis directed towards the creation of employment opportunities (Halley, 1993). Smaller businesses are also viewed as being change agents through their willingness to implement innovative activities and programmes (Audretsch, 2001; Bridge *et al.*, 2003) and good channels for the transfer and communication of both knowledge and technology Chamanski & Waago, (2003).

Storey (1982) conducted an analysis of the functions of small firms, concluding them to have a number of roles:

i. As a competitive force for bigger business, and in so doing act to restrict price increases and to ensure that big business operates efficiently.

ii. As a job creator within developed countries, occasioned by the fact that technological advancements have enabled small enterprises to produce standardised goods that were previously the domain of large companies.

iii. As very helpful in regenerating inner city areas and in helping to combat their inherent social problems, especially, given their emphasis on innovation

iv. In developing countries, small businesses are compatible with large foreign-owned companies, and can therefore, contribute to growth in those environments.

Curran *et al*. (1996) argue that, across every free enterprise industrial society, small firms are economically valuable. Of particular importance to this study is the fact that studies conducted within and amongst developing countries show that small businesses are becoming increasingly important in the context of economic development (Birch, 1979; Storey, 1994; Baldwin & Picot, 1995). It is further suggested by Evanson (1995) that small businesses are responsible for 50% of GDP across all economies, both developed and developing. Small businesses are perceived as major employers in many countries, added to which they are known to make strong contributions through revenue generation, innovation and technological advancement (Kotey & Meredith, 1997; Westall & Cowling, 1999; Dana et al., 2000).

Mahmoud (1992) argues that small firms fulfil several functions, these being: new job creation, encouragement of innovation, and the development of a managerial style that was sufficiently flexible to react to change speedily. Additionally, he characterised small firms as being competitive and sensitive to the market, which in turn enables them to provide complementary services for larger businesses. At the macro level, a societal impact of small businesses was argued to be the improvement of social balance and individual freedom.

Glancey (1998) acknowledges the value of small business in bolstering local economic development, particularly in the service and manufacturing sectors, believing that such firms are often able to survive in recession, that they made a big contribution through the multiplier effect to the development of other small businesses and the creation of employment, and that they are well-equipped to contribute to knowledge development in local economies.

Bennis (2001) argues that small businesses offer an attractive working environment to certain types of individual, i.e. those capable of taking risk, and of being creative and energetic and, because they concentrate on single product runs, are better able to customise goods and focus on retaining quality.

Hodgetts and Kuratko (2001) have indicated a similarly important role for small enterprises in the US, especially as they complement large business through their ability to do things that big firms are not capable of doing, or have decided to abandon.

Undoubtedly, small enterprises have an important contribution to make to national economies, and there is a clear appreciation of the economic value of small businesses as evidenced by the many claims already referred to, relating to increased employment, revenue generation, innovation and technological advancement (Kotey & Meredith, 1997; Westall & Cowling, 1999; Dana et al., 2000).

2.3.2 The impact of small firms on employment

In a seminal work, Birch (1979, 1987) argued that 80% of all new employment positions introduced in America during the 1970s had been created by those businesses described as being small, i.e. those with less than 100 employees. However, this statement received a great deal of criticism by other scholars, such as Armington (1984), who stated that Birch had not taken various factors into consideration, such as the fact that a number of those small businesses responsible for creating job opportunities were essentially owned by large institutions. Birch (1979) was also criticised by Dunne *et al*. (1989) owing to the fact that a number of the jobs considered throughout the course of his study were subsequently lost as a result of the high failure rates witnessed amongst such small businesses. Birch was also criticised by Harrison (1994) for failing to direct attention to the fact that the majority of jobs were established by those businesses experiencing a significant surge of growth and development.

Since then, numerous studies have emphasised that only a minority of small businesses do experience significant and sustained growth but that these firms do account for significant contributions to overall employment (Storey, 1994; Orser *et al*., 2000; Baldwin & Johnson 2001; Bridge *et al*., 2003). Neshamba (2000) points out that there are two different types of job-creation: through a surge in the number of individuals who establish their own businesses; and through the development and transformation of high-growth, small businesses into medium-size and even larger firms. Storey (1994) emphasises that, upon reviewing a sample of British businesses newly established, 4% experienced rapid growth, and subsequently responsible for

50% of all employment opportunities established throughout the sequent 10-year period. Storey and Johnson (1987) highlighted that, in a period of less than 12 years, those businesses which had experienced growth and employed 20 staff as a result amounted to just 10% of firms; 1% surpassed 100 employees. Furthermore, in 1999, an OECD study highlighted that, of those small firms employing between 20 and 500 individuals at the beginning of the research period, of the surviving firms, between 2% and 10% have successfully doubled their employment figures.

It has now become widely accepted by governments and other stakeholders that smaller businesses can be a key source of employment (Wannell, 1991; Storey 1994; Picot *et al.*, 1994; Picot & Dupuy, 1996; Barnes &Haskel, 2002). Barkham *et al.* (1996) argue that the growth of small businesses is extremely valuable in the creation of wealth and employment generation. Much of the support for small business development given by the UK government during the Thatcher administration was predicated on the substantial contribution small businesses would make to lowering unemployment (Burns & Dewhurst, 1996; Frederick, 2000; Marlow, 2002). Indeed, Buckland (1998) has argued that small businesses are responsible for creating a large share of new jobs in the UK.

2.3.3 Factors driving the growth of the small business sector

Across the world there is a growing trend towards a growth in employment generated by small businesses, and especially micro businesses of fewer than 10 employees. In Egypt, a neighbour of Libya, 99% of all privately-owned businesses are small and they employ more than 70% of the total workforce, producing 80% of the country’s aggregated added value, (Alasrag, 2009). Meanwhile, in Brazil, one of the fastest growing large developing economies, 99% of all businesses are small businesses and they generate more than 60% of all new jobs created, (Al-Kharusi, 2003). The growth in the number of small firms being started in developing economies is well illustrated by figures for Thailand, which show that between 1997 and 2002 the number of registered small businesses rose from approximately 850,000 to 1.6 million (Kapoor, 2004). Growth in the total number of small businesses in the developed world has been slower, but this is because they are starting from a much larger base, but the trend towards growth in employment being driven primarily by small businesses is just as prevalent in more developed economies, even if the nature of their business is likely to be different.

In most countries of the developed world, the numbers of small firms have been growing steadily over the last two decades. For example, by 1996, there were 2.8 million small businesses in the UK, 93.1% of which employed ten or less employees (Parkin & Parkin, 1996). By 2008, the UK had an approximate total of 4.3 million small businesses, which roughly equates to one business for every ten employees in the employment system (Barret and Burgess, 2008). In the world's largest economy, the USA, by 2004 small businesses employed almost half of the private sector workforce, and were becoming more influential in creating employment; for example, between 2000 and 2001, small businesses in the US generated 1.15 million new jobs, while in the same period large businesses shed more than 150,000 workers (OECD, 2005). In 2006 the number of small businesses in The US was estimated at 26 million, and employed over 70% of the workforce (Asiedu & Freeman, 2006; Marcketti & Kozar, 2007). Similarly, in Japan the number of small businesses in 2001 was estimated at 4.7 million, or more than 99% of all businesses, employing over 30 million workers representing 70% of all employment in Japan (Lukacs, 2005).

The relatively recent revival of the small business sector across the developed world is held to be a result of many factors, including the following trends:

- The trend to rationalise has emerged among bigger companies that have made market decisions in favour of small businesses, that is to say, they have withdrawn from markets which are no longer profitable for them (Binks & Coyne, 1983), leaving the way clear for small firms who have the expertise to fill the gap (Barkham *et al.*, 1996; Audretsch et al., 1999). In addition the contracting out of peripheral activities (such as cleaning, food provision) has provided opportunities for small firms (Bannock, 1987; Shutt & Whittington, 1989; Frederick, 2000).

- With the gradual decline in the reliance on manufacturing and production industries, the service economy has come to the fore, in particular, business services (Ebbinghaus & Visser, 1999; Frederick, 2000), which it is considered can be supplied most effectively by small firms (Bryson et al., 1993).

- The advancement in technology has provided small enterprises with some advantages, as for instance, by reducing minimum efficiency levels in production (Fiore & Sabel, 1984; Lynn et al., 1999; Frederick, 2000).

- Differentiation and customisation, which are believed to be best delivered by small enterprises that are flexible, have ousted the mass marketing approach, as the market has become more discerning and wealthier (Stanworth & Gray, 1991; Webster, 1992; Murray & O'Driscoll. 1996; Gummesson, 1997).

- As indicated earlier, small enterprises are believed to provide high levels of employment and where governments are keen to cut unemployment, they look to small businesses for assistance. Indeed, the Birch Report (1979) showed the very important contribution made by small business in the US to employment in the period 1969-1976.

2.4 Government support of small firms

The development of small businesses is becoming recognised as increasingly important across all countries, both developed and developing (Ray & Hutchinson, 1983). In the case of developed countries, the focus has been directed towards establishing environments that are able to facilitate and promote the growth of small businesses (Santos, 2003). Deakins, Logan & Steele (2001) further support this stance, emphasising that small firms are very valuable to the development of future economies, as well as in regard to the on-going evolution of knowledge-based economies. Undoubtedly, such small businesses are a key aspect of the overall economy across all developing countries, therefore advocating the direction of attention to the reduction of poverty during the last twenty years (World Bank, 1997).

Many agencies and government bodies consider that the implementation of small businesses support will ultimately result in a stronger competitive position for the country overall, achieved through a greater degree of domestic economy innovation and effectiveness (Chamanski & Waago, 2003). Chaston and Mangles (2002) have argued that governments have paid increasing attention to the need to support small business development as a means of achieving their policy aims, the result being that more research has followed.

In developed countries, great attention has been given to creating an enabling environment for promoting small enterprises (Santos, 2003). In June 2000, the OECD issued the Bologna Charter on Small Enterprise Policies (OECD, 2000), in which governments from OECD member countries and invited non-member states recognised the value of small business, suggesting that governments introduce support mechanisms to encourage growth in this area and to simultaneously stimulate employment opportunities and innovation (McCartan-Quinn & Carson, 2003).

It is recognised that any policy which seeks to provide small firms with support should not only aim to increase the number of employees within such firms, but should also direct significant attention towards their quality and growth owing to the fact that such firms are able to promote economic competitiveness through high-growth, which thereby induces the introduction of additional employment opportunities (Chamanski & Waago 2003; Bridge *et al.*, 2003).

While those businesses experiencing growth are generally considered to be successful; nevertheless, growth also brings with it a number of different problems and issues for the management of such firms. Thus, in order to ensure management are able to handle those issues associated with growth, and so as to ensure the effective development of public support policies, it is paramount that understanding and knowledge of the processes involved are increased.

2.5 The Importance of Small Businesses in Developing Countries

The findings discussed above have had a significant impact on the way in which economic policies are shaped in developing countries. Notably, this has resulted in a number of large-scale firms being privatised and small businesses receiving increasing direct support (Aryeetey & Harrigan, 2000). Nevertheless, in many developing economies, the small firm sector has not experienced sufficient growth to reduce the rate of unemployment or create economic growth (Goedhuys & Sleuwaegen, 1999).

The importance of small firms in job creation has also been acknowledged in a number of developing countries; Daniels & Ngwira (1993) estimate that 22% of developing countries' adult population is employed by small businesses and other researchers support this view (Fisseha & McPherson, 1991; Daniel & Fisseha, 1992). Small businesses are also viewed as being a solution to poverty reduction and employment, particularly in the context of developing countries. Osunbitan et al, (2000) suggest that small firms have had a significant role in advances in these areas, with a number of developing countries recognising their contributions to the alleviation of poverty and to job creation. As a result, such firms have been awarded recognition in a number of different development initiatives and donor strategies (Liedholm & Meed, 1998).

In the last decades, the problem of poverty reduction in the developing world has attracted much attention (World Bank, 1997, 2003), it being generally accepted that small business development can play a key role in this respect (Sen, 1980; Osunbitan et al, 2000; Rogerson, 2001). In this respect, the US Secretary of State, Powell (2004:1) stated that “Successful small businesses are the primary engines of economic development, income growth, and poverty reduction in much of the developing world. These businesses can also build foundations for stable communities, civil society, and gender equality”.

The role of small businesses as employment generators positions small business prominently within development plans (Santos, 2003), and within the strategies of donor organisations (Liedholm & Mead, 1999). In this connection, it is noted by McPherson (1996) that increasingly in African countries, assistance programmes for small business were being sponsored by non-governmental organisations (NGOs) and developing country governments. In Zimbabwe, for instance, support for small enterprises featured explicitly in the country’s structural adjustment plans (Government of Zimbabwe, 1991).

Undoubtedly, employment is provided for a large portion of available workers in developing countries, estimates in certain African countries reporting that between 17-27% of the working population are employed in small businesses (Liedholm, 2002), representing almost 100% more than the employment opportunities generated by big business and the public sector. Santos (2003) observes that USAID believes micro and small enterprises to employ at least a third of available workers in low-income countries.

Forty years ago, Kilby (1971) argued the potential for small business to function as a 'seed bed' for entrepreneurs who might then move on to manage larger businesses. Moreover, as also noted by the ODA (1995), small businesses are able to offer off-farm employment and self-employment for poor people, thereby contributing to the reduction of poverty. Added to this as a benefit to developing countries is the potential for skill development within small business enterprises and the enhancement of those countries' human capital.

2.6 The Growth of Small Firms

2.6.1 Introduction

Much research has demonstrated that small businesses tend to experience faster growth than large ones (e.g. Hart & Oulton, 1996; Jovanovic, 1982; Evans, 1987a). A number of different rationales have been provided for this phenomenon.

Those smaller businesses grow over a period of time after entering the market at less than minimum efficiency. Other researchers, such as Bartlett & Franieevic (1999), place emphasis on the adaptability of such firms, as well as the theory of flexibility.

Those businesses experiencing growth and development are considered to be particularly attractive to other business service providers owing to their high prospects, as can be seen in the case of financial institutions who consider such businesses to potentially create notable financial returns (Smallbone & Wyer, 2000; Bridge *et al*., 2003).

Of course, there should be some degree of recognition surrounding the failure rates experienced amongst small businesses; however, success factors should receive paramount attention in this regard. Notably, there has been some degree of acknowledgement in this arena, as can be seen by the increase in studies conducted in this context (Smallbone & Wyer, 2000). Other research conducted in this arena support the idea that the growth of small businesses does make a significant economic contribution, with such studies conducted in Germany, Greece and the USA (Dunkelberg & Cooper, 1982), Ireland (O'Farrel, 1984), Canada (McMullan & Vespar, 1987), across the UK (Gallagher & Miller, 1991) and Sweden (Julien, 2000). All of these findings confirm that there should be increased research attention directed to those small businesses experiencing rapid growth.

2.6.2 Patterns of Growth

There are two main routes to growth in firms: organic and through acquisition. The first arises from an increase in existing business, whilst the second is occasioned when a firm takes over another firm, or acquires additional resources (Penrose, 1995; Davidsson & Wiklund, 2000; Delmar et al., 2003). Davidsson & Wiklund (2000) suggest that these two sources of growth are considered separately in order that any research findings are not conflated. Davidsson & Henrekson (2002) argue that these two kinds of firm growth are different in kind, with organic growth being driven by an increase in entrepreneurial activity, whereas acquisition, involving the transfer of resources (physical and/or human) from one firm to another, does not constitute any genuine increase in job creation and hence, benefit to the economy.

Katz & Kahn (1966:371) identify five types of growth as:

i. Growth by unit size (adding one or two more staff within an existing administrative unit), which is the most simple and easy way to calculate and record.

ii. Growth by parallel units (the multiplication of parallel units, i.e. opening another largely identical branch), which is too small to be tested.

iii. Growth by differentiation, which is difficult to measure.

iv. Growth by specialisation (entailing the redesign and reallocation of work functions).

v. Growth by merger and takeover.

Of these five types of growth, the first to be experienced by a small business is generally an increase in unit size, followed by the second type of growth - increases in the number of units. Some businesses do not demonstrate any of the other three types of growth and yet remain successful. Thompson (1967) argues that where growth in the last three categories is evidenced, a firm has been truly successful. Measurement of growth is not really possible in these last three types, but is certainly feasible in the first two.

2.6.3 Growth Indicators

There is no general agreement on how to measure growth within small firms and, because of this lack of consistency, it has not been possible to accumulate a body of knowledge that allows for comparison of results (Storey, 1994; Barkham *et al.*, 1996; Wiklund, 1998; Weinzimmer et al., 1998; Davidsson & Wiklund, 2000; Bridge et al., 2003); Hamilton 2007; Blackburn et al. 2009; McKelvie and Wiklund 2010. Weinzimmer et al. (1998) identify two principal problems that derive from this: (a) different growth indicators might hamper the development of theory through affecting the relationships between determinants of growth and alternative indicators; and (b) depending upon the topic being studied, some indicators may be more appropriate than others. However, it is suggested by (Delmar et al. 2003; Kirkwood 2009; Achtenhagen et al. 2010; McKelvie and Wiklund 2010) that firm growth is a multi-dimensional phenomenon, and that researchers should not aim to find one universal measure. A range of indicators that are used to measure firm growth is listed in Table 2.3:

Table 2.3: Growth Indicators

Share Value	Return on Investment	Market Share
Net Worth	Size of Premises	Exports/Imports
Profit	Standard of Services	New Products/Services
Employment	Profile/Image	Innovations, Patents, etc.
Turnover	Number of Customers	Value Added

Source: Bridge et al. (2003:272)

The most widely used of these indicators are discussed below.

2.6.3.1 Market Share

There is an argument that because high growth firms often expand without taking competitors' customers, and thus without increasing market share, this particular indicator should be avoided (Davidsson & Wiklund, 2000). The market share indicator is unique in that it measures how much a firm has grown in relation to its competitors. However, Davidsson *et al.* (2006) are less supportive of market share as a measure of growth, especially in small firm research. They argue that, the term 'market' in market share calculations could be ambiguous. In addition, for firms with small market shares, differences in market share could be irrelevant, while comparing market shares for firms operating in different markets is meaningless.

2.6.3.2 Profits

Barkham *et al*. (1996) note that in small businesses, it is extremely hard to measure profits because owner-managers are often reluctant to offer such data. Moreover, an inverse relationship has been found between profits and growth (Cubbin & Leech, 1986; Dobson & Gerrard, 1989; Barkham *et al.*, 1996) for example Barkham *et al.* 1996; Roper 1999; Hamilton and; Dobbs and Hamilton 2007; Shepherd and Wiklund 2009 found little evidence of an association between profitability and small firm growth, with inconclusive findings reported. Such findings challenge the notion of a causal relationship between small firm profitability and growth; moreover, researchers, such as Glancey 1998; Roper 1999; Dobbs and Hamilton 2007, have found that achieving profitability did not necessarily result in growth in other parts of small businesses, such as number of employees. The reported profitability of a firm, especially in its early years, may not accurately reflect its real financial position, and this limits its effectiveness as a measure of growth (Storey 1994; Barkham *et al.* 1996; Glancey 1998; Hamilton and Lawrence 2001).

Many researchers nominate sales as the most preferred growth measure (Storey, 1994; Barkham *et al.*, 1996; Delmar, 1997; Ardishvili et al., 1998; Weinzimmer et al., 1998; Delmar et al., 2003; Honjo, 2004), it being observed by Weinzimmer et al. (1998) that 83% of the studies in their research adopted sales as their growth indicator. Reasons for this include the ready availability of sales figures (Davidsson & Wiklund, 2000; Delmar et al., 2003), the fact that managers themselves like this indicator (Barkham *et al.*, 1996), and the recognition that all other indicators (e.g. employment, plant and equipment) are driven by sales (Davidsson & Wiklund, 2000; Delmar, 1997). Moreover, it is argued that sales increases can come from outsourcing, meaning that a firm can grow without any increase in resources or employment. Weinzimmer et al. (1998) point out that because some industries are capital rather than labour intensive, and vice versa, turnover is the most appropriate measure of growth.

It must be recognised, nonetheless, that sales are influenced by accounting conventions and periods (Barkham *et al.*, 1996; Honjo, 2004), and the need arises to control the resulting differences by adjusting sales figures to take account of inflation and exchange rates (Garnsey et al., 2003; Delmar et al., 2003) and vertical integration (Garnsey et al., 2003). However, it is argued by McPherson (1996) that the majority of small firms are unable to report their sales or profits accurately because they do not maintain appropriate records.

2.6.3.3 Employment

In research where the focus is on job creation, it is justifiable to use employment as the growth measure (Birch, 1987; Storey, 1994; Delmar, 1997; Delmar et al., 2003; Davidsson & Wiklund, 2000; Bridge et al., 2003; Brown et al., 2004; Cassar 2007; Kirkwood 2009; Shepherd and Wiklund 2009) and it has the advantage that it is a readily available indicator upon which inflation has no influence (Curran & Blackburn, 2001; Holmes & Gibson, 2001 Brown et al., 2004). That said, employment as a growth indicator is limited in usefulness by the distorting effects of labour productivity increases, improvements in technology, and the extent of integration (Delmar et al., 2003; Weinzimmer et al., 1998). Moreover, there could be growth in many other variables of the firm without an increase in the employment base (Barkham *et al.*, 1996; Delmar et al., 2003; Bridge et al., 2003).

2.6.3.4 Assets

Asset value is frequently used as an indicator of growth in manufacturing firms, where there is a high investment in capital (Weinzimmer et al., 1998; Davidsson & Wiklund, 2000). However, accounting conventions can interfere with the usefulness of assets as a growth measure (Davidsson & Wiklund, 2000). Accounting differences, as well as lease financing could also pose problems when using asset value as an indicator. Weinzimmer *et al.* (1998) suggest that measuring growth in terms of assets could be problematic in the service sector due to the difficulty of valuing intangible assets, which could be very important to growth – this issue is indeed common to all or most sectors.

2.7 General Theories of Small Business Growth

While there has been much attention to the study of growth in small businesses (Smallbone & Wyer, 2000; Davidsson et al., 2002; Yasuda, 2005), there is no universal theory of growth (Garnsey, 1998). Instead, there are multiple theories some of which are described by Davidsson et al. (2002:1) as ‘crude and contradictory'. Given the multiple influences on small business growth, (Penrose, 1995) has argued that one single model is not able to explain this phenomenon.

Numerous theories of small business growth have been proposed, including: Gibrat's (1931) 'law of proportionate effect', Penrose's (1959) resource-based theory, Jovanovic's (1982) learning theory, Davidson's (1991) theory of growth, Storey's (1994) model of growth, Davidsson and Wiklund's (1999) Theory of Growth, and the life cycle stage model. Many empirical studies have been conducted to establish the validity of these theories (e.g. Weinzimmer et al., 1998; Davidsson & Wiklund, 1999; Almus & Nerlinger, 1999; Orser et al., 2000), whilst other researchers have suggested new models to explain growth in small businesses. To place this theory development in its historical context, some of the key models will now be discussed, starting with the earliest.

2.7.1 Gibrat's (1931) Law of Proportionate Effect

This model suggests that it is a random process that determines whether a firm grows or not, and hence that chance rather than size is the influence (Barkham *et al.*, 1996; Almus, 2002). Sutton (1997:40) suggests that 'Gibrat's law provided the first formal model of the dynamics of firm size and industry structure'. The law presupposes the principle that there is only a small amount of influence from the many systemic factors that affect growth (Ganugi et al., 2005), and much attention has been given to considering this law in the strongest and weakest forms associated with it (Hart & Oulton, 1996; Ganugi et al., 2005). In its strictest interpretation, the law stipulates that "the expected growth rate over a specified period of time is constant for all firms, independent of their size at the starting point" (Ganugi et al., 2005:107).

The main characteristics of the law of proportionate effects are summarised by McKillop & Ward (2005) as follows:

i. growth rates are independent of firm size;

ii. the variability of growth is independent of firm size; and

iii. growth does not persist from one period to the next.

The original research lending support to the law of proportionate effect used the 'goodness of fit' of the size distribution. As indicated by Sutton (1997:41), the law was first used (by Gibrat, 1931) with income distributions and plant in manufacturing units. Thereafter the work was further validated in its demonstration that firm size and expected rates of growth were independent of each other (Hart & Prais, 1956; Simon and Bonini, 1958). That said, in subsequent research conducted in the 1960s, it emerged that the proportionate growth of large businesses was higher than that of smaller businesses, thereby invalidating the law of proportionate effect (Samuels, 1965; Sutton, 1997). Samuels (1965) argues that one reason for this phenomenon was the influence of mergers and takeovers that had occurred in the second half of the 1950s, but where the impact of mergers and takeovers was minimal, Gibrat's law could still hold.

Although Gibrat's law was criticised in the 1960s for its lack of empirical support, no viable alternative model to consider the relationship between growth and size of the firm was available. Hence, the next two decades witnessed a concentration of the development of new stochastic models all intending to improve upon that theory (Sutton, 1997) and several studies of the relationship between firm size and growth were conducted.

Evans (1987) and Hall (1987), using more complete data sets than those employed previously, found an inverse relationship between firm size and growth (cited in Cabral & Mata, 2003), thereby, according to Sutton (1997), contributing to the literature by providing a solution to the econometric difficulties that had represented shortfalls within the earlier theories. Their research also revealed the importance of firm size and age in firm growth (Sutton, 1997). More recently, a large number of research efforts in both developed and developing country contexts have focused on Gibrat's law, but not managed to validate it (McPherson, 1996; Almus, 2002; Davidsson et al., 2002; Yasuda, 2005; Calvo, 2006).

2.7.2 Penrose's Theory (1959) - The Resource-Based View (RBV)

The resource-based view focuses on a firm's internal resources as a way to explain its performance. It rests on the assumption that a firm's internal resources are influential in its achievement of growth (Davidsson & Wiklund, 1999:11), and hence competitive advantage can be gained if the resources available are of a better quality or scale than those possessed by a rival business (Wernerfelt, 1984; Barney, 1991). Penrose (1959) originated the concept in question, when she proposed that small businesses are susceptible to the environment in which they operate such that their growth is conditioned by the opportunities available and the ability of the owner-manager and firm to exploit them, this ability being a key resource.

Resources are broadly defined by Wernerfelt (1984:172) as “anything which could be thought of as a strength or weakness of a given firm”, and this means that they may be tangible or intangible, and permanent or temporary assets. Wernerfelt (1984) analysed a firm’s resource position and its market competitiveness, in a study that considered the constructs of attractive resources (machine capacity, customer loyalty, production experience, technological leads), and mergers and acquisitions. In commenting on Wernerfelt’s (1984) work, Priem and Butler (2001) observed its importance in highlighting the value of resources as well as its products, in achieving performance.

Barney (1991:101) held such resources to include “all assets, capabilities, business processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”. According to Barney (1991), a business can only achieve a sustained competitive advantage when its rivals have shown themselves to be unable to copy that advantage, and this situation arises purely from the resources possessed by the firm. In this respect, Barney (1991:105-106) argues that the resources must be:

Valuable – so that opportunities can be exploited and any threats in the firm’s environment can be neutralised. The firm should be able to improve both efficiency and effectiveness with a valuable resource.

v. Rare – so that existing and potential competitors cannot easily secure them.

vi. Imperfectly imitable – so that rival companies cannot copy them.

vii. Imperfectly substitutable – so that rival companies cannot substitute for these and thereby achieve the same competitive advantage.

Priem and Butler (2001a and 2001b), however, argue that the criteria produced by Barney (1991), whilst necessary, are not sufficient to realise a sustainable competitive advantage. Indeed, Priem and Butler (2001a:28) suggest that “statements from the RBV, dealing directly with competitive advantage, are not amenable to empirical tests”. Moreover, they (Priem & Butler, 2001b:63) believe Barney’s (1991) commentary adds little to the explanation or prediction of a firm's competitive advantage, suggesting instead that is "provides a more structured and detailed conceptualisation of how and why any advantage, once achieved, may be sustained". That criticism aside, however, Barney's perspective has nonetheless offered a sound basis for the development of RBV theory (Conner & Pralahad, 1996).

2.7.3 Life Cycle Stage Models

The Life Cycle Stage Model (LCSM) was not developed specifically in relation to small business growth, representing an organisational approach that considers the sequence of development of a business. Many researchers have used variations of this model over the years, each using different names to distinguish their framework (Greiner, 1972; Churchill and Lewis, 1983; Gibb & Davies, 1990; Hanks et al., 1993; Smallbone & Wyer, 2000; Davidsson & Wiklund, 2000; Kiriri, 2003).

Greiner (1972) developed a stage model that reflects the internal transitions and development that occur within an organisation as it grows, highlighting the repeated crises and conflicts that surface, each of which must be resolved before further growth is possible. The model focuses on the management processes within the firm, such as delegation, communication and co-ordination, recognising that these must change and develop in order to support and sustain growth.

Churchill and Lewis (1983) developed a five-stage growth model in which each developmental phase is considered in terms of key management variables, these being: managerial style, business structure, formality of systems, business objectives and level of involvement of the owner.

Hanks et al. (1993) identified a configuration of variables concerning the context and structure of the business and conceptualised the way in which this changed over time. The idea of evolution is important to the LCSM (Wiklund, 1998), with each stage giving way to the next phase in a natural but sometimes revolutionary way. However, crises can occur to disrupt the evolutionary growth pattern (Wiklund, 1998), and in such instances it is necessary to reconfigure the business variables in order to respond. With continued growth, the firm must constantly review these variables to allow for its transformation from one growth stage to the next (O'Gorman, 2001). It can be understood that this life cycle framework is principally concerned with recognising the change brought about by firm growth, and how such change impacts upon other business characteristics (Davidsson and Wiklund, 2000). The model is acknowledged as one that is important in analysing a firm's current position, and planning for the next stage of growth (Kiriri, 2003; Smallbone & Wyer, 2006) since it helps entrepreneurs to see problems being encountered by their businesses, and as noted by Churchill & Lewis (1983), once these problems are identified and understood, it is possible for plans and strategies to be reviewed for subsequent stages.

Critics, however, argue that the life cycle approach ignores the human elements and hence does not consider the principal issues of entrepreneurial characteristics and motivations and how these can be translated into business strategy (Barkham *et al.,* 1996). Additionally, there is an in-built assumption that all entrepreneurs are primarily concerned with growth and that is not the case (Kiriri 2003), and yet another presupposition that growth must follow a specific pattern. As noted by several researchers (Storey, 1994; Wiklund, 1998; O'Gorman, 2001), a great many firms stop trading well before they reach maturity, and others continue to operate yet are unable to progress to the next stage. Furthermore, many businesses demonstrate alternative growth paths as they omit particular stages of the model or pass through them in a different order (O'Gorman, 2001). Moreover, some small businesses do not want to expand since such growth would adversely affect the lifestyle of the owner-manager or extend beyond his or her capabilities (Bridge *et al.,* 2003).

The life cycle model has also been criticised for its tendency to describe rather than predict and because it offers little appreciation of the reason why the particular events described actually occur (Kazanjian, 1984; Smallbone & Wyer, 2006). Given this constraint, the approach is not appropriate to determine why some businesses grow substantially and follow different developmental stages model and others do not grow (Wiklund, 1998; Smallbone & Wyer, 2006). Clearly, there are many variables involved in the success of otherwise of the small firm but the life cycle approach only addresses internal factors and does not consider the external environment (O'Farrell & Hitchens, 1988; O'Gorman, 2001), which may well present numerous barriers to growth (Cambridge Small Business Research Centre, 1992; Churchill & Lewis, 1983; O'Gorman. 2001). Wiklund (1998) argues that the growth of small businesses is not the outcome of a natural law such as that evidenced in the life cycle model, but depends to a very large extent upon the owner manager and his/her ability to manage the environment in which the firm operates.

2.7.4 Jovanovic's Learning Theory (1982)

Using notions of efficiency and inefficiency, Jovanovic (1982:649) postulated a theory of ‘noisy’ selection founded upon the assumption that “efficient firms grow and survive; inefficient firms decline and fail”. According to this ‘learning theory’ businesses are believed to vary in size because of differences in efficiency levels, rather than in consequence of their capital structure. As interpreted by Parker (2004:208), Jovanovic’s model implies that owner-managers are not aware of their abilities when they begin their businesses, but with experience they learn and those who are able to do so grow, whilst those who are not fail to survive. The model predicts the annual growth rate of a business as the result of the accuracy of management estimates of ability, and product price (McPherson, 1996), and provides a qualitative explanation of the process of over-entry to the market and subsequent exit, although the issue of size distribution is largely ignored (Sutton, 1997). The model has been open to criticism on the grounds that it assumes managers are born with a particular efficiency level which does not improve as managers become aware of it (McPherson, 1996). That said, many empirical studies have been undertaken that have confirmed Jovanovic’s model (Rodriguez et al., 2003; Parker, 2004).

2.7.5 Davidson’s (1991) theory of growth

This theory developed alongside many others devoted to an identification of the antecedents of small business growth (Davidson, 1991; Storey, 1994; Barkham *et al.,* 1996; McPherson, 1996; Garnsey, 1998; Mead & Liedholm, 1998; Davidsson & Wiklund, 1999; Orser et al., 2000). This theory proposes that the motivation for growth is an important antecedent, and three elements were identified - ability, need, and opportunity. The most important of these is need-related factors (Davidson, 1991), subsequent to which many other studies were conducted (e.g. Lee & Tsang, 2001; Swierczek & Ha, 2003) that confirmed this outcome. According to Davidsson (1991:422) “objective measures of ability, need, and opportunity can explain a substantial share of the variations in actual (historical) growth”.

2.7.6 Storey’s (1994) model of growth

Also in the 1990s, Storey (1994) undertook an extensive review of the literature to classify those factors that are influential in small business growth, with the result that three main categories emerged, these being the characteristics of the entrepreneur, the business, and the business strategy. In formulating his model, Storey (1994) united three major determinants of growth - firstly, the owner-manager, as featured in both Jovanovic's (1982) growth model, and Davidson's (1991) motivational model; secondly, the firm's internal resources; and thirdly, the business strategy (Penrose, 1959). In this unification, Storey (1994) produced a comprehensive small business growth model that has become one of the most widely used by researchers in this area (Barkham *et al.*, 1996; Smallbone & Wyer, 2000; Davidsson et al., 2002; Freel and Robson, 2004).

2.7.7 Davidsson and Wiklund's (1999) theory of growth

Building on previous work, Davidsson and Wiklund (1999) identified four theoretical perspectives, these being the resource based perspective, the motivation perspective, the strategic adaptation perspective, and the configuration perspectives. The early work of Penrose (1959) informed the resource based perspective, Davidson's (1991) work was used for the motivation perspective, and Davidsson and Wiklund (1999) formulated both the strategic adaptation and configuration perspectives. In respect of the former, these researchers suggested that firms must develop suitable strategies for effective performance and that harmony between a business's strategic orientation and the environment is essential for survival. In terms of the latter, they considered the growth process, measuring actual business growth through its different phases of development.

2.7.8 Other theories of business growth

Many other theories of business growth have been developed, many at the macro-level and with little substantiation through empirical research. A selection of these is included as Appendix 2.

2.8 Research on Small Business Growth

2.8.1 Introduction

During recent years, A number of different scholars have directed their attention to the growth and development of small businesses, with business theorists and researchers, notably Smallbone *et al*. (1995), Barkham *et al.* (1996), Kraemer & Venkataraman (1997), Wiklund (1998), Watson *et al*. (1998), Perren (1999), Smallbone & Wyer (2000), Littunen (2001), O'Gorman (2001), Bridge *et al*. (2003), Hart & McGuinness (2003), Andersson (2003); Manbula & Sawyer (2004); Dobbs and Hamilton 2007; Greve 2008; Andersson; Tell 2009; Blackburn *et al.* 2009; Kirkwood 2009; Littunen and Niittykangas 2010). Thus far, however, there has been no single framework introduced considered capable of describing the growth illustrated by small businesses (Gibb & Davis, 1990; Smallbone *et al*., 1993; Storey, 1994; Wiklund, 1998; Littunen, 2001; Pistrui, 2001; Bridge *et al*., 2003; Andersson, 2003). Essentially, this can be better understood when considering the many different elements, as well as the degree to which these are able to interrelate with one another (Smallbone & Wyer, 2000; Kirby & Watson, 2003).

It has been stated by Ardishvili *et al*. (1998) that a number of the theories surrounding growth can be categorised as either growth study factors or growth process study factors. Notably, whilst the first group considers the reasons behind business growth by viewing growth as a dependent variable in order to explain independent variables and the way in which the business experiences growth; the second group, on the other hand, considers the variations occurring within the business as a result of the growth and development, with a keen focus on what the business can achieve as a result of such growth as opposed to why growth is experienced in the first place.

Gibb & Davies (1990) suggest that studies focused on the growth of businesses can be categorises into four main groups, as outlined below:

- effects of entrepreneurs' individual qualities
- industry- and market-led methods
- business development methods.
- strategic factors recognised as impacting the growth of businesses.

Notably, a paradigm was introduced by Storey in 1994, which combined three significant elements in an attempt to describe the way in which small businesses experience growth. These factors the entrepreneur's individual characteristics, the business's characteristics, and the management approach applied in pursuit of growth. Importantly, each of these elements should be incorporated in order to achieve business-related growth and development (Storey, 1994), see table 2.4.

Table 2.4: Factors influencing the growth in small businesses

The entrepreneur /resources at pre-start	**The firm characteristics at-start**	**Business strategy at post–start**
1. Motivation	1. Age	1. Workforce training
2. Unemployment	2. Sector	2. Management training
3. Education	3. Legal form	3. External equity
4. Management experience	4. Location	4.Technological sophistication
5. Number of founders	5. Size	5. Market positioning
6. Prior self-employment	6. Ownership	6. Market adjustments
7. Family history		7. Planning
8. Social marginality		8. New products
9. Functional skills		9. Management recruitment
10. Training		10. State support
11. Age		11. Customer orientation
12. Prior business failure		12. Competition
13. Prior sector experience		13. Information and advice
14. Prior firm size experience		14. Exporting
15. Gender		

Source: Storey (1994, p123).

When reviewing and considering past researches in this arena, Davidsson & Wiklund (2000) state that such studies can be categorised from various theoretical standpoints in relation to their individual core expectations, with categorisation into either process or factor groups as highlighted by Ardishvili *et al*. (1998).

It has been stated by Wiklund (1998) that the theoretical constructs namely environment, motivation, resources and strategy include most factors within the arena of business growth studies. Moreover, Wiklund (1998) further states that, if variables are assessed individually, not as much value is reaped than if considering the introduction of such theoretical constructs, which enable thorough comparison and classification. In addition, it is further noted that only a select few researches thus far adopt variables relating to all theoretical constructs as a whole, despite all of them being valuable when attempting to improve growth theories.

There are many different theoretical frameworks and models concerning small business growth. The model developed by Davidsson & Wiklund (2000) is recognised as offering the benefit of linking the numerous explanatory variables. In direct consideration of both empirical and theoretical findings, Chamanski & Waago

(2003) support frameworks aimed towards business growth with key emphasis placed on the indirect impacts of variables.

2.9 The Drivers of Small Business Growth

Many researchers have conducted studies of business growth with the aim of developing understanding of its causality, through identifying the factors that tend to support growth and those that tend to constrain it. Studies have also sought to establish the differential impacts of entrepreneur background, management process, perceived problems, changes introduced, and financing on large and small firms (Cooper et al, 1989), and the relationship between employment growth in small manufacturing firms with variables concerning entrepreneur characteristics, psychological differences, and environmental scanning practices (Box et al, 1994).

The 'critical success factors for business performance' were classified by Luk (1996) into three crucial groups, these being the personal characteristics, management factors, and product market and firm factors. Among the personal characteristics Luk (1996) identified decision-making skills, hard work, sufficient relevant work, interpersonal and analytical skills, education and training, and family support, as important attributes. In respect of management factors, he suggested that financial management skills, good marketing techniques, good quality production materials, and the ability to motivate employees were essential; and in respect of market and firm factors, he argued that niche marketing, cost leadership and product innovation, and firm strategies such as firm image, firm-customer relationship, and flexibility, were the pre-requisites for small business success.

Also searching for the antecedents of small business success, Duchesneau and Gartner (1990) highlighted three categories of factors, which match in general terms those identified by Storey, these being entrepreneurial characteristics, start-up behaviour, and the business strategy. In that study it was argued that owner-managers should possess experience in starting up businesses, that they should know how to, and actually reduce business risk, that they should appreciate the need to work long hours, be able to communicate effectively with individuals from diverse backgrounds, have a first-class customer service orientation, have clear and wide-ranging ideas about business, be knowledgeable about planning techniques, be flexible, participative, and be prepared to adapt the organizational structure as required.

Steiner and Solem (1988) identified similar factors, adding the need to possess identifiable competitive advantages.

In the vast majority of the research studies considered, the value of small businesses to local economies is documented, and the point is made some this value is often long-lasting as small firms expand. Various growth theories, as documented in Section 2.7 are accepted as valid since it is commonly recognised that no one theoretical model provides an adequate explanation of growth within small businesses (Gibb & Davies, 1990; Merz et al, 1994; Storey, 1994). The diversity of type of small business accounts for this situation, since different types of enterprise are influenced by different factors, and hence the growth of an enterprise is conditioned by a complex interaction of factors, which may not in their exact composition, affect another business in quite the same way. Consequently, it is not likely that a comprehensive model of small business growth with predictive capability might be forthcoming.

In researching the growth of small businesses, many different models have been used and appear in the literature (see for example, Gibb & Davies, 1990; Merz et al., 1994; Storey, 1994; Clark et al., 2001).

Gibb and Davies (1990) followed the actual approaches used by entrepreneurs and produced a four-type categorisation as follows: personality-dominated approach, business management approach, sectoral and broader market-led approach, and business development approach.

In their analysis of the literature, Merz et al. (1994) identified three main types of research into small business growth, the most widely evident being concerned with cross-sectional studies in which a range of entrepreneur and firm characteristics were examined as potential antecedents of firm growth. Merz et al. (1994) noted the variables that had been commonly explored as being age, educational background, gender, management skills, and motivation, and with respect to the business itself, issues such as size, age, the legal framework within which it operated, business strategy, performance and growth, were all included. The second type of research identified was that concentrating the life-cycle approach and that considered firms in various predetermined stages of growth. Such research efforts were mainly involved with confirming the life-cycle theory be reference to influences like management priorities, management problems in technology-based industries, and strategy content and planning processes. However, all life-cycle theories presuppose that firms commonly develop linearly, a premise that critics reject, so the potential usefulness of such an approach is undoubtedly limited. Finally, the third category was identified as that relating to businesses with a main focus on the actual growth observed and the management of it, the idea being that a greater appreciation of the dynamics of firm growth and firm management ensues and is useful. All the variables examined in this approach (e.g. managerial, structural, or strategy characteristics) are explored in the context of, for example, the environment in which the firm operates, or its profitability.

2.10 Owner-Manager Characteristics as Influences on Growth

Attempts to discover the characteristics possessed by owners of successful small businesses as distinct from those in evidence among other individuals have been many over the years (see for example, Ace & Audretsch, 1989; Duchesneau & Gartner, 1990; Storey, 1994; Barkham *et al.*, 1996). There are a number of different characteristics associated with both the owners and managers of businesses that are understood to affect the growth of small businesses (Smallbone *et al*., 1993; Storey, 1994; Barkham *et al.*, 1996; Pelham, 1999; Lee & Tsang, 2001; Chamanski & Waago, 2003; Brown *et al*., 2004; Rauch *et al.*, 2005; Kirkwood 2009). However, Storey (1994) argues that there is no straightforward model in this respect, there being instead, a number of factors that inter-relate in a complex manner to orient an individual towards entrepreneurship and successful business management (see also Ray, 1993; Barkham *et al.*, 1996).

Davidsson *et al*. (2002) and Rauch *et al*. (2005) argue that attempts to explain the growth and development of small businesses that do not take into account the impact of both the owners and managers have ultimately failed to achieve this objective.

It is true that most such research has perceived the entrepreneur/owner-manager as an individualist who exercises strong personal control over the business, but the skills of co-operative working and networking have not gone unobserved by some researchers in this area, Tjosvold and Weicker (1993) suggesting that talents in such directions are very important for entrepreneurs, and make a substantial contribution to business success through the entrepreneur’s ability to network effectively, and essentially develop a support system.

Research by Bird (1989) indicated that innovative and risk-taking characteristics are associated with successful small firms, and that the owner-managers of such enterprises are both educated and properly trained. It has been noted also, that dedication, hard work and commitment underpin success for an owner-manager (Murphy, 1986). Hall (1995) highlights the notion that the psychology of the owner and/or manager has the potential to affect overall business performance. Orser *et al*. (2000) also recognise that scholars should not automatically presume that economic motives are solely responsible for the growth of a business; rather, there should also be reflection of the psychological and social behaviours of the owner and/or manager.

Barringer *et al*. (2005) argue that there are three main explanations of the impact of the characteristics of owners/managers on business growth. Firstly, such traits impact not only on the overall culture of the firm but ultimately the behaviour of the business; secondly, those seeking to invest or otherwise become involved in the business tend to assess the behaviours of owners and managers; thirdly, the backgrounds of owner-managers can have a notable impact on the success of their firms. It is further suggested by Storey (1994) that a business owner-manager is known to provide numerous managerial resources, especially when the individual in question has reached a good standard of education or managerial-/business-related training. Holmes & Gibson (2001) suggest that a thorough understanding of the functioning of small businesses can only be achieved through acknowledgement and comprehension of those factors known to influence the owner-manager. Several researchers acknowledge that businesses operate in different ways owing to the fact that their owner-managers have different personalities and backgrounds (Chell *et al*., 1991; Holmes & Gibson, 2001; Bridge *et al*., 2003).

Nevertheless, it is also recognised that a comparative analysis of such studies is plagued with difficulties, as highlighted by a number of different academics in the field (Barkham *et al*., 1996; Weinzimmer *et al*., 1998; Davidsson *et al*., 2002), this is predominantly owing to the fact that the majority of such studies were carried out without consideration to one another (Storey, 1994). Some of the more notable issues include the means of measuring growth, such as through employment or sales; the duration over which growth is calculated, as well as whether or not growth is measured according to absolute or relative measures.

2.10.1 Growth aspiration (desired growth)

There has been much research directed at understanding the impact of owner-managers aspirations on business growth (Storey, 1994; Smallbone *et al.*, 1995; Barkham *et al.*, 1996; Orser *et al.*, 2000; Bridge *et al.*, 2003; Wiklund & Shepherd, 2003; Human and Matthews 2004; Kirkwood 2009; Leitch *et al.* 2010). For example, Lee & Tsang (2001) and Wiklund & Shepherd (2003) found a positive correlation between the owner-manager's desire to grow the business and actual growth. Smallbone *et al*. (1995) argue that the intention to grow the business is not enough to facilitate such growth; rather, the owner-manager of the business must also have a number of other characteristics for growth to be facilitated, such as an appropriate education, experience and skills.

In their exploration of the clothing industry in Coventry, Clark et al. (2001) found that three fairly wide classifications of business owner could be identified with regard to growth aspirations, which they labelled as follows:

i. Stagnant Satisfiers: This group comprises about 60% of business owners and refers to individuals who consider their enterprises to have reached a stage with which they are happy. This level of development is believed to be appropriate for their economic and social needs and the focus is on sustaining the present position rather than on chasing increased growth. However, it is noted that most of these business are actually in decline.

ii. Thwarted Expanders: Accounting for about 30% of owners, this group refers to individuals who want and attempt to increase their businesses, but who are unsuccessful because of particular circumstances like for example, shortages of labour and funds, and keen competition.

iii. Capricious Manufacturers: The third and smallest group consists of those owners who take the opportunity to stop and start their operations in order to maximise their short-term gains and avoid liabilities in the long term. Such entrepreneurs respond very quickly to market forces, opening, expanding, contracting and closing down businesses simply to seize the opportunities presented in the short term. In an industry where there are low fixed costs, and there is little attention paid to issues of health and safety and employment legislation, it is relatively easy to operate in such a way.

It must be acknowledged that the findings obtained by Clark et al. (2001) relate only to the clothing industry, which may well have had quite particular characteristics. Indeed, it was highlighted in the study that the clothing industry operated by traditional standards and that the terms and conditions offered to employees might be rejected by many young people when compared with those offered by other sectors.

Other studies have found that not all owners/managers of small businesses seek to grow their firm (Storey, 1994; Barkham *et al.*, 1996; Wiklund, 1998; Holmes & Gibson, 2001; Bridge *et al.*, 2003; Chamanski & Waago, 2003; Dobbs and Hamilton 2007; Blackburn *et al.* 2009; Leitch *et al.* 2010). With this in mind, it has been noted by Bridge *et al*. (2003) that even when considering firms seeking to achieve growth, a significant portion seems to only want to achieve limited growth, considering that the additional costs incurred will be too high. This is a notion further argued by Smallbone & Wyer (2000), who emphasise that there is a good chance that the owner's aim to establish growth will be less pressing once a pleasing income and lifestyle level is achieved.

This is further supported by Tybout (2000), who attributes the poor performance of African manufacturing firms to their owner-managers' lack of interest in or willingness to achieve growth. Other researchers have found that many owner-managers of small businesses in developing countries do not want to achieve growth, as this would result in authorities recognising the existence of their business and render them liable for regulation and taxation (McPherson, 1996; Goedhuys & Sleuwaegen, 1999; Liedholm, 2002; Smallbone & Welter, 2003).

2.10.2 Motivation

Many researchers have argued that growth is influenced by the motivation of the owner-manager (Bouwen & Steyaert, 1990; Davidsson, 1991; Morrison *et al*., 2003; Wiklund & Shepherd, 2003; Swierczek & Ha, 2003; Mochrie, Galloway & Donnelly, 2006). Moreover, it has been noted by Orser *et al*. (2000) that a number of different psychological and socialisation factors may impact on the way in which small businesses grow and develop. Various authors have also suggested that the views of the owner-manager concerning growth need, potential and opportunity all help to establish motivation for growing and developing a firm (Davidsson, 1989; Stam, Suddle, Hessels & Stel, 2007). Kets de Vries (1985) argues that owner-managers of businesses have different motivational factors, which can all play a role in the approaches adopted in terms of growth, such as zero, low and high growth. Gray (1992) recognises that the disparity between motivational factors can impact on the way in which the owner-manager views growth.

Many studies have concluded that the motivations for starting up a firm can be categorised as being either negative or positive (Watson *et al*., 1998; Deakins & Whittam, 2000; Smallbone & Wyer, 2000; Janssen, 2003; Delmar and Wiklund 2008; Littunen and Niittykangas 2010). The positive ('pull') factors include a desire for independence, a greater opportunity to earn money, being one's own boss, and making better use of skills; negative ('push') factors may include job dissatisfaction, frustration with current/past employment, redundancy and unemployment. A number of studies (Storey 1994; Smallbone *et al.* 1995; Reynolds *et al.* 2001; Wiklund and Shepherd 2003; Acs 2006; Delmar and Wiklund, 2008) suggests that those owner-managers establishing a firm as a result of negative motivational factors are more likely to create a business with limited growth, whereas those individuals starting up companies owing to positive motivational factors may want to ensure growth.

Bridge *et al*. (2003) argue that the motivation of a firm's owner can be broken down into three groups, namely comfort zone, growth and lifestyle. Comfort zone makes reference to those firms which award their owners with a good level of return, where the level of benefit is seen to outweigh reasons for further growth of the business. Growth refers to those owners who actively seek to ensure the growth of their business. Finally, lifestyle refers to owners running a firm with the aim of satisfying their needs in terms of their preferred lifestyle.

In the context of Africa, it has been recognised that part of the reason behind a shortage of job opportunities and the prevalence of poverty is owing to the high costs incurred when starting up a business. Rosa *et al*. (2006) show that the patterns concerning the establishment of businesses in Africa are complex, as outlined by the GEM Uganda (2004) executive report. Moreover, it has been suggested that the high unemployment figures in developing countries may encourage people to start their own businesses, but with such individuals not necessarily seeking to run large-scale firms (Chell *et al*., 1991; Holmes & Gibson, 2001; Bridge *et al*., 2003).

2.10.3 Education background

A number of authors have argued that well-educated individuals are more likely to find positions of employment within large firms, therefore offering greater job and income security, whilst less-educated people, on the other hand, are more likely to found or work in smaller firms (Bolton, 1971; Watkins, 1983; Sit *et al.*, 1991; Storey, 1994). However, this situation may be changing, as the educational levels of entrepreneurs have been found to increase during recent years (Douglass, 1976; Thompson (1986); Cooper & Dunkelberg, 1989).

Some researchers have suggested that it is a fundamental requirement that owner-managers have a good level of education and knowledge, as this is known to affect the overall position of the firm and the growth it experiences (Cressy, 1994; Basu & Goswami, 1999). Lee & Matthews (1999) argue that education has an overall positive impact on growth, which is believed to be owing to increases in planning and its quality. Sexton & Bowman (1991) suggest that growth is attributable to the skills and competencies of the owner-manager owing to the fact that both knowledge and ability are required in order to achieve and manage growth. Wiklund (2001) concludes that growth depends on a number of different factors, such as education, environmental dynamism and manager experience. It is postulated by Yusuf & Saffu (2005) that the impacts associated with education in relation to performance are apparent within industries where a higher level of education is required. Kangasharju, (2000) and Cooper & Gason (1992) established that education provides a number of benefits to entrepreneurs in terms of firm growth. Importantly, there is the belief that education is able to contribute towards improved analytical, planning and strategic abilities. Moreover, well-educated owners/managers may be better able to recruit good staff and experts for the jobs at hand, and to also delegate tasks as necessary, all of which are paramount when attempting to achieve growth and success (Casson, 1991). Basu & Goswami (1999) suggest that growth can be achieved through training the owner-manager in various key areas of business, including communication. However, Storey (1994) concludes that that people with a greater degree of education are more likely to find entrepreneurship and the running of a business uninteresting and tedious.

In the context of Africa, there has been a great deal of support for the view that education and training have a notable impact on the growth of businesses (Sowa *et al*., 1992; McPherson, 1996; Liedholm, 2002).

2.10.4 Age of the owner-manager

Some authors maintain that there is no link between business growth and the age of the business owner, namely Macrae (1992); Wynarczyk, Watson, Storey, Short & Keasey (1993); Abouzeedan & Busler (2004). However, other researchers have identified a positive correlation between the growth of small firms and the age of owners (Westhead et al, 2001; McGee & Sawyerr, 2003; Andersson, Gabrielsson & Wictor, 2004) arguing this as being owing to the greater depth of knowledge, information and resources available to such individuals owing to their connections and experience. Moreover, Kinsella *et al*. (1993) and Storey (1994) state that middle-aged owners/managers are more likely to grow their businesses than entrepreneurs who are either young or older. However, research also suggests that the older owner-managers are less successful than their younger counterparts Dunkelberg & Cooper, (1982); Kalleberg & Leicht, (1991), these authors suggesting that older owner-managers are less able to handle the routine problems encountered by small businesses.

Commenting on this apparent contradiction, Storey (1994) suggests that it reflects both the high level of enthusiasm commonly witnessed amongst the young and experience as a result of age. Barkham *et al*. (1996) suggest that a business is more likely to grow if the owner-manager is young, as such individuals have more motivation, energy and aspiration to achieve developments but on the other hand, older owners/managers tend to have a greater skill set and more experience than younger ones, and so are more likely to be able to achieve good business outcomes as a result of better business and practical skills. Nevertheless, Barkham *et al*. (1996) concludes that those business owners/managers who were older were more likely to encounter a reduced rate of expansion than those of a younger age.

2.10.5 Prior business experience

Many researchers have established positive links between business growth and prior management experience (Gill 1985; Macrae, 1992; Storey, 1994; Davidsson & Wiklund, 1999; Locke, 2004;Rauch *et al*. 2005;Peneder 2008;Wiklund *et al*. 2009;

Littunen and Niittykangas 2010), as well as growth in employment (Dunkelberg & Cooper, 1982). This is further supported by Storey (1994), who highlights a positive link between high growth rates and experience in management positions. In Storey's (1994) view, this can be explained by the ambition and drive of such individuals to become affluent and secure financially and by the fact that individuals' past experience in managerial positions has the potential to improve managerial skills, which therefore means that plans can be better implemented, which in turn achieve growth. Moreover, it has been emphasised by Dobbs & Hamilton (2007) that the positive impacts of prior managerial positions can be explained by the ability of such persons to understand what actions are to be taken in order to avoid mistakes. Barringer *et al*. (2005), make a similar point, suggesting that prior experience tends to make individuals cautious and careful when operating a business, therefore reducing errors and associated costs. Storey (1994); Autere (2005); Peneder (2008); Wiklund *et al.* (2009); Littunen and Niittykangas (2010), argue that experience gained in the same sector helps to developed expertise concerning the acceptable norms and practices within the sector.

However, a number of other researchers draw the conclusion that there is no such link between these factors (Birley & Westhead, 1990; Siegel *et al*., 1993; Hamilton and Lawrence 2001), proposing that prior managerial experience is not always positively linked with the growth of small firms. Smallbone & Welter (2001) that managerial experience in itself is not enough to explain growth rate, but rather that the type of managerial experience is key. Importantly, these scholars argue that managerial experience is often attained through employment in state-owned businesses as opposed to those in market-driven environments and that such experience is less likely to be beneficial and positive in regard to business growth.

McPherson (1996), whose research embraced different African countries (Botswana, Lesotho, South Africa, Swaziland and Zimbabwe), found that a faster rate of growth was experienced by those owner-managers who had prior business experience. Moreover, the work of Lee & Tsang (2001) considered the impacts of entrepreneurial background, networking, personality and traits in regard to the growth and development of projects in Singapore; the results established that prior entrepreneurial, industrial and managerial experience were the most important variables affecting growth. The work of Aidis (2003) in Lithuania also found a positive correlation between an owner's/manager's prior work experience and firm growth.

2.10.6 Gender of owner-manager

Studies surrounding the effects of gender on individual perceptions support the notion that there are variations between males and females in regard to commitment, job satisfaction and motivation, with such elements impacting on the growth of businesses (Storey, 1994; Spilling & Berg, 2000). Regardless of the increasing number of female business owners, it is nevertheless recognised that most entrepreneurs are male, middle-aged and married (Ritchie *et al*., 1984). In contrast, however, recent studies show that female entrepreneurs are commonly much older or younger than males. Nevertheless, it is noted that those females who pursue further education in business-related fields are just as likely to become entrepreneurs as their male equivalents (Bosworth & Ford, 1985), although this is recognised that females do encounter a great deal of bias and judgement (Kalleberg & Leicht, 1991).

It has been noted by Harriman (1985) that there are many different studies and results to be considered in regard to whether males and females are different in regard to the values they hold concerning commitment, business rewards and satisfaction, and their link with the aforementioned to business success or failure. Importantly, this advocates that the disparities established between genders may be owing partially to initial expectations. Importantly, there could be issues in establishing pertinent experience and establishing relationships with advisors, customers, professionals and supplies, which could create problems for female entrepreneurs, which may subsequently create satisfaction-related issues, therefore reducing growth.

In addition, a number of other factors may affect women in the running of small forms, such as their role as a mother or in running a household. Importantly, it is recognised that women generally spend less hours working than men, owing to both family and home obligations Mazzarol *et al*., 1999). Moreover, it is considered relevant that women are generally paid less than men, particularly in less developed countries, such as China and Africa. With this in mind, females have to consider a number of additional issues than men, such as how to juggle their home and family responsibilities alongside running a business, as well as a lack of confidence in running a business or dealing with financial tasks (Sit *et al*., 1991; Storey, 1994).

Nevertheless, it is noted by Storey (1994) that the owners/managers gender is not an important factors for consideration when weighing up the performance of the firm. Moreover, it is stated that there is no significant disparity in terms of performance when considering how a business is run by males and females (Chell & Baines, 1998; Watson *et al*., 1998; Kangasharju, 2000). This has been further supported by Cooper *et al*. (1989), who highlight no real differences between gender in regard to the success of the business. However, it is known that there has been a great deal of attention directed towards the success of female entrepreneurs in running their businesses (Olson & Currie, 1992; Jacobson, 1993; Orser & Hogarth-Scott, 2002). Moreover, it has also been recognised by Cooper & Artz (1995) that females are generally more satisfied than males when starting up a business owing to their perceived lower initial expectations.

The consideration of gender has been taken into account in a number of researches, although the element has only received so much attention during recent years. With this in mind, a great deal of literature in regard to small business growth carried out many years ago has neglected to consider this variable, as is supported in the work of Storey (1994). Moreover, it should also be acknowledged that there is a low participation rate in regard to females acting as owner-managersof small firms, as illustrated by Curran & Burrows (1988), although it is also recognised that this is becoming less relevant.

In Libya, a report of the Secretariat of the Popular Committee for Economic Planning (2009)' pointed out that recently, more women in Libya have entered into the private sector, for instance in private schools, sewing workshops, and pharmacies, but this category is still limited.

2.10.7 Family business history

In regard to the works conducted by Storey (1994) and Smallbone & Welter (2001), there is the view held that those persons who have entrepreneurial parents are more likely to own their own businesses in the future for a number of different reasons. For instance, it is recognised that such individuals may be in a position of being educated and given further insight and knowledge into how to run a business, and may also be better able to gain access to funding and other resources through their parents' connections.

2.10.8 Portfolio ownership of other businesses

Some researchers have focused on the impact of portfolio ownership and growth, arguing that portfolio ownership brings a reduction in risk, the provision of networking advantages, and entrepreneurial flair (Barkham *et al*., 1996; Smallbone & Wyer, 2000; Bridge *et al*., 2003).

As has been emphasised by the work of Scott & Rosa (1997), an individual may have more than one entrepreneurial venture, and so it is then more probable that such an individual will be associated with growth-orientated businesses. Moreover, it is recognised by Smallbone & Wyer (2000) that there is a tendency for portfolio entrepreneurs to pursue an active involvement in growth in order to achieve a desirable economy of scale. On the other hand, however, it is stated by Bridge *et al*. (2003) that such individuals might be motivated to establish new businesses but not to build them up and achieve growth and development.

Gundry and Welsch (2001), in their study of the attributes of ambitious entrepreneurs concluded that ambitious owner-managers tended to have equity in more firms than the low growth seekers and also exhibit higher shareholding intensity. Walsh and Anderson (1994), report that the greater the percentage ownership of the owner-manager in a firm, the higher the employment growth. Wiklund and Shepherd (2003) argue that several avenues are open to growth-oriented owner-managers which includes the acquisition of other businesses, making it important to examine all the business interests of the owner-manager before conclusion can be drawn.

2.10.9 Ethnicity and nationality

Storey (1994) argues that studies carried out regard to the ethnicity of small business owners/managers and the link with business growth has lacked consistency. McPherson (1996) stated a lack of relationship between business growth and the owner-manager's background, with McCormick *et al*. (1997) suggesting the same. Importantly, Storey (1994) suggests that this inconsistency could be owing to problems involved in testing such a link, which may mean that the conduction of such researches would be problematic.

Kilby (1983) emphasises the fact that, in developing countries, those businesses managed and owned by people of minority ethnic backgrounds particularly non-African individuals residing in Africa seem to experience a greater rate of growth. The rationale provided for this phenomenon is that such individuals tend to have a greater depth of knowledge of the market, as well as the necessary capital and resources required. In addition, there is the possibility that other external factors including a high level of threat of, limited occupational choice and respect for cooperation with minority business owners could play a role. Kilby also argues that minority business owner-managers also tend to have a strong networking system, which helps them to gain access to resources and contacts.

2.11 Characteristics of the Business as an Influence on Growth

Penrose (1959) suggests that a firm's capacity to achieve growth and to overcome environmental challenges is dependent on its internal resources; Calvo (2006) and Biesebroeck (2005) support this argument. Accordingly, this section will consider the research evidence concerning firm characteristics and the growth of small businesses. Before proceeding, it is important to recognise that the firm's characteristics may be a reflection of the attributes of the owner-manager, as many of them are the outcomes of decisions made by the owner-manager subsequent to start-up (Storey, 1994; Smallbone & Wyer, 2000). It is difficult to separate the characteristics of the firm from the strategies that it pursues. For example, Hill and Narayanan (1990) suggest that growing and successful businesses are characterised by the provision of high quality products and services, good reputation, efficient customer response, devotion to job, high levels of employee commitment and morale, and sound management and employee relations.

Storey (1994) highlights six key firm characteristics that impact on growth: age, firm size, legal form, location, ownership, and sector; research findings concerning each of these will be discussed in the following section.

2.11.1 Age of business

Many researchers have found that newer firms experience more rapid growth; in other words, the age of a business is inversely related to growth (Jovanovic, 1982; Evans, 1987a; Dunne *et al*., 1989; Storey, 1994; Wagner, 1995; Davis *et al*., 1996; Glancey, 1998; Almus & Nerlinger, 1999; Wijewardena & Tibbits, 1999; Davidsson *et al*., 2002; Andersson, 2003; Cabral & Mata, 2003). These findings have been replicated in many countries, such as Spain (Calvo, 2006), Sweden (Davidsson *et al*., 2002) and Japan (Yasuda, 2005) and across different sectors.

Storey (1994) suggests that this phenomenon can be explained by the fact that newer businesses need to strive for rapid growth in order to ensure an efficient scale is achieved, while other researchers suggest that owner-managers are less likely to seek growth once a satisfactory return is generated by the business. Smallbone & Wyer (2000) argue that newer firms need to prioritise expanding their operations when striving to gather effective resources to overcome unpredicted external circumstances, and thereby achieve success and profitability. Van Wissen (2002) suggests that high growth may present a number of other advantages and opportunities, including firm experience and learning.

However, several researchers suggest that high growth can also be achieved by firms which have been long-established (Das, 1995; Smallbone & North, 1996). Heshmati (2001) suggests that older firms may benefit from their operations having been implemented for a longer period of time. Sleuwaegen & Goedhuys (2002) suggest that the relationship between growth and age is consistent with the learning model introduced by Jovanovic (1982), whereby the management team gain an understanding of their overall efficiency and implement necessary adjustments to their business activities. There is also a marked consensus that such firms may also benefit from dynamic economies of scale through a higher profit margin on sales, learning from experience, and longer standing firm reputation. Kimuyu (2001) suggests that longer established firms are more likely to have a successful management styles implemented and perfected over time, which help them to achieve profitability.

Biesebroeck (2005) conducted a study across nine African countries, establishing an inverse relationship between small business age and growth. Harding *et al*. (2004) found that newly established businesses in Africa show more substantial and rapid growth owing to the fact that, in line with business maturity, greater constraints are experienced, such as restricted access to export markets and limited demand. On the other hand, Sleuwaegen & Goedhuys (2002) found that in the Cote d'Ivoire such a relationship did not exist in regard to those firms established with 45 or more employees.

2.11.2 Size of firm

A number of researchers have found that small firms tend to grow at a faster pace than large businesses (Jovanovic, 1982; Evans, 1987a; Evans, 1987b; Hall, 1987; Dunne & Hughes, 1994; Audretsch *et al.* 2004; Bullock *et al.* 2004; Moreno and Casillas 2007). Various reasons have been provided for this proposition. Barkham *et al*. (1996) argue that, firstly, small businesses tend to exhibit a greater degree of flexibility; secondly, the capacity of a large firm to develop and grow is hindered by competing interests; thirdly, direct competition is avoided by smaller firms owing to their inclination to operate within a niche market; and fourthly, growth rates and size cannot be increased forever. Bridge *et al.* (2003) suggest that it is quite usual to the firms to experience significant and rapid growth during the initial years following establishment, followed by a focus on achieving stability. Almus (2002) found that a greater degree of growth potential was illustrated amongst smaller businesses than their larger counterparts but explained this by the fact that these firms started their operations at a level considered their owner-managers as less than optimal, who thus felt the need to expand at a faster rate than that achieved across the industry in general.

Some researchers have argued that in developing countries growth rates achieved by small firms may be much lower than that achieved by similar firms in developed countries, owing to the fact that most small businesses suffer from a stringent and often inefficient regulatory system, thus preferring to maintain a small size so as to achieve tax-related benefits (De Soto, 1989; Goedhuys & Sleuwaegen, 1999; Tybout, 2000; Smallbone & Welter, 2001; Schmitt-Degenhardt *et al*., 2002; Sleuwaegen & Goedhuys, 2002; Welter & Smallbone, 2003). McPherson (1996) found an inverse relationship between firm growth and size across a number of different countries, except in Zimbabwe, where no such relationship was determined. A similar observation was made by Mead & Liedholm (1998) during the course of research conducted within the Dominican Republic and five African countries.

Fraser (2005) found that large-scale firms operating in Ghana were less likely to exit the market owing to their greater degree of productivity, while Biesebroeck (2005) concluded that, amongst those firms with 100 or more staff, a greater likelihood of survival was considered likely owing to the firm's greater production levels.

Sleuwaegen & Goedhuys (2002) argue that the learning framework introduced by Jovanovic (1982) may not be applicable to a number of developing countries owing to the low number of market participants and high entry costs.

2.11.3 Sector

A substantial amount of research has been aimed at exploring the link between business growth and sector (Storey, 1994; Stokes, 1998; Davidsson et al., 2002; Andersson, 2003; Bridge et al., 2003). Reviewing this research, Storey (1994, p. 140) concludes that 'in the bulk of the studies there are significant differences between sectors in terms of the typical growth rates of the firms'. For example, Davidsson *et al*. (2002) found that firms operating within computer services, education, healthcare, and education in Sweden experienced a faster degree of growth than those operating within the country's manufacturing and metalwork sectors. Several researchers have found that firms operating within sectors feature high technology, high rates of innovation and new product development and with higher barriers to entry tend to have greater growth rates than firms operating in other sectors. (Davidsson & Delmar 1997; Chamanski & Waago, 2003; Calvo, 2006; Peneder 2008; Wiklund *et al.* 2009; Littunen and Niittykangas 2010).

However, Barkham *et al*. (1996, p. 140) argue that 'firms are as likely to grow rapidly in any one industry as in any other, irrespective of the aggregate growth of the industry as a whole' and suggest that small businesses often operate within niche markets, which may have their own particular dynamics. Bridge *et al*. (2003) argue that sector does not provide a solid foundation for predicting firm growth, arguing that sector-related performance may vary.

Research carried out in African countries has recognised similar relationships between business growth and sector. For example, Liedholm (2002) established that businesses within the services and manufacturing sectors were found to generate greater growth levels than those in the trading industry. McPherson (1996), in study including five African countries (South Africa, Swaziland, Lesotho, Botswana and Zimbabwe), found differences between countries in this respect; for example, in South Africa firms wood processing, paper, printing and publishing, food processing, and metal fabrication respectively experienced the fastest growth, while in Lesotho the order was metal fabrication, wood processing, and food processing.

2.11.4 Business location

The geographical location of the firm has been found to have a significant impact on growth (Davidsson, 1989; Storey, 1994; Barkham *et al*., 1996; Almus & Nerlinger, 1999; Liedholm, 2002). Hoogstra & Dijk (2004) concluded that 'location matters'; nevertheless, the impacts were found to differ and fluctuate in relation to economic activity and time. In general, most of these authors agree that location in cities and areas with large populations tends to support growth; for example, Davidsson *et al*. (2002) found that smaller firms operating within smaller communities achieved negative growth when contrasted with a number of other small businesses located within Stockholm. This is explained by a number of factors, including proximity to customers, better access to raw materials and skilled labour and the availability of infrastructure and industrial sites (Sleuwaegen & Goedhuys, 2002).

However, Bridge *et al*., (2003) argue that the relationship between business location and various different factors, namely competition, government support, and labour market create a number of difficulties in establishing the actual effects of location on growth. Keeble (2003, pp. 91–92), found that 'the poorest performing firms in terms of employment and sales are those of the industrial heartlands, while the fastest-growing over the 1999–2002 period were those of the periphery.'

Studies carried out in Africa tend to confirm that a large city location is supportive of growth. Sleuwaegen & Goedhuys (2002) found that firms located within Abidjan, the commercial capital of Cote d'Ivoire, experienced a faster level of growth compared with small firms in other locations. Other researchers (McPherson, 1996; Mead & Liedholm, 1998; Sleuwaegen & Goedhuys, 2002) found that in firms operating within commercial districts, a greater degree of growth was expected as opposed to those located within normal villages and towns.

2.11.5 Number of founders and owners

Barkham *et al*. (1996) and Storey (1994) argue that those firms managed and run by a number of different people are more likely to experience faster growth, as the founders are able to offer more complementary skills and expertise. Bridge *et al*. (2003) suggest that one entrepreneur is notably restricted in terms of enterprising skills and that the greater the number of owners and/or managers, the higher the potential for growth. Barkham *et al*. (1996) suggest that among those firms owned or managed by one individual person, independence in terms of gaining a reasonable living may be the only objective, and so business growth may not be a priority. However, the study of Walsh & Anderson (1994) does not support these findings, with the researchers concluding that higher growth rates are achieved in line with a greater percentage of owner-manager ownership.

2.11.6 Legal status

Several researchers (Storey, 1994; Rosa & Scott, 1999; Almus & Nerlinger, 1999; Davidsson *et al*., 2002) have found that businesses founded as limited companies are more likely to experience significant growth rates than those founded as sole proprietorships and partnerships. These authors proffer a number of explanations: that the owners of limited companies may be more inclined to take business-related risks because of their limited liability and these businesses have a greater degree of credibility in the view of customers and their banks.

On the other hand, research has found a higher rate of failure amongst limited companies than that of sole proprietorships and partnerships but that this may be overcome by adopting multiple directorships across different firms (Almus & Nerlinger, 1999; Rosa & Scott, 1999).

2.12 The Business Strategy as an Influence on Growth

The arena of small business strategy has been the focus of academic research from different perspectives: for example, the work of Van Gelderen *et al*. (2008) focused on individual and psychological strategies and their link with small business success and growth, whilst Gundry & Welsch (2001) analysed the strategic decisions of owner-managersin terms of growth orientation. In analysing the impact of strategic decisions on small firm performance, Megicks (2001) recognises that these decisions are contingent upon both the internal capabilities of the firm and the business orientation of the owner-manager.

In the view of Storey (1994) and in line with his growth framework, small business growth is dependent on a third factor (in addition to the firm and the owner-manager) which is business strategy. Growth is a common strategic goal (Storey, 1994 ; Barkham *et al.*, 1996; Roper, 1999; Almus & Nerlinger, 1999; Gundry & Welsch, 2001; Littunen & Tohmo, 2003). However, Smallbone *et al*. (1993) emphasise that there is no single strategy type associated with growth.

Storey (1994) established fourteen components of small business strategy, all of which may impact on growth, concluding that significant growth was associated with only four of these components, i.e. introduction of new products, market positioning, share of equity with external individuals, and owner-manager willingness to delegate. In the view of Reid & Smith (2002), some elements of small business strategy may have a negative impact on growth. Barkham *et al*. (1996) suggest that, regardless of owner-manager characteristics, a number of business strategy elements will have a notable impact upon small business growth, whilst others will have little or no effect. Barkham *et al*. (1996) concluded that only a limited number of strategic decisions were significantly associated with growth, namely concentration on a few main products, investment in new machinery, market research, product innovation, seeking external capital, and selling directly to customers. Freel & Robson (2004) concluded that empirical evidence of the impact of strategic decisions growth and profitability of small businesses is non-conclusive.

Redding (1990) observed that entrepreneurs rely much on intuition when determining strategy, as opposed to employing any systematic analysis, and that they have a preference for simple as opposed to mechanistic business structures Additionally, Redding (1990) found that small firms tended to sub-contract for their labour rather than recruiting to permanent positions. Further characteristics of successful companies have been identified by Lau & Snell (1996) as being: flexibility, harmony among all members of the workforce, paternalism, opportunism, and a concentration on niche markets.

2.12.1 Innovation

The concept of innovation refers to the creation and development of unique processes, products or services, and further comprises a proactive strategy, focused on purposeful change within the economic or social potential of the business, the foundation of which should be both creative and intuitive (Phillips, 1993).

The impact of innovation on small business growth is an area which has received marked academic attention (Audretsch, 1995; Wong & Aspinwall, 2004; Hsueh & Tu, 2004; Freel & Robson, 2004; Yang & Huang, 2005). Notably, the work of Audretsch (1995) established that small firms operating within an innovative environment which were more capable of adjusting and delivering a viable product were found to experience more significant growth rates, going hand-in-hand with a more likely chance of survival. Moreover, there has also been evidence to support the belief that those businesses engaged in innovative activities are more likely to achieve significant growth rates in contrast with non-innovative businesses (Almus & Nerlinger, 1999; Brixy & Kohaut, 1999; Hsueh & Tu, 2004; Yang & Huang, 2005). Furthermore, the research carried out by Freel & Robson (2004) highlighted a positive link between employment growth and novel product innovation.

Very little research has been conducted in Africa in order to analyse and examine the link between firm growth and innovation; nevertheless, there is strong support from innovation-related research efforts and networks to suggest that there is indeed a positive correlation between firm performance and innovation (Murphy *et al*., 2002; Chipika & Wilson, 2006). Essentially, the overall perceived value of innovation in relation to business growth can be summed up by considering the work of Cavlo (2006), who states that, innovation is the most important factor determining firm survival in Spanish manufacturing industry, and that being small, young, and innovating and situated in a technically developed sector is fundamental to employment growth.

Importantly, although it is known that there is no sole strategy linked independently with business growth and development, it is nevertheless true to state that those firms recognised as performing best are those making proactive attempts along various different dimensions whilst also being active in the management of markets, and products and services. In this regard, there is a significant difference between those businesses experiencing significant growth and those illustrating low performance levels: the methods utilised in relation to markets, product and service development (Storey *et al.*, 1989). Although it is true to state that businesses must direct some attention to markets and products, it is nevertheless acknowledged that those companies viewed as performing well direct conscious efforts towards creating new products and services for their customer base, as well as broadening their customer scope, developing new markets, making products more competitive, managing their product portfolios, and taking key innovative steps

2.12.1.1 Product Innovation

The introduction of new products is recognised by Storey (1994) as a significant influence on the growth of small firms. Smallbone *et al*. (1995) found that those businesses experiencing faster growth were more likely to have created and introduced new products or services within their sector than those not doing so. Barkham *et al*. (1996) suggest that there is a positive relationship between growth and innovation, whereas Storey (1994) emphasises how varied evidence and conclusions have been documented in relation to product innovation and small firm growth.

When assessing the impacts of product innovation on the growth of small firms, it is important to draw a distinction between the introduction of an existing product into the firm's product range and that of ‘genuine innovation’, as emphasised by Barkham *et al*. (1996). Notably, in the case of developing countries, it is recognised that genuine innovation may not be feasible, owing to the lack of resources available for conducting such projects. This is further corroborated by Smallbone *et al.* (1993), who recognise that, in the case of some small firms doing business within certain sectors, high growth can only be achieved through product innovation.

Barkham *et al*. (1996) argue that whilst some firms choose to introduce a limited number of new products, they may nevertheless have skills in implementing incremental changes and improvements to those already produced. In this same vein, in the context of developing countries, it is commonly seen that a number of small firms make changes and improvements to products from elsewhere in order to adapt them to local conditions.

Baldwin & Gellatly (2003) argue that, although there are a number of significant advantages associated with innovation, these may not be enjoyed to their maximum, if, for example, the product fails to meet the expectations of its consumer base. Smallbone *et al.* (1995) conclude that product innovation is not necessarily a consistent characteristic of high-growth firms. Jaumandreu (2003) who utilised Spanish data in examining the effects of innovation on unemployment draws the conclusion that manufacturing companies tend to experience significant increases in terms of productivity as a result of innovation, but also that employment growth can be negatively affected if such innovation is implemented in the form of process improvements. Moreover, a number of scholars have established a significant link between the education of top management and functional expertise alongside high-level innovation (Bantel & Jackson, 1989; Covin & Slevin, 1990; Edelman *et al*., 2002).

2.12.1.2 Process innovation and technology

It is recognised that process innovation is fundamental to businesses maintaining a competitive edge and achieving growth. Barkham *et al*. (1996) suggest that process innovation is implemented with the main objective to enhance productivity and/or product quality but that it is by no means always successful. Process innovation may include the acquisition of new equipment, machines or technology, and the improvements of production quality standards but opinions concerning what constitutes process innovation may differ from one owner-manager to the next, and the overall effectiveness and focus of such activities may differ from sector to sector (Smallbone *et al*., 1995).

Research suggests that those businesses implementing process innovation subsequently derive a number of advantages, including increased productivity, product quality enhancement, and lower production costs (Smallbone *et al*., 1995; Barkham *et al*., 1996; Joyce *et al*., 1996; Baldwin & Gellatly, 2003; Jaumandreu, 2003). Accordingly, it is therefore expected that those businesses directing emphasis towards production process enhancements are more likely to achieve significant growth. An example is provided by Goedhuys (2007) in the context of a developing country, with the scholar stating that sectoral variations are witnessed in line with innovative activities in Tanzania, with plastics, metal working, and textiles sectors recognised as being the most innovative.

Empirical evidence suggests that differing innovation profiles are apparent between large and small businesses (Rothwell, 1989; Acs & Audretsch, 1990; Nooteboom, 1994; North & Smallbone, 1996; Almeida & Kogut 1997; Plehn-Dujowich, 2003). In consideration of such a statement, North & Smallbone (1996) emphasise the overall position of small firms as being less innovative. Moreover, as emphasised by Schumpeter (1934) and further advocated by Rothwell (1989), the innovativeness of small firms is commonly obstructed by a lack of resources both financial and material.

In the context of Tanzania, it is highlighted by Goedhuys (2007) that large-scale businesses are more likely to implement innovation than small-scale businesses. In a similar vein, the research of Lee (2003) in Malaysia, emphasises that businesses with a high level of innovation tend to be younger and larger, and are more likely to produce goods for the domestic markets. However, it is concluded by Goedhuys (2007) that small and medium size businesses operating within developing countries offset the disadvantages perceived to be linked with firm size through inter-firm collaboration and linkages.

2.12.2 Planning

Storey (1994) argues that ‘formal planning’ is defined in relation to a documented business plan spanning a period of no less than one year, outlining the overall aim and strategies of the business. The existence of a written business plan has been utilised as a planning variable measure by a number of scholars, including Gable & Topol (1987), Cragg & King (1988); Berman *et al.* (1997); Perry (2001) and Mazzarol (2005).

A number of authors argue that planning is a critical factor in success and growth, as advocated by Woo *et al*. (1989); Aram & Cowen (1990); Baker *et al*. (1993); Rue & Ibrahim (1998); Ibrahim *et a1*. (2004). Schuman *et al*. (1985) reported that 49.9% of such businesses carried out this activity, with 92% subsequently reporting advantageous outcomes. Ibrahim *et al*., (2004) established that in the USA approximately 81% of small businesses formulated and implemented some type of business plan. A number of researchers have found evidence supporting the notion that there is both a positive and direct link between performance and formal planning (Robinson *et al*., 1984; Sexton & Van Auken, 1985; Olson & Bokor, 1995; Matthews & Scott, 1995; Berman *et al.*, 1997; Mazzarol & Ramaseshan, 1998; Rue & Ibrahim, 1998). Nevertheless, others state that there is little or no evidence for such a relationship (Ackerlsberg & Arlow, 1985; Hannon & Atherton, 1998; Mazzarol, 2005).

A number of scholars in this arena suggest that formal planning is less suitable for small firms, with fewer advantages achieved in terms of financial performance. The majority of owner-managersof small businesses conduct business operations without the creation or application of a formal business plan; this is commonly owing to a lack of knowledge, confidence, experience, and skills deemed necessary for such an undertaking (Sexton & Van Auken, 1985; Mazzarol, 2001). Based on their research among a sample of manufacturing and service firms, Huck & McEwen (1991) concluded that budgeting and planning, as well as marketing strategy, are critical in terms of ensuring the success of small firms, as advocated by Wijewardena & Tibbits (1999).

Yusuf & Saffu (2005) conclude that small firm planning is significantly affected by a number of elements, namely the attitudes, experiences, preferences and prejudices, as well as the general personality of the owner-manager. Olson & Bokor (1995) reach similar conclusions, noting that previous managerial experience is extremely important in terms of whether or not a firm will choose to apply planning. Moreover, McCarthy (2003) suggests that the planning process is fundamentally driven by the owner-manager and hence their individual traits and characteristics.

Mazzarol (2001) argues that the owner-manager’s education has a positive impact on formal business planning and also argues that business planning is more commonly utilised when a firm increases its number of employees. Yusuf & Saffu (2005) and Mazzarol (2005) suggest that longer established businesses are more likely to implement business planning than those that are newly established. Owusu (2007) suggests that in the average small firm, management planning, evaluation, and long-term planning in relation to business goals and objectives is rarely witnessed. Several authors postulate that younger and smaller firms make formal plans only to attract funding from financial institutions, for which a written business plans are essential. (Risseeuw & Masurel, 1994; Hannon & Atherton, 1998; Perry, 2001).

Several authors suggest that strategic decisions in small businesses are commonly based on intuition rather than any other factor (Unni 1994; Ennis 1998; O'Gorman, 2000; Antoncic & Skrt, 2004). Posner (1985) further argues that owner-managers do not actively plan, owing to deficiencies in a number of areas, including experience, knowledge and skills, therefore restricting their capacity to adequately plan. Joyce *et al* (1996) analysed the strategic management styles found in smaller businesses and highlighted four different styles: evolutionists, informal strategic, short-term planners, and strategic planners. Joyce *et al*. (1996) also argued that strategic planners are less commonly found amongst small businesses because they place less emphasis on long-term planning, opting to carry out informal business planning ('informal strategists'), i.e. without the creation and implementation of a formal business plan. Pleitner (1989) suggests that a number of small business owner-managers achieve success without actively practising what is generally defined as 'strategic planning', arguing that strategic behaviour and the perceived necessity for it ultimately rests on the individual characteristics and the personal background and objectives of the entrepreneur. Such a view is further supported by Schindehutte & Morris (2001), who emphasise that small businesses commonly choose not to implement formal, written statements of strategy, but may formulate such plans in a very flexible and general way, in consideration of changing behavioural patterns and resource allocation.

Dess *et al*. (1997) and Knight (2002) argue that complicated and uncertain environments commonly require a strong entrepreneurial position in relation to the formulation of strategies. With this in mind, a number of scholars emphasise that persistent market planning is viewed as being a condition in order for firms to achieve success, and so emphasis has since been directed towards proactive marketing strategies in the context of small firms (Siu & Kirby, 1996).

2.12.3 Marketing Strategy

Stokes (2000) argues that marketing is a key management discipline that makes the difference between small business failure and success. Recognising this, Barkham *et al*. (1996) found that marketing strategies are strongly linked with growth, while Mazzarol & Ramaseshan (1998) found a strong correlation between firm performance and formal marketing planning. These authors nominated as most important issues such as the desire to improve sales and marketing, the emphasis on pricing strategy, the importance assigned to marketing activities by the owners-managers, and the undertaking of market research. A similar positive relationship between business growth and marketing strategy has also been highlighted by Smallbone *et al*. (1995) and Tzokas & kyriazopoulos (2001). Appiah-Adu (1998) notes that a successful marketing strategy is an essential ingredient of business growth and survival not only in developed countries but also in consideration to the overall level of competition. Hogarth-Scott *et al*. (1996) argue that knowledge and understanding of the marketplace has a significant effect in terms of lessening risk, and further contributes to the overall understanding of customer needs.

Beaver (2001) argues that the establishment of a particular niche, and subsequent innovation, are fundamental strategies linked with the fast growth of small businesses, a niche strategy involving the search for uniqueness and directed at only one segment of the industry. Several scholars have argued that, whilst niche strategies may be successful, results are nevertheless reliant upon a number of different factors, including market growth and saturation (Stuart & Abetti, 1986; Westhead & Birley, 1995), industry life-cycle (Covin & Selvin, 1986), and the evolutionary stage of the industry (Sandberg & Hofer, 1986). Overall, it is postulated that those businesses adopting an aggressive strategy in relation to niche strategies have a greater chance of survival in the context of various environmental conditions (Romanelli, 1989). It is further noted that, within those markets experiencing significant growth, although such firms offering a varied product range do experience success, product specialists are recognised as achieving greater rewards in the case of declining markets.

It is argued by Winston & Dadzie (2002) that, in the context of sub-Saharan African countries, many companies are more inclined to only pay lip service to marketing concepts owing to their abstract nature. Another reason that African businesses direct less emphasis toward marketing activities is that demand often outweighs supply in many sectors (Dadzie, 1989; Appiah-Adu, 1998; Winston & Dadzie 2002).

Following research in Kenya and Nigeria, Winston & Dadzie (2002) conclude that educational level, particularly in the arena of marketing, has a positive correlation with marketing orientation. Several authors suggest that the low level of marketing training and practices apparent in African countries means that the owner-managers of such firms are less inclined to pursue marketing as a means of establishing firm growth (Mitchell & Agenmonmen, 1984; Appiah-Adu, 1998; Winston & Dadzie, 2002).

2.12.4 Competitive Strategy

The work of O'Gorman (2000) provides further support for Storey's findings through stating that a competitive strategy choice within a particular industry subsequently affects business performance; however, a number of owner-managers do not implement their own strategy but rather copy those of other businesses.

A number of generic business strategies have been highlighted by Porter (1980), namely cost leadership, focus, and product differentiation all of which have the potential to impact business growth and success. Of these three, it is recognised that cost leadership and differentiation strategies are applicable, as supported by Chagnanti *et al*. (2002). In regard to the limited resources often available to small business, it is recognised that differentiation is commonly based on highly specific elements. With this in mind, it may be stated that successful product differentiation strategies may be summed as comprising one of the following factors, as advocated by Porter (1980):

i. being viewed as either 'specialists' or 'unique’
ii. delivering innovative products or services
iii. ensuring on-going and focused attempts to differentiation, subsequently avoiding competition with larger firms
iv. implementing proactive and premeditated efforts to increase and diversify the product market choice and its resource base.

Additionally, it has been suggested that small business success is facilitated when the firm operates in a hospitable manner, making efforts to understand how its customers evaluate its output be this a product or service (Osborne, 1993). Furthermore, Osborne (1993) pointed to the fact that successful small businesses steer clear of markets that are dominated by one or more large companies with product or price leadership, that appreciate the underlying economics in which the business operates, and is careful about running a business in which discretionary cash flow is suppressed or eliminated by capital requirements.

2.12.5 Employee Skills and Training

There has been much research focused on areas of small business skills and competence such as cash flow control, finance, marketing, market research, personnel management and quality control (Storey, 1985; Gill, 1985; Smallbone, 1990; Macrae, 1992; Townroe & Mallalieu, 1993; Terpstra & Olson, 1993; Atkin & Perren, 1995). Several researchers have established a link between small firm growth and employee ability, knowledge and skills (Prahalad & Hamel, 1990; Hall, 1991; Townroe & Mallalieu, 1993).

A wealth of research evidence suggests that those firms implementing training for their staff have an increased chance of survival and of achieving growth in both employment and sales (Storey & Westhead, 1996; Storey & Westhead, 1997; Cosh *et al*., 1998; Kerr & McDougall, 1999; Van Der Heijden, 2001; Huang, 2001; Nottinghamshire Research Observatory, 2002a; Patton & Marlow, 2002; Robertson, 2003; Savery & Luks, 2004; Jones, 2004). It is further emphasised by Huang (2001) that a well-trained employee base is viewed as critical when striving to achieve and maintain competitive advantage. Foreman-Peck *et al*. (2003) suggest that a management team that is focused on growth is more likely to achieve increased productivity through investing in employees' skills.

However, as reported by Storey &Westhead (1997), small businesses are less likely to deliver any type of training initiatives to their staff compared with larger businesses. Training becomes more prevalent as firm size increases, as highlighted by Storey (1994). A number of other scholars have concluded much the same (Maton, 1999; Patton & Marlow, 2002), frequently emphasising that larger businesses are more inclined to utilise training programmes and initiatives (Savery & Luks, 2004; Nottinghamshire Research Observatory, 2002a; Kitching & Blackburn, 2002).

Furthermore, in small businesses formal training tends to be less common than informal training in the workplace (Nottinghamshire Research Observatory, 2002b). According to Huang (2001), inconsistent findings in relation to the link between small firm performance and training can be explained by considering the widely varying definition of training, with informal training not reported as such. Research has shown that the use of training varies greatly between firms.

The lack of training utilised amongst small firms is widely reported as being due to a shortage of resources (Storey, 1994; Storey &Westhead, 1997; Kitching & Blackburn, 2002; Edelman *et al*., 2002; Robertson, 2003; Savery & Luks, 2004). It is clear that there are implications for a business should employee training be considered too expensive; although a business may survive without such initiatives, growth potential may nevertheless be hindered (Kirby, 1990). Mahmoud (1992) suggests that there may be problems in the acceptability of training by both staff and management, establishing the most appropriate training programme, training costs, training quality, the evaluation of outcomes and the identification of suitable institutions for delivering training.

The high level of informal training that is typical of developing countries is viewed as being a reflection of a significant level of dependence on the production of primary products, with less attention directed towards developing consumer markets (Jackson, 2002). Webster & Wood (2005) found that 69% of a sample of firms in Mozambique, were found to partake in some degree of informal training, further stating that such training initiatives were considered the most practical and suitable strategies in consideration of adverse external conditions, such as few governmental programmes for personal development, limited high-growth potential jobs, limited official educational facilities and programmes, and limited wealth-creation opportunities in the private sector. Curran *et al*. (1996) and Patton & Marlow (2002) suggest that this could also be due to the style of the recruitment process amongst small firms, in addition to a shortage of financial resources and time.

Robertson (2003) argues that in developing countries, smaller businesses have a greater degree of dependence on government guidance and resources for staff training of their staff but that, should resources become available training may suffer because of a lack of knowledge and experience with regard to the ways in which training and skills should be invested

2.12.6 Technological Sophistication

Storey (1994) argues that technological sophistication can be considered as an investment in areas such as research and development, the employment of qualified scientists and engineers, investment in advanced facilities and equipment, and patenting. Wijewardena & Tibbits (1999) recognise that technology development may be hindered by conservative attitudes of owner-managers, with such individuals lacking the necessary resources and evaluation skills. Furthermore, there are a number of real limitations in relation to the general availability of low-cost finance for small businesses, and exaggerated by conservative attitudes towards external financing and limitations in financial management.

Woodward (1966) and Lin (1998) suggest that information technology has provided small businesses with economies of scale previously only available to larger entities. Phillips & Kirchhoff (1989) and Storey (1994) point out that technology firms tend to have more formal management structures and a greater number of highly qualified staff.

2.12.7 Exporting

A number of studies have focused on establishing a link between small business growth and exporting, with varied findings. For example, neither Brixy & Kohaut (1999) nor Wolff et al, (2004) show a positive relationship between employment growth and exporting. However, Kitson & Wilkinson (2003), when comparing between fast-growth businesses stable or declining ones, found that businesses achieving medium growth have a greater degree of dependence on international markets than local markets. Wagner (1995) established that, of a German sample targeting 7,000 manufacturing businesses, a positive relation was found between export performance and growth. Barkham *et al*. (1996) argues that businesses seeking to achieve foreign market access need to ensure overall competitiveness.

2.13 External Factors as Constraints on Small Business Growth

2.13.1 Introduction

Numerous authors have suggested that the external environment can have a powerful impact on the growth and development of small businesses (Peng & Heath, 1996; Wyer, 1997; Peng, 2000; O'Gorman; 2001; Andersson; 2003; Smallbone & Welter, 2003). Goedhuys and Sleuwaegen (1999), Smallbone and Wyer (2000) and Dobbs and Hamilton (2007), suggest that the external environment also has an important role to play in terms of shaping the intentions surrounding growth and development in the minds of owner-managers. Therefore, both external, macro-environmental and internal factors impact on the business growth decisions made by the owner-manager (Davidsson 1991; Wiklund 1999; Dobbs and Hamilton 2007).

Smallbone & Wyer (2000) suggest that small businesses are more vulnerable to environmental forces in that they generally have a smaller scope of activities, employ fewer individuals, and operate within a limited market. Robertson (1996) suggests as reasons for vulnerability to environmental forces: inadequate resources, a limited ability to withstand fluctuations in market conditions, a lack of managerial experience, inefficient scales of operation, and inadequate technology. Schindehutte & Morris (2001) suggest that smaller firms often have less liquidity, a high dependence on a few products and services and a narrow focus on a niche consumer base. Aldrich & Auster (1986) acknowledge that small firms tend to have limitations in tax advantages and the potential to raise capital, and suffer higher regulation-related costs.

Another important environmental consideration is the impact of the behaviours of large firms (Robertson, 1996; Smallbone & Wyer, 2000) such as strategic and sub-contracting partnerships, which can be an essential factor in the potential growth of small companies (Smallbone & Wyer 2000). Welter & Smallbone (2003) identify other environmental factors known to inhibit growth, including low public-sector salaries that tend to increase bureaucracy and corruption, inadequate education and training and an inefficient legal system.

However, change in the business environment, whilst potentially inducing uncertainty, also tends to create opportunities for small firms (Miller, 1987). Such changes often create growth-enhancing conditions (Wiklund, 2001) that enable some small firms to thrive.

In this section, a number of key aspects of the external environment are discussed with respect to their potential impact on the growth of small businesses.

2.13.2 Inadequate infrastructure

In many developing countries, poor infrastructure is recognised as a growth constraint, as is the case in small firms operating in Africa, with the absence of energy and telecommunications creating significant problems (Reinikka & Svensson, 1999; Rankin *et al*., 2002; Wolff et al, 2004). For example, in the context of Uganda, it has been observed by Reinikka & Svensson (1999) that, owing to regular interruptions in power, a number of firms spend 16% of their initial investment on securing energy resources. In addition, it is recognised that a lack of industrial sites also poses a problem to new and upcoming firms, which is a problem particularly prevalent in both Ghana and Tanzania (Buam, 1996; Verspreet & Berlage, 1998).

2.13.3 Impact of the taxation system

Numerous authors have argued that the growth of small businesses can be significantly constrained by an inappropriate and inefficient tax system, which also encourages owner-managers to redirect activity to the informal economy (Bartlett & Bukvic, 2001; Smallbone & Welter, 2001; Aidis, 2003; Welter & Smallbone, 2003). Without question, high taxes reduce the income of owner-managers, subsequently hindering their potential for growth and expansion. Notably, high taxes induce a number of different consequences, which are felt more keenly by those businesses achieving high growth (OECD, 1998).

2.13.4 Government bureaucracy

Tybout (2000) argues that in the context of developing countries' manufacturing firms, there are often burdensome regulations that are biased against small businesses, with the result that such businesses may either be unable to develop or grow or keep their growth ‘under the radar’. Bartlett & Bukvic (2001) found that in the transitional economy of Slovenia bureaucracy had the potential to affect business growth. Verspreet & Berlage (1998) argue that small firms in Tanzania are inhibited in terms of their growth as a result of regulations, with the effect that a large number of small businesses in Africa may choose to remain informal. In this regard, a large number of business owner-managers feel that their firms should not be permitted to expand further than a specific level so as to ensure high regulations and associated restrictions are avoided (de Soto, 1989; Bartlett & Bukvic 2001; Trulsson, 2002).

However, Goedhuys & Sleuwaegen (1999) found that in Burundi regulations are recognised as being less restrictive in the context of small firms and micro-enterprises, with impacts upon larger and longer-established businesses also being less severe. In the context of Ghana, (Baah-Nuakoh & Tutu, 2003) found that small firms are impacted to a much less significant degree in relation to regulations when compared with larger businesses.

2.13.5 Legal system

Other factors that can have an impact on small business growth are the quality of the legal and enforcement systems, as well as overall confidence in the legal system, the affordability and consistency of courts, and the enforcement of court decisions (Beck *et al*., 2002). It is suggested that Frances (2004) that a weak and ineffective legal system can limit owner-managers to doing business only with individuals known as trustworthy and on the basis of reputation, as opposed to directing emphasis and reliance on the legal system.

2.13.6 Government strategy and support

Undoubtedly, small firms and their growth and development may be facilitated by government strategy and support, as highlighted by Yusuf (1995), who argues that governments benefit by helping small businesses to grow in terms of employment rates. Tam & Tay (1994) suggest that government support, particularly in terms of financial aid, is a critical success factor in the growth of development of small businesses. Such support comprises the delivery of basic infrastructure, advice on protection against large-scale competition, loans and tax incentives (Yusuf, 1995). However, it is recognised that it is important to analyse and evaluate government support provision in line with the growth and development of small firms.

While government support for small firms is widespread in developed countries, this is typically less so in developing countries. For instance, Soderbom (2001) found that in Kenya there was a significant lack of an adequate support system, which was recognised to be a significant constraining factor amongst small firms.

2.13.7 Late payment of invoices

The OECD (1998) reports that small businesses operating within member countries are severely impacted by late payments, further suggesting that late payments have more far-reaching effects in relation to small businesses than their large-scale counterparts owing to the vulnerability and cash flow constraints of small businesses. This situation can be worsened when, in an attempt to increase demand, such businesses may feel their only option is to provide credit-constrained clients with credit, although this notably results in many late payments followed by subsequent default. This tends to be a serious problem in many developing countries, as recognised in the context of Zimbabwe by Fafchamps (1997) and in Kenya by Kimuyu and Omiti (2000), who found that more than 50% of owner-managers interviewed stated that trade credit related problems need to be overcome.

2.13.8 Corruption

Corruption is endemic in many developing countries, often because additional bonuses and remuneration are achievable by those who are not well compensated, subsequently heightening the problem (Bardhan 1997; Fisman & Svensson, 2002). Many scholars have argued that corruption has a significantly negative effect on the growth of small firms, owing to the secrecy and uncertainty commonly going hand-in-hand with bribery payments, alongside inadequate regulation of the award of government contracts (Sheifer & Vishny, 1997; Johnson, Kaufmann & Shleifer, 1998; Wei, 2001; Bartlett & Bukvic, 2001; Beck *et al*., 2002; Fisman & Svensson, 2002; Aidis, 2003). Furthermore, smaller firms may be affected to a greater degree by corruption owing to the fact that they do not have adequate resources to pay bribes (Bartlett & Bukvic, 2001; Aidis, 2003).

2.13.9 Access to finance

For many small firms, funding may initially stem from personal and family savings (Storey, 1994; Cook & Nixson, 2000; Surdej, 2000; Baah-Nuakoh & Tutu, 2003), which may be recognised as being a significant hindrance to growth, particularly during the early stages of establishment (Pissarides, 1998). Many authors agree that a lack of access to credit and adequate funding is particularly relevant to business growth, with this situation evidenced more so in the context of developing and transitional economies (Pissarides, 1998; Mookerjee (1999); Kimuyu & Omiti, 2000; Tybout, 2000; Soderbom, 2001; Trulsson, 2002; Brown *et al*., 2004; Brinders *et al*., 2003; Aidis, 2003; Ayyagari *et al*., 2003; Eifert & Ramachandran, 2004; Van Biesebroeck, 2005). Kimuyu & Omiti (2000) emphasise that the problem of lack of access to credit is far more noticeable in the context of developing countries, where credit is limited, and is therefore directed towards less vulnerable firms, i.e. those recognised as being larger and more stable. It is further emphasised by Kimuyu & Omiti (2000) that imperfections in the credit market have the effect of increasing borrowing costs, thereby increasing the debt burden and increasing the likelihood of defaults.

In the research of Ayyagari *et al*. (2003), 35 different countries were taken into consideration through the utilisation of data deriving from the World Business Environment Survey, concluding that there is a negative correlation between small firm growth and financing obstacles in accessing finance. Pissarides (1998) argued that credit restrictions in Central and Eastern Europe were so significant that the financial systems within these economies were significantly limiting the growth rates of the small business sector.

In a study of nine African countries, Biesebroeck (2005) found that borrowing costs were extremely high for small firms, thus constraining their growth potential. Sleuwaegen & Goedhuys (2002) found that in Cote d'Ivoire, when considering the problems experienced by 185 manufacturing firms, lack of access to credit was ranked second to taxation as a constraint to growth, with a much more severe impact on small firms. Soderbom (2001) reports similar findings from Kenya, with credit the second most important factor constraining firm growth, with others of significance including high interest rates, corruption and a lack of demand.

2.13.10 Shortage of skilled labour

It is widely recognised that, amongst the barriers relating to firm growth in relation to skills, a national shortage of skilled workers, particularly within certain specialisations or industries provides a significant obstacle to the growth of small firms (Trulsson, 2002; Owusu, 2007; Doern, 2008). For financial and other reasons, small businesses are more likely to employ unskilled workers; however, this increases the need to implement training, although this is often almost impossible owing to restricted resources and funding (Storey & Westhead, 1996; Kotey & Folker, 2007).

2.13.11 Competition from the informal sector

Kuchta-Helbling *et al*. (2000) explain that the informal sector comprises numerous self-employed, independent individuals who engage in business without any legal registration, often in activities where no or little capital is required. Several authors make the point that the informal sector is able to significantly limit the growth of firms in the formal sector through price competition, particularly in developing countries (De Soto, 1989: Tybout, 2000; Kuchta-Helbling *et al*., 2000). For example, it is argued by Kuchta-Helbling *et al*. (2000) that informal businesses do not comply with regulations and avoid taxes, which subsequently provide them with an unfair competitive edge.

2.13.12 Competition from imports

Dinye & Nyaba (2001) argue that small firms are significantly affected by high levels of imports and that, although liberalisation of trade has provided some benefits to domestic manufacturing firms such as improving access to equipment and raw materials, it has nevertheless caused competition to surge, thus meaning smaller firms are less able to compete.

Writing about manufacturing enterprises in Tanzania, Grenier, McKay & Morrissey (1999) sought to identify whether local firms were competing primarily with each other or foreign firms, and to devise a system to measure business confidence based on predicted trends in economic indicators. This was designed to indicate whether firms believed changes in government policy would affect them. Among their findings was that trade liberalisation was associated by local firms with a perceived increase in competition from imports, and that firms obliged to compete with imports were necessarily constrained in their ability to increase prices. This was particularly true for firms which manufactured traded goods (i.e. those which made products to compete for domestic consumption with imports, or to compete with foreign firms in foreign markets), as opposed to firms that competed primarily with other domestic firms, and these firms were also more sensitive to trends in economic variables, and vulnerable in terms of how changes in government policy affected them.

In contrast, Colantone, Couke & Sleuwaegen (2010) found that in a study conducted in eight European countries, it was large manufacturing firms that were more at risk due to cheaper imports from low-cost countries, and that in many cases this led to their exit from the sector altogether. They characterised this effect as a significant impact, but found that smaller firms were less often directly affected, because their size enabled them to be flexible enough to find niche markets, or to operate successfully in a narrow geographic market.

2.13.13 Socio-Cultural Factors

Gibb (2000) recognises that knowledge transfer may be constrained as a result of cultural differences and obstacles. Curran (2000) argues that whereas small businesses can be found across the world, there are distinct differences to be acknowledged in regard to attitudes, relationships, and institutionalised forms, etc. and that many frameworks and theories are applicable only to a Western culture, and may therefore not be relevant in other cultural environments. Nevertheless, focus and attention should be directed towards culture and the environment when seeking to develop understanding concerning small firms and their practices (Siu *et al.*, 2003).

A number of researchers have suggested that socio-cultural factors may inhibit the growth of firms in Africa. Owing to the high social status and extended family system within these countries and enjoyed by firm owner-managers, a number of small businesses direct their resources to family members at the expense of their business, as highlighted by Kiggundu, (2002). Takyi-Asiedu (1993) emphasises that, in the context of Kenya, a large amount of resources are directed towards supporting family members, most commonly by female owner-managers.

2.14 Business Growth in Developing Countries

As has already been documented earlier in this chapter, developing countries differ in many ways from the advanced nations and consequently the business growth theories that have been formulated by researchers after considering occurrences in developed countries, may have very little application in developing ones. In this respect, Tybout (2000) characterises the majority of developing countries as have small markets, lacking access to manufactured goods, having low stocks of skilled manpower, lacking an adequate infrastructure, experiencing extreme macroeconomic and relative price volatility, and suffering from poor legal systems and governance. Given that the majority of developing economies have been previously colonised, they have legacy of some large enterprises, with the outcome that dual market structures continue to exist (Kaufmann & Parlmeyer, 2000). Indeed, it is noted (Aryeetey & Harrigan, 2000) that after independence, many African countries opted for rapid industrialisation via the mechanism of state controlled enterprises, and that such entities prevail today, regardless of privatisation policies.

However as far as small business in developing countries are concerned, there has been little finance for investment given various economic reform initiatives which themselves have precipitated the devaluation of national currencies, reduced purchasing power, and a dramatic negative effect on domestic fiscal and monetary policies (Mambula & Sawyer, 2004). The lack of foreign exchange brought about by such scenarios has prevented small business from importing the necessary goods and raw materials, consequently depressing growth (Mambula and Sawyer, 2004).

The influence of institutional influences on the growth of firms in developing economies has been noted by Goedhuys and Sleuwaegen (1999) who suggest that growth opportunities are hampered by the underdevelopment of both input and product markets, the low volume of market participants, and the consequent high costs of transactions. Additionally, researchers have concentrated on less developed credit markets when investigating growth in developing economies (Goedhuys & Sleuwaegen, 1999; Tybout, 2000; Smallbone & Welter, 2001).

Furthermore, attention is also given to levels of formality and informality (de Soto 1989; Goedhuys & Sleuwaegen 1999, Tybout 2000, Smallbone & Welter 2001, Schmitt-Degenhardt et al. 2002, Welter & Smallbone 2003). On this issue, it is argued by de Soto (1989) that the institutional weaknesses and the purposeful behaviour of policy-makers in developing countries cause a high level of informal activities that hamper small firm growth, since it becomes hard for them to gain access to licenses, credit, and ownership of properties. All these shortcomings mean that small businesses are prevented from formalising their activities. What is needed to reverse this negative environment, according to de Soto (1989) are market deregulation, improved legal systems, and clear property rights. However, criticism of Soto's ideas comes from Altenburg (1997) who argues that institutional reform is apparent in the majority of developing countries with a view to reducing bureaucratisation and other obstacles to the formalisation of transactions. That said, there has been no direct relationship observed between the extent of reforms and the volume of informal transactions (Schmitt-Degenhardt et al., 2002). Indeed, it has been documented by Nwankwo and Richards (2004) that the structural adjustment policies required by the World Bank and the International. Monetary Fund have not brought the intended growth to African Countries, the majority of which remain devoid of robust institutions and consequently are hampered in their efforts to reform and grow new business.

Goedhuys and Sleuwaegen (1999) researching in Burundi were able to determine that an increase in a firm's formal characteristics precipitates a 31% increase in the annual employment growth rate, and that formal and well established businesses increase faster as resources which are scarce are allocated to them rather than to informal businesses. It is concluded by Goedhuys and Sleuwaegen (1999) that it is institutions that perpetuate the situation where unequal resource distribution affects the growth rates of small firms. Moreover, these researchers argue that such institutions actually push growth opportunities in the direction of those businesses that already enjoy better access to resources. This scenario just outlined is not specific to Burundi, nor to Africa, however, as Smallbone and Welter (2001) have discovered similar happenings in the former Soviet Countries. According to them, most small business in those countries are very small and exist in the main in the trade and services industries as part of the informal economy in order to depress operating costs.

In research conducted in Mozambique by Kaufmann and Parlmeyer (2000) it was found that informal businesses are benefitted by being able to offer cheaper products, being more flexible and closer to markets. Additionally, they note that particular cost advantages can accrue to these informal businesses if they by-pass certain laws and regulations. In the context of Mozambique, Kaufmann and Parlmeyer (2000) believe that the majority of small firms do not aim for growth, since it is only by being small that they are able to remain competitive and to retain the advantages they attract by paying no taxes, offering low salaries, not providing any social standards, not being bureaucratic, and having flexible financial arrangements.

These ideas echo those of Goedhuys and Sleuwaegen (1999) who report that regulatory frameworks usually place more restrictions on large companies than on small ones, and that the latter find it easier to get around most regulations.

It has been shown that the motivation of owners/managers and the resources and capabilities of a firm are deciding factors in terms of eventual success (growth), but in fact it is empirically suggested that the major influence on small business growth in developing and transitional economies is the external environment (Peng & Heath, 1996; Peng, 2000; Smallbone & Welter, 2003).

Another important influence on the growth of a small business in a developing country environment, are the informal institutions, which North (1990) identifies as codes of conduct, values and norms which are embedded in a society, and which function to provide support, and hence a resource, for the development of small firm growth. And as noted by Smallbone and Welter (2001), informal institutions such as networking and the use of personal contacts, are particularly valuable for business development in transition economies.

From the networking viewpoint, Smallbone and Welter (2001) suggest that relationships between firms are valuable economic links uniting activities, resources, and actors, and simultaneously enhancing firms' competitiveness by the additional resources and knowledge at their disposal via these additional resources. And as noted by Mambula and Sawyer (2004), in Nigeria, support, grants, loans and other types of government and private-sector support to small firms are all allocated on the basis of pre-existing networks.

Networking and the use of personal contacts are argued by Smallbone and Welter (2001) to be very valuable tools for solving business problems and especially so in the context of a move to implementing the conditions for sustainable private development. Invariably family members (both immediate and extended) help owner-managers in the operation of their businesses, as they provide capital, liaise with their own personal contacts for the good of the firm, and offer their own labour (Neshamba, 2004; Mambula & Sawyer 2004). However, it is noted by Smallbone and Welter (2001) that personal trust which is employed to stand in for the absence of efficient formal institutions may eventually have a negative influence upon firm growth and competitiveness. Moreover, Smallbone and Welter (2001)warn of the dangers of too much co-operation saying that in the long term this may act to constrain a firm's development as the spirit of competition is broken.

In Africa, it has been found by McPherson (1996) that the location of a small business is heavily influential in the growth of small businesses. Indeed using data from five countries in Southern Africa, McPherson (1996) observed that such firms located in commercial districts and urban areas demonstrate higher growth rates than those located in rural surroundings. Additionally, he indicated that a substantial edge can be realised by small business in urban areas if there is access to high-income customers. A similar conclusion was reached by Goedhuys and Sleuwaegen (1999), Liedholm (2002); Mambula and Sawyer (2004) who all observe that urban businesses are more accessible than rural ones because of the absence of infrastructure in many rural areas. Furthermore, firms that are closer to the markets (i.e. urban centres) and sources of competition are likely to find these conditions influence their growth and profitability both positively and negatively since whilst competition may require them to keep market prices low, there may actually be advantages to be derived from being close to other small businesses that can, as previously mentioned, serve as an overall support network (McPherson, 1996).

Not surprisingly, however, the effects of location in developing environments are not the same as the effects in the advanced economies. Indeed much research has demonstrated that in the UK, for example, being located in a rural area is a positive sign for growth in small firms (Keeble & Bryson, 1993; Vaessen & Keeble, 1995; Smallbone et al., 1997; Hart & McGuinness, 2003).

Again, as would be expected, it has been found that the characteristics of owner-managers are influential on small firm growth in developing and transition economies, just as in the developed contexts, and in particular training, education, and previous business experience are cited as being positively influential (McPherson, 1996; Goedhuys & Sleuwaegen, 1999; Smallbone & Welter, 2001; Liedholm, 2002; Delmar and Shane 2006). Gender, however, has emerged has having significant impact in this respect (McPherson, 1996).

One important characteristic of certain small firms in advanced economies, is interestingly not present in developing countries, as regard by Schmitt - Degenhardt et al. (2002) who note that firms falling into the 'stagnant satisfier' category suggested by Clark et al (2001) referred to earlier, do not actually exist in those context. This 'life-style firm' as they describe it is founded on two particular assumptions (a stable business environment and limited competition that is not threatening to small businesses) but that whilst initially state protection provided such an environment for heavy industries in developing countries, the situation since the early 1960s has changed dramatically as their economies have been liberalised. The foreign competition has removed from many small businesses, the luxury of state protection and their ability to be satisfied with their performance and continue with their previous business strategy (Schmitt, Degenhardt et al., 2002).

2.15 Summary

The chapter started with definitions of small businesses that are applied around the world. The categorisation of a business as ‘small’ can be done in several ways, but most commonly, especially in the developing world, it is based on the number of employees. This was the basis of definition of small businesses adopted by this study.

The chapter then reviewed the literature on small businesses and entrepreneurship, and considered the different issues surrounding the concepts of entrepreneur and owner-manager. There was then discussion of the role and importance of small businesses in developing economies such as Libya. The literature agrees that small businesses, and small manufacturing firms in particular, can be the motors of developing economies, achieving rapid growth and providing employment and capital for future expansion. Therefore, factors that encourage or constrain the growth of small firms are of major importance to a developing economy.

This recognition of the importance of growth led to a consideration of the measurement of growth, the factors that have been found to affect it, and the role of government in encouraging small firm growth. The literature review suggests that weak oversight of tax regimes and other administrative systems, endemic corruption, and low levels of transparency are all factors that combine to constrain the growth of small businesses in developing economies. The theoretical approaches taken in the literature to account for small firm growth (or its absence) were also presented, with acknowledgment that no one theory has emerged as dominant and each contains both strengths and weaknesses. The literature on research into small business growth in developing countries indicates that it is very difficult to generalize about growth factors between different economies, and that developing economies are not a homogenous group, but have their own distinctive cultures and business environments that strongly effect the prospects for growth within each county.

Additionally, the chapter discusses the characteristics of the owner-managers of small firms, and provides an overview of which characteristics have been found to be most influential on growth by researchers. Although differences exist between developed and developing economies, generally it can be stated that the literature finds a certain consensus on important influential factors on firm growth. The chapter then considered the literature surrounding the characteristics of the businesses themselves as influences on growth, including factors such as location, ownership structure and legal status. This last factor is identified in the literature as being of much greater importance in developing countries, where illegal businesses are able to secure a much larger share of certain markets than is the case in better regulated developed economies. The strategy of businesses is also presented, including an overview of the literature pertaining to small manufacturing businesses in developing countries on marketing, training and planning strategies. The literature indicates that such strategy as exists is usually informal and lacks a written plan, and that much of the management of small firms is instinctive or reactive. The chapter concluded with a review of the literature concerning the effect of external environmental factors on growth, such as infrastructure, bureaucracy and corruption, sources of finance, availability of skilled labour and the general business environment of the country. These factors tend to highlight major differences between developed and developing countries in terms of the business environment.

The findings from the literature review are summarised in the following table:

Table 2.5: summary of factors that support or constrain growth

Influencing factor	**Supports growth** Research evidence	**Constrains growth** Research evidence	**Common to many countries**	**Common to many developing countries**
Owner-Manager Characteristics				
Growth aspiration (strong/weak)	Strong	Strong	✔	✔
Motivation (strong/weak)	Strong	Strong		✔
Education level (high/low)	Mixed	Mixed	✔	✔
Age	Mixed	Mixed	✔	✔
Gender	Mixed	Mixed		✔
Prior managerial experience	Mixed	Inconclusive		
Prior industry experience	Fairly strong	Inconclusive	✔	
Family business history	Mixed	Mixed	✔	
Portfolio ownership	Inconclusive	Inconclusive		✔
Personal networks	Some	Inconclusive	✔	✔
Firm characteristics				
Age of firm (inverse)	Very strong	Strong	✔	

Size of firm (inverse)	Strong	Strong	✔	✔
Sector and sub-sector	Strong	Strong		
Location (urban vs. rural)	Fairly strong	Fairly strong	✔	✔
Number/relationship of founders	Inconclusive	Inconclusive	✔	
Appropriate legal status	Inconclusive	Inconclusive	✔	
Business strategy				
Product innovation (high/low)	Fairly strong	Fairly strong	✔	✔
Process innovation (high/low)	Fairly strong	Fairly strong	✔	✔
Business planning (implemented/not implemented)	Very strong	Very strong	✔	✔
Marketing strategy (implemented/not implemented)	Fairly strong	Fairly strong	✔	✔
Employee skills and training (high/low)	Fairly strong	Fairly strong	✔	
External factors				
Market/economy (growth/declining)	Very strong	Very strong	✔	✔
Competition (weak/strong)	Very strong	Very strong	✔	✔
Infrastructure (good/inadequate)	Fairly strong	Very strong		✔
Taxation system (efficient/inefficient)	Inconclusive	Very strong		✔
Government bureaucracy (favourable/onerous)	Inconclusive	Very strong		✔
Legal system/regulation (efficient/inefficient)	Inconclusive	Very strong		✔
Government policy/support (supportive/unsupportive)	Inconclusive	Strong		✔
Late payment of invoices	Inconclusive	Fairly strong	✔	
Corruption	Mixed	Very strong		✔
Access to finance (easy/difficult)	Fairly strong	Strong		✔
Shortage, instability of skilled labour	Inconclusive	Very strong		✔
Competition from informal businesses (weak/strong)	Inconclusive	Strong		✔
Competition from imports (weak/strong)	Inconclusive	Very strong		✔
Socio-cultural factors	Fairly strong	Fairly strong		✔

Table 2.5 summarises the strength of research evidence for each factor as a supporter of growth or as a constraint. As may be seen, some of the factors are general to both developed and developing countries, while some, particularly unfavourable environmental characteristics, are typical of many developing countries.

The categories and factors shown in Table 2.5 formed the basis of the interview structure and then of the analysis. The full set of factors explored in the research may be seen in the interview guide included as Appendix 3.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

A number of fundamental decisions need to be taken by researchers when deciding how to conduct a study, with attention directed towards establishing the research approach, gaining access to data, gathering data, and accordingly meeting the goals and objectives relevant to the study. Dobbin & Gatowski (1999) argue that the research design is initiated from the selection of a topic and the subsequent decision of a research approach to be utilised and that these choices reflect a number of beliefs and postulations, such as in regard to how studies should be carried out and what is involved in terms of evidence, problems and solutions.

A methodology considers the way in which a study should be carried out, taking into account the theoretical and philosophical issues surrounding a study, as well as their subsequent effects in relation to the techniques utilised (Saunders, Lewis & Thornhill, 2007). Essentially, methodology is predominantly concerned with the study process in its entirety, whether in terms of data and its collection and subsequent analysis or its theoretical underpinning (Collis & Hussey, 2003). The concept of ‘research methods’ has been defined by Crotty (1998) as the approaches or techniques utilised in order to gather and analyse data associated with study hypotheses or questions. In this regard, it can therefore be stated that a number of procedures and activities, when implemented in consideration of analysing and gathering data, are necessary for the study.

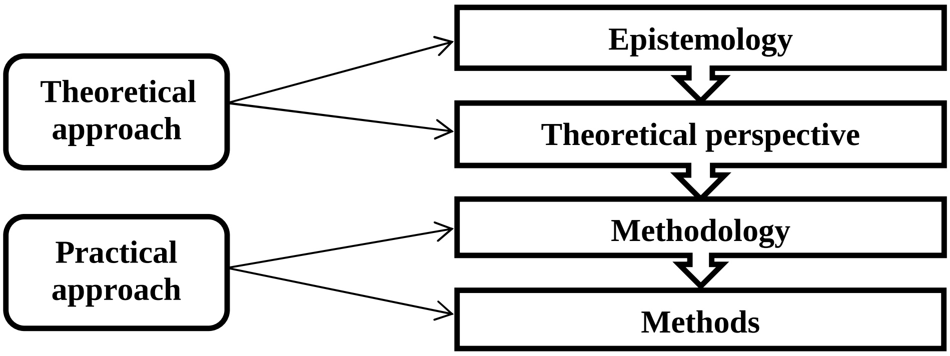
Silverman (2001) acknowledges that all methodologies have their strengths and weaknesses, with no approach being completely appropriate to a given study. Saunders *et al*. (2007) note that there are numerous research strategies available, including action research, archival and ethnography research, case study, experience, grounded theory, and surveys. The same authors suggest that no research strategy is more advantageous or better than another; essentially, a research strategy can only be considered suitable if it facilitates the researcher in fulfilling the study aims and provides answers to the research questions.

With this in mind, this chapter discusses the alternative approaches that were available for this research and elaborates and justifies the choices made.

3.2 Research Approach

Crotty (1998) identifies a number of different research issues that need to be taken into account in developing an overall approach: the theoretical approach (epistemology, theoretical perspective) and the practical approach (methodology, methods), as shown in Figure 3.1.

Figure 3.1: Research Approach



Source: Crotty (1998, p.4)

Crotty's (1998) model is valuable in that it considers the study from a broader, more extensive viewpoint, and subsequently narrows down the procedure through a number of logical steps. Accordingly, this chapter considers the philosophical issues of ontology and epistemology, as well as the theoretical standpoint. Moreover, the methods utilised for data gathering and subsequent analysis are considered in relation to the detailed methodology.

Crotty (1998, p.2) argues that any research process comprises four basic elements in the form of questions, which need to be taken into account by the researcher prior to starting a study. The first two are concerned with the practical approach, whilst the latter two are focused on the theoretical approach:

- What methods do we propose to use?
- What methodology governs our choice and use of methods?
- What theoretical perspective lies behind the methodology in question?
- What epistemology informs this theoretical perspective?

Creswell (2003) conceptualised Crotty's model and introduces a framework that takes into account three different design-related research considerations, as illustrated in Figure 3.2:

i. The knowledge-related claims of the researcher, with attention towards the theoretical perspective;
ii. The inquiry approaches, which will assist the process; and
iii. The methods utilised for data collection and subsequent analysis.

Figure 3.2: Knowledge Claims and Strategies of Inquiry; Methods Leading to Approaches and the Design Process.

Elements of Inquiry	**Approaches to Research**	**Design Processes of Research**
		Questions
Alternative knowledge Claims	Qualitative	Theoretical lens
Strategies of Inquiry	Quantitative	Data collection
Methods	Mixed Methods	Data analysis
		Write-up Validation
	Translated into practice	

Source: Creswell (2003, p.5)

Creswell (2003) argues that the knowledge-related claims, in addition to the use of of quantitative or qualitative research, or a combination thereof, determine the methods and analysis techniques utilised, all of which make some contributions to the overall approach.

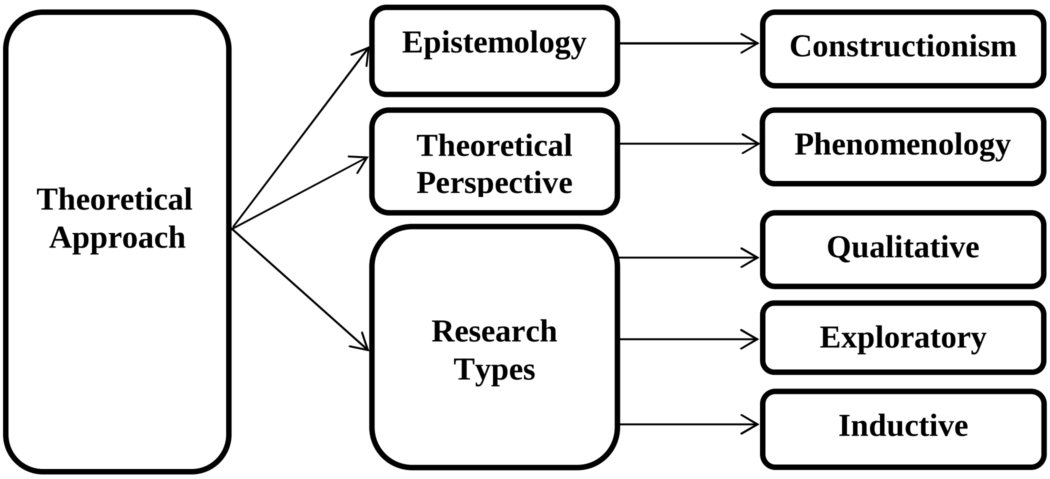
Gill & Johnson (2002) identify a number of research types, categorised as follows:

- The overall research purpose or the rationale for carrying out the study, i.e. analytical, descriptive, exploratory or predictive research;
- The overall research approach or method utilised to gather and analyse data (qualitative or quantitative);
- The logical approach to the research, as well as whether the research adopts a general-specific approach or specific-general (deductive or inductive)
- The research results and whether or not the research seeks to overcome a particular problem or to otherwise contribute to knowledge within the respective field (applied or theoretical).

3.3 Research Theoretical Approach

The following sections discuss the 'theoretical Approach' stage of research design, according to Crotty's (1998) model as illustrated in Figure 3.1. Figure 3.3 shows an expanded model of Crotty's (1998) theoretical Approach.

Figure 3.3: Illustration of the research theoretical approach



Source: Author, adapted from Crotty (1998)

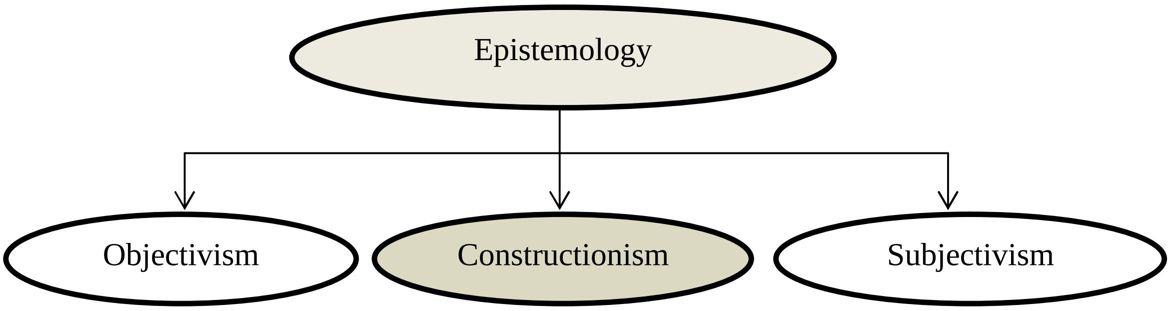
The framework illustrated in Figure 3.3 is useful, as it distinguishes between the underlying philosophical issues (ontology and epistemology), the theoretical perspectives and 'research types': the broad issues and considerations that together shape the research design and thus the practical approach. The boxes on the right-hand side of Figure 3.3 have been filled to illustrate the elements of the theoretical approach adopted for this research. These elements will be justified in the discussion that follows in sections 3.3.1 to 3.3.5 below.

3.3.1 Epistemology and ontology

The term 'epistemology' is believed to have been utilised in its first instance in 1854 by Scottish philosopher James Frederick Ferrier, who was involved in the Institute of Metaphysics and highlighted two difference branches of philosophy: epistemology and ontology (Dagobert, 1942). The term 'epistemology' stems from the Greek word 'episteme', which refers to knowledge or wisdom, and is a branch of philosophy predominantly focused on knowledge theory in regard to achieving understanding of social reality, methods, and ensuring validity (Grix, 2002). Ontology is concerned with the underlying nature of reality: 'the science of what is, of the kinds and structures of objects, properties, events, processes and relations in every area of reality' (Smith, 2003, p.155).

Crotty (1998) provides a simple definition for epistemology, describing it as the way in which we understand what we know. Tribe (1997) suggests that the concept has one fundamental focus, namely that of validity. De Rose (2005) argues that epistemology deals with factors and considerations regarding the nature, scope and sources of information. Crotty (1998) describes that epistemological perspectives can be grouped into three main groups: constructionism, objectivism, and subjectivism (see Figure 3.4).

Figure 3.4: Epistemology categories



Source: Crotty (1998, p.5)

The term 'objectivism' was first developed by a Russian writer Ayn Rand in 1962, when it first appeared in the introduction to objectivist epistemology, and is widely acknowledged as one of her most valuable and important contributions within the arena (Ayn Rand Institute, 2008). Crotty (1998) argues that objectivists hold the view that meaningful reality is apparent as one aspect of consciousness, while subjectivists hold the view that reality or meaning is subjective and not able to be readily explored by others. Crotty (1998) further suggests that constructionism is the belief that all knowledge concerning meaningful reality is created both within and outside of human interactions with their world and communicated within a predominantly social context.

From an ontological perspective, the data gathered in this study were essentially the views of Libyan business owner-managers in regard to factors that influenced business growth, including the business, its strategies and external factors such as the activities of the government. The viewpoints and opinions of the participants are developed, influenced and shared by experience, knowledge and relationships, as well as by the overall sociocultural environment. These views and opinions are subjectively held by the business owners and are not in the objective domain or capable of objective observation or measurement. Moreover, they are at least in part socially constructed, as they are modified by many social and environmental influences. Since the study was concerned with interpreting these views and opinions, it is reasonable to argue that the study epistemology is constructivist as opposed to subjectivist.

3.3.2 Interpretive and phenomenological approaches

Neuman (2000) suggests that those studies adopting an interpretive stance are essentially focused on the investigation of a certain phenomenon in its natural environment. Schwandt (1994) emphasises that interpretive research not only seeks to establish and consider meaning but also aims to develop a good understanding of the meaning assigned to a situation by various individuals. Crotty (1998) argues that phenomenology is a branch of interpretivism, which Gray (2004) suggests is accordingly utilised for those data collection approaches that need to be less formally structured in order to try to understand the subjective world of respondents.

Titchen & Hobson (2007) argue that phenomenology concerns the study of human phenomena in everyday situations, the term ‘phenomena’ including anything human beings experience. Outhwaite (1975, cited in Denzin & Lincoln, 2000) argues that the overall aim of phenomenology is to develop insights into how we come to understand the actions of ourselves and those of others. Patton (1990) argues that phenomenological research seeks to reveal the subjective meaning and structure of people’s experiences. Denscombe (2003) argues that the phenomenological approach focuses on people’s attitudes and beliefs, emotions and feelings, meanings and perceptions. Saunders, Lewis & Thornhill (2009) suggest that a phenomenological approach enables the scholar to gain insight into what has occurred and the reasons for such.

Tesch (1994) suggests that phenomenological studies adopt an interpretive approach and are descriptive in nature, with emphasis and focus directed towards human experiences in the life-world and culture. Gray (2004) argues that phenomenological studies utilise an inductive methodology, garnering a wealth of data able to describe and explain the experiences and viewpoints of individuals in natural environments.

Given the overall aim of this research, which is to investigate and analyse the experiences and perspectives of the owner-managers of Libyan small businesses, it was considered that a phenomenological approach and interpretive methodology, with emphasis directed towards individual subjective experiences and perceptions, was most suitable.

Some of the data collected were factually based rather than in the subjective domain, such as firm age, location, sector etc. However, the main focus of the study was the subjective experiences and opinions of the owner-managers interviewed and some of these were complex and deeply rooted, requiring prompting and assisted recall during the data collection process. For this reason, a positivist/objectivist approach was rejected as inappropriate to this study.

3.3.3 Exploratory, Explanatory and Descriptive Research

With regard to the overall aim of the research, there are a number of different research categories, including descriptive, explanatory and exploratory (Gill & Johnson,2002; Robson, 1993), casual, descriptive or exploratory (Kumar, 1999), descriptive, explanatory and evaluative (Veal, 2006), and descriptive, explanatory, exploratory, and evaluative (Schutt, 2006).

Exploratory research is carried out when the researcher is uncertain of the exact nature of the issue at hand, in order to establish what is occurring, and to accordingly evaluate the phenomenon from a new standpoint. In contrast, explanatory research seeks to establish the link between factors, as noted by Saunders *et al*. (2007). In the view of Hedrick *et al*. (1993, cited in Gray, 2004, p. 32), the overall aim of a study adopting a descriptive nature is to deliver insight into a naturally occurring phenomenon.

Saunders *et al*. (2007) identify a number of key steps associated with conducting an exploratory study:

- Conducting a literature review;
- Carrying out interviews with professionals in the field
- Running focus-group interviews.

While the literature review for this research identified numerous prior studies in both developed and developing countries, the pilot interviews revealed issues and complexities that were not adequately researched or understood. This study accordingly utilised an exploratory approach, seeking to interpret and understand respondents’ experiences, attitudes and perceptions and thereby to build some initial understanding of the phenomenon of small business growth in Libya.

3.3.4 Quantitative and Qualitative Research

Creswell (2003) suggests that there are three basic types of research, namely qualitative, quantitative, and a mixed approach, or combination thereof. Creswell (1994) argues that qualitative research seeks to gain insights into or understanding of a certain arena, concern or phenomena, building complex, holistic pictures with words and in-depth reporting of informant views. Creswell (2003) further suggests that quantitative approaches are carried out with the aim of analysing and gaining understanding of any variables potentially impacting or affecting the end result. On the other hand, a mixed approach is able to utilise either quantitative or qualitative methods, or a mixture of the two.

Morgan & Smircich (1980) argue that in qualitative studies a certain approach is implemented, as opposed to a set of tools and techniques, the overall suitability of which stems from the overall nature and context of the social phenomena under investigation. Creswell (2003) suggests that qualitative studies seek to utilise a number of different knowledge claims, inquiry approaches, and data gathering and analysis measures. Holliday (2002) notes that studies utilising a qualitative approach are being used more and more in both professional and academic arenas.

Creswell (1994) suggests that the focus of qualitative research is on the overall research approach as opposed to the results of such, with researchers more interested in establishing the significance and importance associated with the ways in which people decipher life experiences. Denzin & Lincoln (2005) argue that qualitative studies have the common problem that they are difficult to classify clearly, acknowledging that the term ‘qualitative’ directs attention to the quality and meanings of the phenomena under study, rather than measuring them in regard to amount, frequency, intensity or quantity. Silverman (2001) emphasises that the data derived from the qualitative research are flexible, political, soft and subjective, while quantitative data, on the other hand, are abstract, fixed, hard, objective, and value-free. Mack *et al.* (2005) note that one of the most marked contributions of qualitative research lays in its capacity to produce contextually rich and culturally specific data.

The conduction of quantitative research usually comprises statistical analysis, which places emphasis on numerical data in terms of testing hypotheses or drawing conclusions; on the other hand, qualitative studies are more concerned with collecting rich information from a small sample (Veal, 2006). Corbetta (2003) suggests that in quantitative research mathematical and statistical measures are utilised in combination with a number of other tools, including graphs, tables, and statistical tests, using computers, data banks, files and software, etc. However, Miles & Weitzman (1994) argue that quantitative and qualitative data are commonly utilised in combination through the application of computer software, which facilitates qualitative data analysis.

Essentially, when making a choice between whether a study should utilise a qualitative or quantitative nature, the decision should be made on the basis of that which the researcher seeks to establish, as advocated by Silverman (2006). Strauss & Corbin (1998) argue that there are various factors to be taken into account when carrying out qualitative studies, including the background and inclinations of the scholar, as well as the overall nature of the study. Creswell (2003) argues that there are numerous factors with potential impact on the selection of a study methodology: the audience, the personal experience of the researcher, and the research problem itself.

Qualitative studies are able to gather rich information, which further facilitates the potential to analyse and explore new ideas in relation to the study questions. Moreover, a number of questions such as ‘how?’ and ‘why?’ can be answered, which otherwise may not be possible through a quantitative approach. Denzin & Lincoln (1994) note that qualitative studies involve emphasis on a number of different subjects in their natural environments, thus seeking to gain insight into how certain phenomena are interpreted.

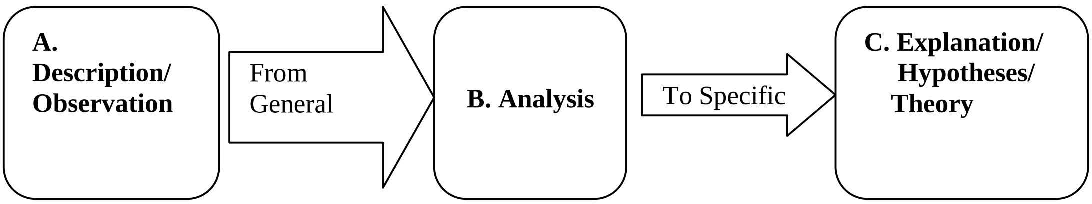
A number of quantitative studies carried out into the growth of small firms have focused on ‘how many?’ and ‘what?’ questions, failing to address other important issues, such as ‘how?’ and ‘why?’ (Berry *et al*., 2002; Ligthelm, 2004). Freel (2000) points out that quantitative approaches have delivered less valuable explanations in the context of growth, as highlighted by and is markedly concerned with conducting an objective assessment in relation to growth factors.

In the context of this research, the focus was on ‘how’ and ‘why’ questions, in exploring and interpreting the viewpoints of the sample owner-managers with respect to influences on growth. As discussed in 3.3.1 and 3.3.2 above, a constructivist epistemological perspective was adopted, together with a phenomenological approach. Accordingly, a qualitative approach was adopted for the study, with specific attention directed towards the role played by such owner-managers in relation to the growth of their business, the most effective methods utilised to induce growth, the views of the owner-managers on growth constraints, and the effects of business-related characteristics in the arena of growth. A further justification of a qualitative approach is that this research was necessarily exploratory in nature, owing to the lack of prior research in regard to the growth of small Libyan businesses, the literature available being predominantly linked with cultures and contexts different from those of Libya. Strauss & Corbin (1998) emphasise that foreign students who seek to gather data in their home country should utilise qualitative approaches so as to reflect their native cultures, behaviours and societies.

3.3.5 Inductive and Deductive Research

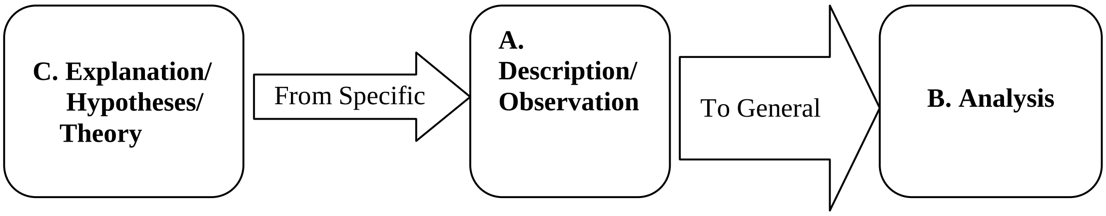
A number of writers on research methods (Gill & Johnson, 2002; Veal, 2006; Saunders *et al*. 2007) classify study types into two different groups: inductive and deductive. These contrasting approaches are illustrated in Figures 3.5 and 3.6 below:

Figure 3.5: Inductive research processes



Source: William *et al.* (1982 cited in Veal, 2006, p. 21).

Figure 3.6: Deductive research processes



Source: William *et al.* (1982 cited in Veal, 2006, p. 22)

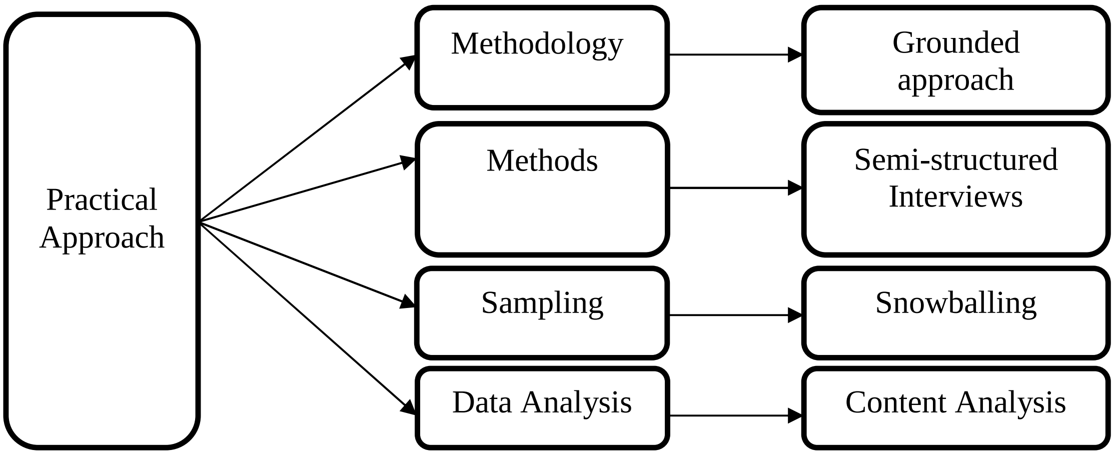
As illustrated in Fig.3.6**,** the deductive approach starts with the postulation of a hypothesis or theory, which drives the data collection process and with analysis being designed to support, elaborate or reject the hypothesis or theory. In contrast, the aim of inductive research is to form explanations and to build theory (Fig.3.5). As Gill & Johnson (2002) argue, the key difference between the approaches is that a deductive technique requires the creation of a theoretical and conceptual framework before empirical observations are carried out.

Because of the lack of prior research in this context, and because the pilot interviews had revealed some rich insights, this study adopted an inductive standpoint, meaning that the data collection process was approached without a preconceived theoretical position, and that themes were allowed to emerge from the data collection process itself. The researcher thus started at Point A with the aim of exploring and understanding the factors that impact on the growth of small manufacturing businesses in Libya through the viewpoints of the owner-managers of such businesses. Subsequently, the data were analysed at Point B, with a conceptual framework created and recommendations made at Point C.

3.4 Research Practical Approach: Data Collection and Analysis

The following sections discuss the ‘Practical Approach’ stage of research design, according to Crotty’s (1998) model as illustrated in Figure 3.1. Figure 3.7 shows an expanded model of Crotty’s (1998) Practical Approach. The boxes on the right-hand side of Figure 3.7 have been filled to illustrate the elements of the practical approach adopted for this research. These elements will be justified in the discussion that follows in sections 3.4 to 3.5 below.

Figure 3.7: Research practical approach



Source: Author, adapted from Crotty (1998)

3.4.1 Grounded Theory and Grounded Approach

It is commonplace for a study to be initiated in relation to previous research findings, providing a new study with a foundation for what needs to be investigated and how. In contrast, the grounded theory necessitates that the researcher begins work without holding any preconceived ideas or notions surrounding the nature of what is to be investigated as well as how it operates. Denscombe (2003) maintains that caution is necessary when using the term 'grounded theory', and notes that some studies have adopted the term as a description of their approach without applying the level of methodological rigour advocated by Glaser and Straus (1967).

A grounded approach, as Saunders *et al*. (2007, p.489) observe, requires the researcher to discover relationship which emerge from the data, regardless of expectations or previous findings in the field, and that 'this is referred to as a grounded approach because of the nature of the theory or explanation that emerges as a result of the research process'. Saunders *et al.* (2007) also stresses the need for a grounded approach to have a clear purpose, which informs the development of a conceptual framework.

One of the most fundamental aspects of the grounded theory concerns the data analysis procedure, which comprises the categorisation and identification of phenomena, as well as its subsequent in-depth description. In this regard, significant importance is assigned to open coding as an integral aspect of the data analysis process (Borgatti, 2004).

As was already clear from the literature review and pilot research, current theory did not adequately explain the basis of small firm growth in Libya and the viewpoints and behaviour of owner-managers. Given this, the research objectives and the research strategy adopted, a ‘grounded approach’, as advocated by Pettigrew (2000), was employed rather than ‘pure’ grounded theory, as it offers a greater degree of flexibility, and enabled the researcher to make use of concepts drawn from the literature review in such a way so as to complement and extend the findings. The interview questions were thus drawn from the literature, providing a basis for the discussion of the reality of business experience in Libya, which revealed a number of peculiarities in the Libyan business environment.

3.4.2 Data Collection Method

Veal (1997) identifies two different data types: primary data and secondary data. Primary data is gathered in particular consideration of the study being carried out, and is commonly garnered through a number of different techniques and tools. On the other hand, secondary data is that which has been gathered previously, possibly by another researcher, and for another purpose. With specific regard to the collection of qualitative primary data, there is analysis (artefacts, documents and records), direct observations, interviewing, personal experience, and the utilisation of visual materials (Denzin & Lincoln, 2005).

Because of the shortage of accurate, reliable information in Libya with respect to the growth of small businesses, no secondary data could be utilised in this study and the focus of data collection was the gathering of primary data through the conduction of interviews. This is described as a mono method by Saunders *et al.* (2007), who suggest that, should the researcher opt for the application of a mono method, qualitative data analysis may be combined with some quantitative analysis. In this research, it has been decided that a single source of data will be used, namely the views of small firm owner-managers, gained through utilising semi-structured interviews as a mono qualitative data collection approach.

3.4.3 Interviews

King (1994) argues that interviews are the most suitable technique for qualitative studies when there is the need for exploratory work, by virtue of a high degree of flexibility and the capacity to produce rich, in-depth data. Kvale (1996) defines the interview as having the purpose to collect descriptions of a phenomenon under investigation.

The most widely used interview methods are structured, semi-structured, and unstructured (Dawson; 2002; Miller & Brewer, 2003; Saunders *et al.*, 2007). Structured interviews are essential when collecting quantitative data through survey interviews, necessitating the formulation of an interview schedule and standardised questions to be answered during the course of the interview. Semi-structured interviews, on the other hand, provide the researcher with the opportunity to not only gather answers to a number of predetermined questions, but also to acquire further data through the implementation of discussion, which allows a greater degree of clarification and can provides rich, in-depth data. In unstructured interviews, commonly associated with ethnographic studies, none of the questions are standardised. Drever (1995) suggests that, when using unstructured interviews, participants need to be encouraged and motivated to open up and talk, progressing them from one question to another, and directing them down the appropriate path of discussion.

This study had the aim of gathering rich data and semi-structured interviews were chosen as the most appropriate data collection technique, being the best suited to an exploratory investigation of the research questions, while still allowing for the necessary degree of comparison between research findings.

3.4.3.1 Development of the interview guide

As an outcome of the literature review and considering the aims of the study, it was decided that the semi-structured interview guide should be broken down into four sections. The first section focused on the background and characteristics of the owner-managers, the second on the characteristics of the firm, the third on business strategies and decisions and the fourth on issues concerning the external environment.

A draft interview guide was circulated to the researcher's supervisor and a selection of fellow PhD students for discussion, with a view to confirming the validity of the interview questions, and in order to seek any recommendations for improvement. Following review discussions, some amendments were suggested and the researcher modified the guide into the form employed within the pilot study. The main purpose of this process was to ensure that there would be continuity in terms of key areas of enquiry within each individual interview (Taylor and Bogdan, 1984; Kvale, 1996). The interview guide used can be found in Appendix 3, with amendments made as a result of experienced gained in the pilot research highlighted in red.

3.4.3.2 Interview technique

Bouma & Ling (2006) suggest that interviews may be recorded as an aid to the researcher in terms of reviewing the interview. Silverman (2001) suggests that recorded interviews can be replayed and transcripts enhanced in terms of accuracy. It is recognised that the source of the data and its safe maintenance is crucial owing to two key reasons: firstly, the data source provides tangible evidence of the interview; and secondly, such evidence can then be reviewed time and time again, as necessary, to allow the researcher to gain a good and comprehensive understanding of the text. With the express permission of each interviewee, the interviews for this study were recorded and used to make a written transcription of the interviews in Arabic.

3.4.4 Sampling

Sampling is a technique utilised with the aim of gathering data from one portion of an entire population. This brings with it the necessity to ensure samples are demonstrative of the whole so as to facilitate the researcher in generalising the results and findings. Accordingly, Burke & Larry (2005) argue that the main objective when implementing sampling is to establish an illustrative sample with similar attributes in relation to the entire population. Burns (2000) argues that valid generalisations cannot be made concerning certain populations unless the sample is known to be representative and is verified as such.

Dereshiwsky (1998) recognises that there are three key motivators for researchers utilising sampling, including convenience, accessibility, cost and time. Finn *et al.* (2000) state that researchers need to establish answers to two main questions when selecting a sample technique: how large should the sample be and how should the sample be obtained? Finn *et al.* (2000) further note that there are two sampling techniques: probability sampling, in which all individual population elements have an equal likelihood of being chosen as part of the sample; and non-probability sampling, where not all individual elements of the population have an equal chance of being selected.

In the view of Mack *et al*. (2005), there are three different sampling techniques that may be utilised when conducting qualitative studies: purposive, quota and snowballing. Saunders *et al.* (2007) affirm that the snowball sampling technique is commonly used when there is difficulty in identifying all the elements that combine to form a population. In relation to this study, it was acknowledged that guaranteeing the equal opportunity of every elements being selected was impossible due to the size of the population and the time- and fiscal-related costs involved.

3.4.4.1 Sample population

The study aimed to explore the growth of firms with no more than twenty-five employees, this being the Libyan government's definition of small firms. It is estimated that there are more than 180,000 small businesses operating within Libya, of which an estimated 29,000 are thought likely to be small manufacturing businesses with owner-managers responsible for their everyday running (National Institution for Information and Documentation, 2008).

3.4.4.2 Sampling frame

It was decided to include only firms that had been operating for at least three years in the sample, because the inclusion of newer firms may have produced results reflecting the inherent instability normally associated with new firms (Storey 1994; Barkham *et al,* 1996). Because employment data concerning the first year of a firm's operation is generally viewed as being highly unstable, the growth rates for the year 2005 were excluded for those businesses that were established during this year. This allowed the researcher to disregard the first year's figures, for the reasons stated above, and then to calculate a difference between years two and three. The researcher considered the inclusion of relatively young firms to be important (Fourcade, 1985), because of the likelihood of firms to experience problems during their initial stages of establishment, especially between the second and the fifth years, which are crucial in the development of business growth.

As discussed in Chapter 2, the Libyan informal sector is substantial in size but it was also decided to exclude informal and non-legal firms from the sample. The main reason for this is that these firms operate in very different conditions from formal ones, being mostly outside the law and the jurisdiction of tax authorities; furthermore, they are unlikely to grow beyond a very small size, as their proprietors wish to continue to benefit from informal status. Furthermore, the researcher was unable to identify any owner-managers of failed small manufacturing firms, which had ceased trading over the study period. This group of firms was therefore also excluded from the sample.

Geographically, the sample comprised firms from the Tripoli, the Libyan capital, and Misurata, the third largest city in Libya, which together offer the largest and most diverse small manufacturing business sector in the country (see section1.3.1).

3.4.4.3 Sample size

Patton (1990) argues that qualitative studies may have any sample size, and that there are no rules concerning such. Essentially, the size of the sample selected is decided on the basis of numerous factors, including the inquiry purpose, what the researcher seeks to establish, what is considered to be at stake, what is viewed as valuable, the availability of resources and time, and what is perceived to offer credibility. Remenyi *et al*. (1998) suggest that establishing the sample size is far from simple, with the scholars further stating that various factors should be considered, including confidence in terms of generalisablility, costs, estimate accuracy, required population variability, time, and type of sample. Roscoe (1975) nevertheless postulates that a sample of 30 individuals is often considered to be adequate in the case of qualitative studies, having the capacity to provide the researcher with sufficient data, and should accommodate the resources and time available. The researcher has come to the conclusion that Roscoe’s suggestion is appropriate to this research, and is also in line with similar studies, including that of Doern (2008) who researched the obstacles to small business growth in Russia, using a 27 strong sample.

In terms of the size of the sample, it was decided that the sample size should be controlled owing to the study purpose, despite the research being qualitative in nature; thus, the researcher made the decision to carry out semi-structured interviews until data saturation was achieved.

In order to explore the impact of sector, a sample of 28 small manufacturing firms were selected from seven sub-sectors (building materials, fashion & clothing, food , metal, plastics, printing & paper, wooden furniture), with each sub-sector represented by four small manufacturing firms, as shown in table 3.1. These seven sub-sectors were chosen because they were identified by the National Institution for Information and Documentation report (2008) as the largest sub-sectors in the Libyan small firm manufacturing sector (see section1.3.2).

Table 3.1 Research sample construction

The main sector	**The Sub-Sectors**	**Number of firms**
Manufacturing Sector	Building Materials	4
	Printing And Paper	4
	Plastic Industry	4
	Wooden Furniture	4
	Metal Industry	4
	Food Industry	4
	Clothing and Fashion	4
Total		28

The subjects of this research were the owner-managers of small manufacturing firms; this was due to the highly influential role these individuals play in the growth of a small firm, and the extent of their knowledge about the causes of and barriers to growth. All the respondents to this study were the principal decision makers in their firms, even in firms where there was more than one owner.

3.4.4.4 Sample recruitment

Researchers carrying out studies targeting small firms commonly face one problem, which is gaining access to such firms (Curran & Blackburn, 2001). Essentially, the main problem in this regard is due to a lack of data lists for such firms, combined with the seeming lack of willingness of the owner-managers of such firms to disclose data. This problem is magnified in a country such as Libya, because of cultural issues such as trust, as discussed in section 3.13.

Snowballing is a technique that allows the researcher to make use of the contact networks of interviewees in order to recruit additional members of the sample. It was decided that this would be a suitable access technique for this study, as owner-managers in a particular sub-sector tend to be closely networked in Libya. Accordingly, a mixed access technique was used, with the researcher making initial contact with eight sample owner-managers and the rest being identified through snowballing. Identifying a representative and evenly distributed sample using the snowball technique was not easy, and the researcher was obliged to make many follow-up phone calls in order to obtain the sample of 28 firms.

Owing to the dominance of males in the roles of firm owner-managers, and also to cultural issues, more men were interviewed than women; however, the snowball sampling approach succeeded in achieving the participation of two female owner-managers who were operating within the clothing and fashion sub-sector. This allowed different perspectives and insights to be gained and highlighted a number of gender-related issues.

3.4.4.5 Categorisation of growth rate

Research carried out in the past in the context of small businesses have utilised a number of different variables in an attempt to measure growth, with sales and employment the two most commonly applied measures. It has been demonstrated that there is a strong link between these two measures (Storey, Keasey, Watson & Wynarczyk, 1987; North & Smallbone, 1993) and the link between employment growth and financial performance is also generally positive.

Employment growth is recognised as being a reliable and more stable measure of growth when compared with sales, owing to the fact that owner-managers generally require that demand stabilises prior to hiring staff (Delmar, 1997; Wiklund, 1999). Employment data is generally less sensitive than data which is financial in nature, and thus employment is more commonly utilised as a measure of growth (Chaganti, Cook & Smeltz, 2002; Davidsson *et al*., 2002; Freel & Robson, 2004; Barringer, Jones & Neubaum, 2005).

Informed by these arguments, employment was utilised as a measure of growth in this study and was measured in terms of Relative Growth Rate (RGR); specifically the rate at which employment growth occurred over a five-year period from 2005 to 2009. This time period was chosen on the basis that reliable data was only likely to be available for a few recent years.

Having chosen the measure of firm growth, the next problem is to categorise growth rates. A number of these are proposed in the literature. For instance, the growth model utilised by Barkham *et al*, (1996) took into account five categories in the representation of growth rate as follows:

i. Highest growth, 100% or more employment growth, with businesses recognised as maintaining consistent profitability in line with doubling staff figures.
ii. Fast growth, 67- 99% employment growth rate, with businesses illustrating above average profit performance.
iii. Medium growth, 34-66% employment growth rate, with businesses showing moderate growth rates in line with reasonable profits.
iv. Slow growth, with firms showing only 1-33% employment grown and similarly showing little or no profit.
v. Static or declining growth, illustrated with negative employment change, with businesses remaining at the same size or even declining.

In Owusu's (2007) research in Ghana, the number of categories was reduced from five to four, with growth parameters changed accordingly, as shown in Table 3.2.

Table 3.2: Growth Indicators and Categories

Growth Category	**Growth Indicator**
High Growth	Firms that at least doubled the number of employees over the study period.
Growers	Firms that increased the number of employees by more than 20 % but not exceeding 99 %.
Stable Firms	Firms that increased the number of employees by not more than 20 %.
Decliners	Firms that recorded negative growth rate.

Source: Owusu (2007, p148).

The categorisation illustrated in Table 3.2 is a reasonable representation of the growth of small firms in developing countries and was used for categorising growth in this study. In the light of the generally unpredictable and unstable national political and economic situation, it is reasonable to assume that a small firm able to double the number of its employees within a period of five years can be considered as a high growth firm. Other researchers have used a similar classification of firms able to double their number of employees over a period of 4-5 years as high growth, sometimes known as 'gazelles' (Barkham *et al*, 1996; Statistics Canada, 2004).

In measuring the growth of employment figures, Brown *et al*. (2004) argue that these should include not only workers but also management positions. For this study, everyone in full time work was included in the size calculation. The mode of growth is also an important consideration when using employment size as a measure. For this study, only organic growth was included in the measure, whilst growth by acquisition was excluded, owing to the fact that this does not necessarily induce any genuine job-creation (Davidsson & Henrekson, 2002).

3.4.4.6 The sample

Of the 28 firms in the sample, the longest established was founded in 1983, whilst the most recently established business began operating in 2007, thus delivering a range of business establishment spanning 3-27 years. The largest of these businesses employed 25 persons and the smallest employed four persons. This categorisation follows the study of Owusu (2007) in dividing small firms into three groups, enabling the researcher to make comparisons between firm size and a number of other factors in the analysis and discussion chapter.

Table 3.3: Firm size analysis

Firm Size	**Number of Employees**	**Number of Firms**
Smaller Small Firms	1-8	9
Medium Small Firms	9-16	9
Larger Small Firms	17-25	10
Total		28

Table 3.4 shows a summary profile of each of the firms in the sample.

Table 3.4: Profiles of sample firms

Firm No.	**Firm Code**	**Sub-Sector**	**Year Estab-lished**	**Gender of Owner-manager**	**No. of Share Holders**	**Number of Employees 2005-2009**	**Growth Categories**
SB1	BL 1	Building Materials	1994	M	2	15-24	G
SB2	BL 2	Building Materials	2006	M	2	7-23	HG
SB3	BL 3	Building Materials	1993	M	4	16-22	G
SB4	BL 4	Building Materials	1999	M	1	7-25	HG
SB5	PP 1	Printing & Paper	2000	M	1	11-15	G
SB6	PP 2	Printing & Paper	2007	M	2	10-15	G
SB7	PP 3	Printing & Paper	2001	M	3	6-6	S
SB8	PP 4	Printing & Paper	2003	M	1	5-4	D
SB9	PL 1	Plastic	2004	M	1	7-8	S

SB10	PL 2	Plastic	2007	M	4	6-2	D
SB11	PL 3	Plastic	1988	M	2	9-15	G
SB12	PL 4	Plastic	1989	M	2	16-16	S
SB13	WO1	Wooden Furniture	2000	M	1	12-25	HG
SB14	WO2	Wooden Furniture	1989	M	3	12-24	G
SB15	WO3	Wooden Furniture	2001	M	1	5-8	G
SB16	WO4	Wooden Furniture	2004	M	2	4-7	G
SB17	ME 1	Metal Industry	1996	M	2	7-10	G
SB18	ME 2	Metal Industry	1995	M	2	7-16	HG
SB19	ME 3	Metal Industry	1989	M	4	21-25	G
SB20	ME 4	Metal Industry	1983	M	1	6-7	S
SB21	FO 1	Food Industry	2007	M	2	7-15	HG
SB22	FO 2	Food Industry	2000	M	2	13-22	G
SB23	FO 3	Food Industry	2006	M	4	13-25	HG
SB24	FO 4	Food Industry	2000	M	1	14-24	HG
SB25	CL 1	Clothing & Fashion	2002	M	2	4-13	HG
SB26	CL 2	Clothing & Fashion	2006	F	2	6-8	G
SB27	CL 3	Clothing & Fashion	1991	M	5	12-16	G
SB28	CL 4	Clothing & Fashion	1987	F	1	8-7	D

In table 3.4 above each firm is assigned a firm number, and a code within their sub-sector, as identified in the left-hand columns. The sub-sector, year of establishment, gender of the owner-manager, and the number of shareholders is reported. The two figures for employment numbers are those in 2005 and in 2009. The difference between these figures is used to categorise the firms in the right hand column as high growth, growers, stable or decliners (see section 3.11.5).

3.4.5 Pilot Study

As described by Sarantakos (1993), a pilot study is carried out as a small-scale mock-up of the main research, in order to gather data and test methods before the larger research is carried out. Yates (2004) recognises that pilot studies hold value in their capacity to improve the efficiency and overall quality of the study.

In the context of qualitative research, a pilot study seeks to evaluate the accessibility of respondents, the convenience of the site, the data collection techniques and their capacity to produce appropriate data, the degree to which the plan is well constructed, and to highlight any amendments needing to be implemented prior to the main study (Sarantakos, 1993). Yates (2004) notes that developing a rapport with interviewees is often difficult and so a pilot study is a good way of developing interview techniques and overcoming this issue. Miles & Huberman (1994) emphasise that a pilot study will help the researcher to gain insight into the overall accuracy and reliability of the tools implemented, accordingly improving the overall quality achieved once the data is finally gathered.

Three semi-structured interviews were carried out as a pilot study for the main field work of this research. A number of questions were prepared, including some adapted from prior studies, and tested with a number of Libyan PhD students studying in the UK. Subsequently, three interviews were carried out in February 2010 with three such individuals, all of whom had direct experience of Libyan small manufacturing firms. In these interviews, the researcher was predominantly concerned with encouraging the interviewees to openly express their experiences, feelings and perceptions surrounding the growth of small businesses.

The pilot study was successful, proving to be a key learning experience for the researcher in the ways in which interviews should be conducted, as well as in generating a consistent and valuable list of growth factors. A number of key lessons were learned during the process, namely:

i. Time is critical when conducting interviews; thus, there is the need for the researcher to initiate discussion as soon as possible.
ii. The interviewing environment is key, which should facilitate the participant's comfort. In the main study, owner-managers preferred to be interviewed at their place of work except for four who wanted to be interviewed in a different location.
iii. Discussion should be facilitated through the posing of 'how?' and 'why?' questions, which can subsequently enable qualitative data and accurate descriptions to be garnered.

3.4.6 Main Study

A total of 28 interviews were conducted during the main research process, carried out between the months of March and May 2010. All interviews were carried face-to-face with the owner-managers of the target firms, and lasted for a maximum of three hours each. It was important for the interviews to be conducted in a conducive environment, and at a time and place convenient for the interviewee.

In order to familiarise the interviewees with the aims of the research, the researcher began by outlining the research objectives, the importance of the study and its potential contribution to the Libyan manufacturing sector and the Libyan economy as a whole. The participants were then given the opportunity to ask any questions arising from the introduction, and to clarify any points of procedure. All interviewees were advised of the aims and objectives of the research and thanked for their time and effort. Subsequently, a number of questions were posed, inquiring into the experiences, feelings and perceptions of the individuals in regard to the growth of their firms.

Permission was sought from participants for the interviews to be recorded and in each case this was granted. Interviews were subsequently transcribed and a copy of their transcription was given to each interviewee, in order for them to check its accuracy. Moreover, in-depth notes were taken during the course of the interviews, which were reviewed afterwards.

The researcher did encounter a number of problems when carrying out the fieldwork: although it is widely recognised that data collection is generally problematic, cultural, economic, political and social factors can also affect its difficulty. The following issues were encountered during the conduction of the fieldwork:

i. Some interviewees were at first reluctant to allow the interviews to be recorded owing to their fear that such recordings would be communicated to third parties. However, when reassured of confidentiality, they were happy to agree to the recording of the interviews.
ii. The target owner-managers were very busy, and it was sometimes difficult to find time in their schedules to conduct interviews.
iii. Interviews were sometimes interrupted with visitors, job-related queries or phone calls, which notably affected the concentration levels of both the interviewee and the interviewer.
iv. Some interviewees had double-booked their schedule, resulting in the postponement of interviews.

v. The financial data was recognised as being extremely sensitive, and accordingly, the interviewer made the decision to avoid posing financial data-related questions.

3.4.7 Analysing the Interview Data

Before data can be conceived as valuable, it is important that it is processed and analysed, necessitating data-categorisation (Saunders *et al.*, 2007). With this in mind, it is stated by Mack *et al*. (2005) that data gathered through the conduction of interviews should be transcribed and subsequently coded in consideration to the emergent themes.

Without question, data analysis is a fundamental phase, and so data analysis techniques were carefully reviewed and selected. The interviews were conducted, transcribed and coded in the Arabic language and the transcription itself took approximately two months, resulting in 142 pages of documented dialogue. Each interviwee received a copy of their interview transcription so that they could agree that it was a fair representation of their interview; this was an important check on the validity of the research data.

Data analysis was carried out through a number of key stages, including:

i. The transcribing of recorded interviews, which were in the Arabic language.
ii. The reading and clarifying of the interview text.
iii. The summarising of each interview case in text form.
iv. The identification of the main issues raised in each case.
v. The categorising of data into themes.
vi. The coding of data in text parts.
vii. Repeating the process of listening, transcribing, reading, describing and coding to ensure the accuracy of previous stages.
viii. The construction of an inter-case analysis in summary text form.
ix. Conversion of inter-case data into numerical form, where appropriate.
x. Cross-tabulation of numerical data in order to highlight and analyse the perceived impact of growth factors by firm size and growth performance.
xi. Interpretation of data and analyses in the light of literature review.

xii. Identification of themes common to many national contexts, those common to other developing countries and those apparanetly specific to Libya.

xiii. Review of data and themes in order to clarify understanding of the interplay of influencing factors.

xiv. Review of influencing factors specific to Libya, with the aim of clarifying the relevance of contextual issues.

3.4.7.1 Content Analysis

Content analysis has notably proven to be useful to researchers for a long time in a number of different fields, including business, communication, journalism, psychology and sociology (Hussey & Hussey, 1997; Neuendorf, 2002). Patton (2002, p.453) suggests that content analysis is commonly carried out in reference to 'analysing text (interview transcripts, diaries, or documents) rather than observation-based field notes'.

Content analysis has been defined in a number of different ways, as highlighted below:

i. A study approach for devising assumptions and postulations through systematically and objectively establishing message characteristics (Carney, 1972, p. 25).

ii. A data-gathering approach comprising qualitative-data coding in literary and subjective forms, with information categorised so as to establish quantitative scales of complexity (Abbott & Monson, 1979, p. 504).

iii. A diagnostic instrument utilised to make sense of a wealth of open-ended material (Mostyn, 1985, p. 117, cited in Hussey & Hussey, 1997, p. 250).

iv. A study approach utilising various methods so as to establish valid conclusions from text (Weber, 1990, p. 251).

v. The systematic, objective quantitative analysis of message characteristics; (Neuendorf, 2002, p. 1).

vi. As study approach carried out with the aim of establishing valid findings from text in the context of their utilisation (Krippendorff, 2004, p. 18).

vii. A methodology utilised to analyse documents with the aim of quantifying material in a replicable and systematic way in regard to previously established categories (Bryman, 2008, p. 275).

Essentially, the overall aim of content analysis is to establish valid conclusions from the gathered data; as can be ascertained through reviewing the different definitions, content analysis may be considered either qualitative or quantitative. In this study, content analysis is employed because of potential to present in-depth, rich data from valid sources (Neuendorf, 2002). Patton (2002, p. 453) states that content analysis is 'used to refer to any qualitative data reduction and sense-making effort that takes a volume of qualitative material and attempts to identify core consistencies and meaning'.

In the first approach to analysis, a thematic approach was adopted. However, it rapidly became apparent that the thematic approach to analysis would not yield data capable of answering all the research questions. Of particular importance was the need to produce data that would permit tabulation and classification around such ideas as growth factors, comparison across growth rates, across subsectors, across firm size and so on. For these reasons, a content analysis approach was adopted.

During the content analysis stage for this study, the 28 individual interviews were transcribed and subsequently converted into written format. As the interview data reflected the interviewees' experience and opinions with regard to challenges or obstacles encountered when conducting business in Libya, focus was therefore placed on the actual text and dialogue content.

A number of key benefits associated with content analysis have been established by Bryman (2008, p. 289), namely: a degree of longitudinal analysis; the generation of data; flexibility; transparency; and a lack of obtrusiveness. In contrast, however, there are various disadvantages, including those highlighted by Silverman (1993, p.59), who states that, 'its theoretical basis is unclear and its conclusions can be trite' and Hussey & Hussey (1997, p.253), who note that the process is markedly time-consuming, although they nevertheless recognise that 'content analysis can be useful to the researcher who has collected qualitative data and wishes to convert it into quantitative data'.

In this study, the utilisation of content analysis was deemed suitable and appropriate owing to the significant wealth of qualitative data generated through the interviews. As mentioned earlier on in this chapter, the constructionist approach to data analysis was implemented owing to its capacity to highlight emergent themes. Accordingly, the first stage was to develop and subsequently code themes and sub-themes (see Table 3.5). During the second stage, interview transcriptions were rechecked and clarified so as to ensure themes had been appropriately allocated. Following this, the analysis was manually conducted, which proved to be time-consuming due to the necessity to implement sound organisation and structure.

3.4.7.2 Stages of Content Analysis

As has been mentioned, content analysis comprises a number of stages, including identifying the sampling units, identifying the content categories, identifying the recording unit, identifying the coding, and ensuring reliability and validity. With reference to this study, each of these stages will be considered in greater detail below.

3.4.7.2.1 Identifying the sampling units

During this particular phrase, the researcher is required to investigate and evaluate the text source for analysis as well as its individual elements. Essentially, the sampling is dependent on the research questions fuelling the analysis, as supported by Bauer (2000), who emphasises that the study questions should ultimately dictate the sampling process.

3.4.7.2.2 Identifying the content categories

It is noted by Neuman (2003, p. 310) that ‘content’ may be taken to refer to ideas, meanings, messages, symbols, themes or words anything that may be open to communication. In this regard, content analysis can be implemented in order to establish emergent themes (Patton, 2002). With this in mind, the interviews were analysed in order to establish the number of owner-managers who assign importance to keywords such as firm location, personal networks or prior experience, etc.

3.4.7.2.3 Identifying the recording unit

One of the key decisions to be made concerns establishing the recording unit, i.e. the specific portion of text for analysis. With this in mind, a combination of words and phrases linked with small firm growth determinants has been selected for the current research. Neuendorf (2002) points out that there is a clear disparity between an analysis unit and an observational unit: the former must be a message unit; the latter in this regard is an object, with the individual interviewees forming the observational unit in this case.

3.4.7.2.4 Identifying the coding

Coding is paramount, involving the assigning of a set of descriptive sub-themes to the theme or sub-categories to the category, and accordingly highlighting the incidence and percentage of responses for each. This was performed manually and cross-tabulation was utilised, with such responses subsequently interpreted to provide explanations as for why such responses impact business growth. In the view of Bauer (2000), coding is recognised as an iterative process; thus, study coding needs to be in-depth and wide-ranging so as to enable the identification of all factors potentially impacting on growth in the arena of small businesses.

Cross-tabulation highlights the combined distribution or at least two categorical variables, with the approach utilised predominantly with the aim of assessing and exploring the way in which demographic variables are linked with behaviours and attitudes (Rodeghier, 1996; Rose, 2001). In the context of this research, cross-tabulation was applied in an attempt to investigate the relationship between the characteristics of the owner-manager, firm characteristics, business strategy characteristics, external environment constraints, and other parameters, e.g. growth categories, firm size categories, sub-sectors categories etc.

3.4.7.3 Interpreting the data

In line with adoption of a grounded approach, data interpretation took place at many levels and at successive stages of the research and analysis. In the first instance this was at the single case or intra-case level, in order to make sense of each interview transcript and to develop an integrated understanding of each owner-manager’s business and views. The tabulation and cross-tabulation of the data enabled a comparative interpretation of the data and the identification of common, emergent themes. These were then interpreted in the light of the literature, which enabled the classification of findings into those that support prior research across many national contexts, those that support research findings from studies in other developing countries and those that reflect factors that are specific in some way to Libya. These were subject to a further level of analysis in order to develop a richer understanding of their interplay and the high-level contextual issues of which they are symptomatic.

3.4.7.4 Ensuring reliability and validity

Three different types of reliability have been established by Krippendorff (1980), including accuracy, reproducibility and stability. In the context of this study, the latter of these factors was assigned the greatest importance, with the content coded in the same way over a given time period, which means the coding approach may subsequently be repeated if necessary or desired.

Throughout the course of this study, in an attempt to ensure the overall reliability (stability) of the findings, the researcher coded interviews through a simple and very clear coding approach comprising simple categories (see Table 3.5). In the current study, the coding system that emerged was directly dependant on the literature review, and was based on the factors influencing the growth of small firms, which break down into the categories and sub-categories which, as mentioned earlier, share similar meanings. This gives an indication of the procedure utilised in the categorisation and its validity.

Table 3.5: Data Coding

Code	Main Categories (Themes)	Code	Sub-categories (Sub-themes)
OM	Owner-Manager Characteristics (Internal Factors)	GA	Growth aspirations
		ED	Education
		AOM	Age of owner-manager
		GOM	Gender of owner-manager
		PIE	Prior industry experience
		PME	Prior managerial experience
		PO	Portfolio ownership of other businesses
		EFB	Entrepreneurial family background-family history
		PN	Personal networks
		MO	Motivation
FC	Firm Characteristics (Internal Factors)	SE	Sector
		LO	Location
		AF	Age of the firm
		NO	Number of owners (other owners)
		LF	Legal status.
BC	Business	PI	Product innovation
		PIST	Process innovation and sophisticated technology
		MS	Marketing strategy
		BS	Business planning

	Characteristics (Internal Factors)	EST	Employee skills and training
EF	External Environment Factors	HB	High bureaucracy
		LSIGR	Lack of support and inefficient government regulations
		ITS	Inefficient taxation system
		DP	Delayed payments
		CR	Corruption
		LAF	Lack of access to finance
		CFI	Competition from imports
		II	Insufficient Infrastructure
		LISL	Lack and instability of skilled labour
		CFIB	Competition from informal businesses
		SCF	Socio-cultural factors

3.4.8 Ethical Considerations

The topic of ethical considerations is paramount when conducting any research study, and takes into account the actions, attitudes and behaviours of the researcher in regard to the rights and expectations of participants (Saunders *et al*., 2007). Blaxter *et al*. (2006) argue that, in the arena of social science, ethical issues and responsibility should be assigned priority, recognising that a number of ethical issues are likely to arise during the initial phases of the study design, including: informed consent; potential harm and risk; honesty and trust; privacy, confidentiality and anonymity

Informed consent requires the granting to participants an appropriate level of awareness of what the researcher is doing, and of the purpose of the study, so that they are able to make an informed decision about their participation in a research project. With this in view, the researcher introduced himself and his project to all participants, initially by telephone, then in more detail at the beginning of the interviews. This ensured that all the participants were aware of the study's aims, affording participants an opportunity to refuse to take part in this study and informing them of their right to confidentiality. Furthermore, this openness by the researcher about the aims and processes of his research also enabled the participants to feel more relaxed and allowed them to contribute more openly.

In the view of a number of different researchers, including McCall & Simmons (1969), and further advocated by Miles & Huberman (1994, p. 292), 'real or feared harm will always occur to someone in a qualitative study'; thus, the researcher took steps to safeguard all interviewees from any harm or risk. The researcher considered that such a guarantee could be fulfilled with consideration to three key factors: ensuring all participants were aware that their views would only be utilised in the context of the research; delivering confidentiality and anonymity by ensuring no names or personal details would ever be published; and that the study participants would not risk any harm resulting from their expressed attitudes or comments.

Because of the special conditions then prevalent in Libya, fears were nevertheless held by some participants. For example, one respondent was concerned that his stories and contributions would cause problems, and was accordingly found to be a little emotional concerning this subject, even asking the interviewer to be sure that no data would be communicated to any third party. The researcher expressly provided all necessary reassurance in this regard.

Honesty and trust requires the building of a rapport between the interviewee and the researcher. Miles & Huberman (1994) suggest that qualitative researchers have a tendency to communicate truthfully and honestly, and are therefore unlikely to behave dishonestly during the conduction of their work. Keats (2000) argues that researchers are in a good position to build sound, trustworthy relationships with interviewees, although it should be acknowledged that the communication of misleading information could have serious negative impacts on the researcher-participant relationship. This area of concern was awarded significant attention by the researcher, ensuring all involved in the study were provided with sound data concerning the study, its objectives, and the scholar himself. The concept of deception refers to acquiring data through non-moral means, including fraud and trickery, as highlighted by Punch (1994, cited in Denzin & Lincoln, 1994, p.20). It must be emphasised that the researcher had no such inclination to adopt such methods of data-gathering.

There is a critical need to provide study participants with privacy, confidentiality and anonymity during the course of research. This was explicitly assured by the researcher and individual informed consent was obtained before any interviews were carried out, with assurance given that all data would only be utilised for the academic purposes of this study. Moreover, interviewees were assured that the data would not be published or utilised for any other purpose or by anyone other than the researcher.

3.5 Validity and Reliability

Veal (1997) notes that validity may be described as the degree to which data gathered by the researcher accurately depicts the phenomenon under investigation. On the other hand, the concept of reliability is the degree to which the results of the study would be found to be the same should the study be repeated in the future or with the involvement of different participants.

Yin (2003, p. 35) argues that the validity construct concerns and identifies the right operational measures in relation to the study concepts, suggesting two different measures be carried out by the researcher in order to ensure validity:

1. The selection of the particular change types to be researched, which are to be subsequently linked with the study objectives.
2. The illustration that the measures chosen and implemented in mind of such changes successfully reflect and depict the specific change types selected.

Yin (2003) suggests that reliability is essentially focused on the long-term implications of the study results. For example, should a researcher adopt the same set of procedures whilst carrying out much the same research, the same findings would be garnered and the same conclusions drawn. To this end, a researcher should seek to ensure bias- and error-minimisation throughout the conduction of the research.

3.6 Summary

During the course of this chapter, a number of key aspects of the study have been taken into account and discussed, including the study epistemology, the methodology and approaches, and the theoretical perspective. Importantly, this research adopted a systematic approach from the initial stages through to the gathering and subsequent analysis of the data.

Essentially, the researcher was influenced to implement a qualitative approach when taking into account the individual objectives and research questions, which necessitated the gathering of rich, in-depth data relating to the phenomenon under investigation, as well as the need to consider a number of issues in-depth.

CHAPTER FOUR: RESEARCH FINDINGS

4.1 Introduction

This chapter introduces the research findings, accompanied by an analysis and an intial discussion of the findings in the context of the literature. The four main sections of the chapter respectively focus on the following groups of issues:

4.2 The impact on growth of owner-manager characteristics.

4.3 The impact on growth of firm characteristics.

4.4 The impact on growth of the business's strategy.

4.5 The impact on growth of the external environment.

In each of these sections, the relevant findings are introduced and illustrated with selected quotations from the owner-manager interviews.

4.1.1 Growth measures and categories

Employment data were obtained for each of the 28 firms surveyed, covering the period from 2005 to 2009. The researcher considered this to be the most recent period for which reliable data were likely to be available. The year 2005 was taken as a base year, and growth rates were calculated on the basis of the percentage difference between the 2005 and 2009 figures.

To provide a point of reference, the growth definition employed in this research (see Chapter 3) is shown in table 4.1 and the number of sample firms in each category shown in table 4.2.

Table 4.1: Growth Indicators and Categories

Growth Category	**Growth Indicator**
High Growth	Firms that at least doubled the number of employees over the study period.
Growers	Firms that increased the number of employees by more than 20% but not exceeding 99%.
Stable Firms	Firms that increased the number of employees by not more than 20%.
Decliners	Firms that recorded a negative growth rate.

Source: Owusu (2007, p148).

Table 4.2 below shows the number of sample firms in each growth category.

Table 4.2: Analysis of Growth Categories

Growth category	**Firms**	
	No. Firms	%
High Growth (HG)	8	29
Growers (G)	13	46
Stable Firms (S)	4	14
Decliners (D)	3	11
Total	28	100

4.2 The Impact of Owner-Manager Characteristics

An overview of the owner-managers' demographic profiles, backgrounds and brief business histories included as Appendix 4**.** Some important points emerge from this overview. Firstly, most of the respondents were in their thirties and forties: there were only two in their fifties, and four in their sixties. The oldest respondent was in his mid-sixties and the youngest in his mid-thirties. Secondly, the table shows that more than half of the respondents had university degrees, while the rest had a diploma or High School certificate. Thirdly, the role of the family was considerable and very important in influencing the respondents towards their choice of work and business, especially the manufacturing sector. The role of family was also important in terms of experience and training that the respondents received before starting their own businesses.

4.2.1 The Impact of Growth Aspirations

Table 4.3 provides an analysis of growth aspirations versus growth achieved:

Table 4.3: Analysis of Growth Aspiration by Growth Category

Growth Category / **Growth Aspiration**	**High Growth**		**Growth**		**Stable**		**Decliners**		**Total**
	No. Firms	%	No. Firms	%	No. Firms	%	No. Firms	%	No. Firms
Above50% V.High Growth*	4	57	3	43	-	-	-	-	**7**
21-50% High Growth*	3	33	6	67	-	-	-	-	**9**
1-20% Low Growth*	1	14	4	57	2	29	-	-	**7**
No Growth*	-	-	-	-	2	40	3	60	**5**
All Firms	8	29	13	46	4	14	3	11	28

** 'Very high', 'High' 'Low' and 'No growth' are based on evidence of an aspiration to achieve growth as expressed by the respondents.*

As may be seen in table 4.3 above, 16 out of 28 (57%) owner-managers had a high growth aspiration, with 12 (43%) wanting low or no growth. There seems to be a close relationship between aspiration and growth achieved, with all of the owner-managers with growth aspirations achieving growth and all of those wanting stability or declining achieving that outcome.

This finding supports those of Wiklund and Shepherd (2003), who emphasised that the owner-managers of small firms who seek to grow their activities are more likely to achieve such growth. However, it is recognised that growth aspiration was not in itself adequate to foster such growth, so other explanations are necessary. Moreover, owner-managers may be likely to claim in retrospect that their achieved growth was what they aspired for. One reason why owner-managers who aspired for growth achieved it was they were in high-growth sectors. An important factor is that there had been a surge of demand across many different product markets and industries owing to the government's recent policy of supporting construction, development and urbanisation in many different areas of the country. There had also been a number of foreign companies entering the Libyan market and becoming involved in the country's development and construction, which subsequently resulted in the demand for domestic goods increasing, especially within a number of particular industries such as construction, food, metal and wooden furniture. Another factor that tended to increase the growth aspirations of owner-managers was the government's attempts to encourage exports, through such means as custom exemptions and streamlined administrative procedures.

The reason that the owner-managers' growth aspiration was lower across some industries was the surge in inexpensive imported goods, particularly those coming from Arab and Southeast Asian countries. This situation consequently resulted in increased competition, with firm growth declining.

Two of the participants commented as follows:

> *"These imported goods cause a big problem in terms of competition, and thus led to decreasing our profits due to this fierce competition, which is stressful. Accordingly, we have to execute sustainable development in order to compete. This development needs sustainable funding, which*

causes us stress too. The State should intervene to protect us by imposing additional customs on imported goods". SB5/ PP1

"Our product is 50% cheaper than the imported product, but unfortunately the state granted the companies implementing large projects exemption from customs and taxes on importing such products, regardless to the factories existing inside the country, which are not really taken into consideration" SB10/ PL2

Some owner-managers held the view that it would be best for their business to remain small in order to ensure they did not attract the attention of the authorities and be made to pay more tax. The following was the comment from one respondent:

"If your business becomes bigger the government will ask you from where you got all this money, and will ask you to pay more tax".......SB26 CL2

These findings are consistent with those of Tybout (2000), who states that in a study of a number of different African manufacturers illustrated poor performance owing to a variety reasons, but predominantly owing to their own lack of interest in or willingness to achieve such growth.

4.2.2 Educational background

Table 4.4 provides an analysis of the educational background of the owner-managers, and compares it with the growth of their firms.

Table 4.4: Analysis of Owner-Managers' Education by Growth Categories

Growth Category	**University Education**			
	With University Education		**No University Education**	
	No. Firms	%	No. Firms	%
High Growers	7	88	1	12
Growers	9	69	4	31
Stable	2	50	2	50
Decliners	1	33	2	67
All Firms	19	68	9	32

Nineteen (68%) of the 28 owner-managers had a university education, and the other 9 (32%) of owner-managers had formal educational qualifications below university level. Overall, education levels in the sample were possibly higher than in other sectors, owing to the fact that the management of manufacturing firms, both technically and administratively, can prove to be challenging.

Most of the interviewees agreed that a higher-level education was an important asset when striving to achieve higher business growth. Educational background was also identified as providing other benefits to owner-managers, including networking with former fellow students who had the necessary expertise to aid projects or uncover business opportunities.

One respondent commented as follows:

> *"I have a Bachelor degree in accounting. This specialization helped me particularly in accounts and costs. I think education is very important in widening the perception of the person and makes it easier to grasp the details of an industry; unlike a person with limited education. My father had a limited education, so his way of work was simple and primitive. It is true that I learned from his experience in this area, but when I worked independently, I benefited a lot from my more developed education and managed my project in a way that was very different from my father's in terms of management, marketing, personnel, and I benefited from the personal relationships I developed over my years of study which I consider essential to the success of my project, especially in its early years. The educated person grasps the details of the work quicker than the uneducated. Therefore, education saves the time required for the development and the growth of the project"..... SB13/ WO1*

One respondent, who had a university degree and also benefited from previous managerial experience, gave the following opinion of education:

> *"I was a manager in a government project and an associate with three partners in a factory for manufacturing paper and printing; I have an experience in management affairs. My experience supported the development and the growth of my project, as it saved time, effort, and money".... SB6/ PP2*

As shown in table 4.4 above, seven (37%) respondents who had a university education were owner-managers of firms classified in the high growth category. Conversely, only one (11%) respondent educated to lower than university level was owner-manager of a firm classified as high growth.

It was found that those individuals interviewed who had been through university education were more likely to be owner-managers of larger small firms. For example, only 5 (26%) of the 19 owner-managers with a university education were owner-managers of the firms in the smallest size category.

It was further found that those owner-managers with university-level education commonly utilised a university network to gain access to other professionals and secure contracts within the public sector as a result of such connections.

Furthermore, it was also noted that bank loans and other funding were also facilitated through past university colleagues, thus providing such owner-managers with a further advantage.

A university graduate respondent also commented as follows:

> *"I am a communication engineer, and I believe an educational background is very important due to its role in widening the perception of the person in terms of the relationships he develops during his study years. This aspect is essentially important especially in Libya".... SB19/ ME3*

Table 4.5: Analysis of Owner-Managers' Education by Growth Aspiration

Growth Aspiration	**University Education**				
	With University Education		**No University Education**		
	No. Firms	%	No. Firms	%	**Total**
Above50%V.High Growth	7	100	-	-	7
21-50% High Growth	6	67	3	33	9
1-20% Low Growth	3	43	4	57	7
No Growth	3	60	2	40	5
All Firms	19	68	9	32	28

** 'Very high', 'High' 'Low' and 'No growth' are based on evidence of an aspiration to achieve growth as expressed by the respondents.*

In table 4.5 above, the owner-managers with high growth aspirations were more likely to have a higher level of education when compared to those who were not particularly attentive concerning growth. In general, a higher level of education was associated with a higher growth rate than those firms with owner-managers who had not had tertiary education. In this regard, university-educated owner-managers were found to have the capacity to identify new opportunities and manage growth in this way, subsequently increasing growth aspiration. As an example of this, of the 12 firms which anticipated that they would achieve growth rates of not more than 20 percent, only 6 (50%) of their owner-managers were university educated, whereas 13 (81%) of the owner-managers of the 16 firms that had an higher growth aspirations were university educated.

Wiklund and Shepherd (2003) emphasise that owner-managers of must have the skills, understanding and competence to grow their businesses through the successful identification of new opportunities, and that growth goes hand-in-hand with a combination of aspirations and education.

4.2.3 Age of owner-manager

A striking finding is the concentration of high growth aspirations among the 'middle aged' owner-managers in the age range 35-50, with 22 (79%) out of 28 owner-managers aiming for high or very high business growth, with most of these actually achieving high growth. This was in contrast to those who were older, i.e. 55-70 years of age, who tended to have lower growth aspirations. Notably, the majority of owner-managers operating within either stable or declining categories were found to belong to the older age group.

Table 4.6: Analysis of Owner-Managers' Age by Growth Aspiration rate

Age / **Growth Aspiration**	**25-30**	**31-35**	**36-40**	**41-45**	**46-50**	**51-55**	**56-60**	**61-70**	Total
Above50%V.High Growth	-	-	2	4	1	-	-	-	7
21-50% High Growth	-	-	3	3	3	-	-	-	9
1-20% Low Growth	-	-	1	1	2	-	1	2	7
No Growth	-	-	1	-	1	-	2	1	5
All Firms	-	-	7	8	7	-	3	3	28

** 'Very high', 'High' 'Low' and 'No growth' are based on evidence of an aspiration to achieve growth as expressed by the respondents.*

Owner-managers in the middle-aged category were perhaps the most mentally and physically strong, and retained the concentration, fortitude, focus, and determination to care for their business and promote its growth. That was confirmed by some of the respondents:

> *"The older the person, the richer is his experience. Middle age managers 40-50 are the best, because older managers have the experience but they lack the essential effort to follow-up, while the younger managers tend to achieve their personal goals instead of the goals of the project, therefore causing some risks that might have negative impact on the project and its development".... SB11/ PL3*

> *"Middle aged managers are the best, because administrative affairs need a wide range of relationships. Usually young people have "limited relationships and are not highly recognized in governmental departments or in the market. Middle age managers are also more ambitious, patient, and highly energetic – especially in the field of industry which needs patience as success needs time".... SB12/ PL4*

> *"I believe the age of the manager is important in terms of energy, stability, and bearing work stress. The best age for managers is between 35-50, as younger managers care more about achieving personal goals, but after*

that managers tend to focus more on the development of their projects after fulfilling most of their personal objectives".... SB13/ WO1

This finding supports Kinsella et al. (1993) and Storey (1994) who state that middle-aged owner-managers are more likely to grow their businesses than entrepreneurs who are either young or older. This is claimed by Storey (1994) as being owing to a combination of enthusiasm commonly witnessed amongst the young, and experience as a result of age. Furthermore, a study conducted in Romania by Brown et al. (2004) found that younger owner-managers were more likely than older owner-managers to achieve high growth in employment.

4.2.4 Gender of owner-manager

Only two of the owner-managers were female, reflecting the dominance of males in business, not only within the manufacturing sector, but in most sectors in Libya as a whole. This finding arises from the obstacles perceived in terms of cultural, physical, religious and social issues and the necessity of high levels of personal relationship networking skills. One of the two female owner-managers stated

''The reason that I have been able to make my business grow is that I deal only other women. My employees are women and so are all my customers. Because I produce the traditional wedding clothes for women, and I produce to requests from customers, I have not needed to sell in the open market; all my customers come from referrals. This simplifies the management of my business. In terms of my business interactions with the authorities, I deal with this myself, but sometimes I face some obstacles so I get relatives to help me''... SB24/CL2

In addition, female owner-managers also experience a number of other obstacles when seeking to develop and obtain experience, such as in establishing connections, customers and suppliers, all significant constraints in terms of achieving growth. Moreover, females in Libya have to deal with not only business-related concerns, such as the running and management of their business, but also with balancing the routines and tasks of their household and family. As a result, females are less able to invest as many hours into their business as males.

These findings are supported by a report of the Secretariat of the Popular Committee for Economic Planning (2009), which pointed out that recently, more women in Libya have entered into running a business in the private sector, for instance in private schools, sewing workshops, and pharmacies, but the number is still limited. The findings also support those of Curran & Burrows (1988) who illustrated that it should be acknowledged that there is a low participation rate in regard to females acting as owner-managers of small firms, although this is becoming less relevant. Moreover, as women are generally paid less than men, particularly in developing countries such as China and African nations, females have to consider a number of additional issues to men, such as how to juggle their home and family responsibilities alongside running a business (Sit et al., 1991; Storey, 1994).

4.2.5 Prior industry experience

Table 4.7: Analysis of Prior Industry Experience by Growth Categories

Growth Category	**Prior Industry Experience**			
	Prior Industry Experience		**No Prior Industry Experience**	
	No. Firms	%	No. Firms	%
High Growth	6	75	2	25
Growth	9	69	4	31
Stable	2	50	2	50
Decliners	2	67	1	33
All firms	19	68	9	32

Nineteen (68%) of the 28 owner-managers had prior industry experience. As indicated in Table 4.8 above, 15 (79%) out of 19 firms owned and managed by individuals with previous industrial experience were classified in the growth and high growth categories. Five of these owner-managers had previously traded products they subsequently went on to manufacture, with 4 of these firms achieving higher growth.

One respondent who had prior industry experience stated:

> *"I have a long experience – about 25 years of experience in this field. I worked in governmental companies since I was 14; this had a huge impact on the success and development of my current project due to the experience and patience that I have learnt over these years."..... SB5/ PP1*

An owner-manager who had worked as the deputy director of a competing firm and left to start his own business felt that the growth of his business had been aided by his previous experience.

He noted as follows:

> *"I benefited from my past experience in this field, as I occupied the position of an assistant manager in projects similar to mine for four years. This*

period provided me with good experience to handle most managerial, financial, and technical problems that might arise in this field.".... SB10/ PL2

The majority of businesses owned and managed by people with previous manufacturing experience fell into the larger size category and had higher growth aspirations. It was noted by the researcher during the interviews that owner-managers with prior experience within the same industry tended to have a better understanding of the industry and the need for planning.

This was highlighted by one owner-manager as follows:

"I am a mechanical engineer and I have previous experience in this field as I worked for four years in a similar position. This period provided me with good experience that helped me in selecting the right machines for my own project." SB10/ PL2

This finding supports the argument that owner-managers who have previously worked in the same sector in which they established their business are more likely to survive and to achieve higher growth (Storey, 1994; Aidis, 2003; Dahl and Reichstein, 2004; Autere 2005).

4.2.6 Prior managerial experience

Table 4.8 below shows a tabulation of prior managerial experience against growth category.

Table 4.8: Analysis of Prior Managerial Experience by Growth Category

Growth Category	Prior Managerial Experience			
	Prior Managerial Experience		No Prior Managerial Experience	
	No. Firms	%	No. Firms	%
High Growth	-	--	8	100
Growth	4	31	9	69
Stable	1	25	3	75
Decliners	1	33	2	66
All firms	6	21	22	79

As shown in table 4.8, only a small portion of the owner-managers (6 out of 28, or 21%) had any form of previous management experience, one of them noting:

"As a manager in a government project on animal products, and as an associate with three partners in a factory for manufacturing paper and printing, I have experience which helped to support the success and development of my business, and saved me time, effort, and money. I also

tried to develop myself from time to time by attending particular courses related to my business."..... SB6/ PP2

A striking finding was that none of the 6 owner-managers with prior managerial experience had achieved high growth rates, while 4 achieved some growth and 1 saw a decline in the employment. These owner-managers tended to have started up on a smaller scale and ensured they learned from past mistakes, although this had the effect of slowing down growth.

These findings reflect the fact most of the owner-managers with prior managerial experience had acquired it by working for public sector organisations, which tend to offer poor preparation for self-employment.

In contrast, Storey (1994) found in the UK that a higher level of managerial experience tended to be a contributory factor leading to faster growth, because managers of this kind set themselves a high 'reservation wage' that they deem to make their work worthwhile, and which can only be met by building the firm to a large size.

4.2.7 Portfolio ownership of other businesses

Table 4.9 shows an analysis of the ownership of other businesses against growth category.

Table 4.9: Analysis of Ownership of Other Business by Growth Category

Growth Category	**Other Business**				
	With Other Business		**No Other Business**		
	No. Firms	%	No. Firms	%	Total
High Growth	4	50	4	50	8
Growth	3	23	10	77	13
Stable	1	25	3	75	4
Decline	2	67	1	33	3
All Firms	10	36	18	64	28

18 out of 28 (64%) of owner-managers were not involved with other businesses and most of them had achieved significant growth. These owner-managers considered dedicated personal involvement to be important in striving towards and achieving growth. The majority of firms lacked fundamental financial and human capital resources, and their owners had no desire to spread such resources any further.

As stated by one respondent:

"The lack of technical labour and limited capital hinders the expansion of the current investment or considering other investments."..... SB3/ BL3

Networking (personal relationships) was considered to be an important factor for having several businesses:

"It is so difficult to find people whom you can trust to help you open a new branch of your project, as it is very difficult for you to manage two branches at the same time."..... SB14/ WO2

"In the field of industry, managing to have cash is usually slow. Our policy aims at investment variation, particularly in the commercial field, due to its cash flow that is considered important in facing any cash shortage due the operation procedures in the factory. We also have a real-estate investments that we can sell to fulfill any financial problems in our manufacturing business."..... SB2/ BL2

Table 4.10: Analysis of Ownership of Other Business by Education

University Education	**Other Business**				
	With Other Business		**No Other Business**		
	No. Firms	%	No. Firms	%	**Total**
With University Education	6	31	13	69	19
No University Education	4	45	5	55	9
All Firms	10	36	18	64	28

As indicated in Table 4.10, owner-managers with a university education tended to be more likely to focus on a single business (13 out of 19 or 69 %) compared with those with less education (5 out of 9 or 55%). An explanation of this finding could be that those who had been in higher education were likely to be more vigilant and cautious when doing business, whilst those with lesser education were more likely to conduct business only on the basis of instinct, rather than analysis.

One owner-manager noted as follows:

'We do not have a written financial plan for the business, but if there is enough cash in the bank, and good sales; then the project is fine. The experience factor also plays a huge role in this aspect."…. SB26/ CL2

Table 4.11: Analysis of Ownership of Other Business by Growth Aspiration

Growth Aspiration	**Other Business**				
	With Other Business		**No Other Business**		
	No. Firms	%	No. Firms	%	Total
V.High Growth Above 50%	2	28	5	72	7
High Growth 21-50%	2	22	7	78	9

Low Growth 1-20%	4	57	3	43	7
No Growth	2	40	3	60	5
All Firms	10	36	18	64	28

** 'Very high', 'High' 'Low' and 'No growth' are based on evidence of an aspiration to achieve growth as expressed by the respondents.*

As indicated in table 4.11**,** owner-managers with a high-growth orientation were more likely to focus on only one business as opposed to spreading their resources over other businesses. Owner-managers who had a portfolio of businesses were notably less dedicated to achieving growth. An explanation could be that these owner-managers were interested in establishing businesses but not in growing them, instead prioritising having a number of different streams of revenue. One owner-manager with interests in several business stated that he believed himself to be over-committed. He was satisfied that he had established several firms, but he was reluctant to aim for further growth, lacking the resources to do so. Owner-managers of this kind tend to regard growth as an increase in the number of firms established rather than in the size of the firms they already own.

This finding is inconsistent with Gundry and Welsch (2001), who conducted a study into the attributes of aspirational entrepreneurs, concluding that they were likely to hold equity in more than one firm, and that those with low growth aspirations were less likely to do so. Wiklund and Shepherd (2003) argue that the acquisition of other businesses is one of several avenues that are available to growth-oriented owner-managers, meaning that it is very important to be aware of all the business interests of an owner-manager.

4.2.8 Family business background

As shown in table 4.12 below, 19 (68%) of the respondents came from families with a history of business ownership.

Table 4.12: Analysis of Family business Background by Growth Category

Growth Category	**Family Business Background**			
	With Family Business Background		**No Family Business Background**	
	No. Firms	%	No. Firms	%
High Growth	6	75	2	25
Growth	9	69	4	31
Stable	3	75	1	25
Decliners	1	33	2	67
All Firms	19	68	9	32

There was only a small difference in the growth achieved by owner-managers with a family business background and those without. However, some owner-managers with family business backgrounds were involved in completely different activities from those of their family members. I most of these businesses, there was some degree of involvement by other family members in management. In general, it was found that owner-managers had a greater inclination to work with close friends and family members owing to issues of trust and to the widespread cultural tradition of maintaining family relationships within Libya.

This finding is consistent with Storey (1994) and Smallbone & Welter (2001), who contend that those persons who have entrepreneurial parents are more likely to own their own businesses in the future. For instance, such individuals may be given further insight and knowledge into how to run a business from an early age, and may also be able to gain access to the required materials and other resources needed to operate a business owing to their parents' connections.

Some respondents commented as follows:

> *"My father was a trader. When the state closed the trade business, my father and others gravitated to the field of industry, and he established a small plastic factory. I and my brothers worked there with my father during our study years, and after graduation the whole factory was handed to us."..... SB11/ PL3*

> *"Yes, my father worked in this field and I learned a lot from him while I was young, until I began to work independently ten years ago.".... SB13/ WO1*

> *"I inherited this from my father who worked in this field since 1956. All my brothers work in the same field.".... SB14/ WO2*

4.2.9 Personal networks

Table 4.13 provides an analysis of the level of personal networks used by the owner-managers and their relationship to employment growth categories.

Table 4.13 Analysis of Owner-Managers' Personal Networks by Growth Category

Growth Categories	**Personal Networks**			
	High Personal Networks*		**Low Personal Networks**	
	No. Firms	%	No. Firms	%
High Growers	7	88	1	12
Growers	10	77	3	23

Stable	3	75	1	25
Decliners	1	33	2	67
All firms	21	75	7	25

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of personal networks as an influential factor on growth.*

It was agreed by most owner-managers (21, or 75%) that high-level personal networks were an important factor when striving for higher growth. Most owner-managers further cited personal relationships as being fundamental to business growth and success, owing to the weak implementation of the Libyan legal and regulatory systems. Markedly, it was acknowledged that personal networks offered further avenues for higher growth, with investment opportunities and problem-solving facilitated through such means, including being able to gather business data from banks, friends, relatives and suppliers.

These findings are consistent with Deakins & Freel (2003), who identified the importance of networks as crucial in the establishment and management of a successful business, and with Premaratne (2001), who argues that no single business has all the necessary resources for success, and that small businesses depend on the networking abilities of its principals to form relationships with banks, friendly supporters, suppliers and government agencies.

Two respondents commented on personal networks as follow:

''These personal relationships are very important in attracting new contracts, provided that these personal relationships are based on the quality of the work. It means that if the quality of the work meets these relationship, success is possible. And, the personal relationships are very important in our field, especially in obtaining raw materials on credit. In addition, experience in this industry and the market along with a good reputation and personal relationships were the motivation for me to establish my own project. I acquired these relationships through the stage of my work with my father and through the various levels of my study, which helped me in the process of marketing to gain new customers, facilitates the procedures of the governmental departments, and obtain various new work contracts''......SB13/WO1

''These personal relationships represent approximately 50% of our work because our relationships are important in the process of selling and marketing the product. And, these relationships are always needed to activate a commercial deal, together with your presence in the market and selling, because if you are not in the market, you will be easily be forgotten by the traders''.....SB/FO1

As shown in table 4.13 above 7 (34%) respondents with a high level of personal networks were within the high growth category. On the other hand, only one respondent with a low level of personal networks could be classified under the high growth category. Those owner-managers who had valuable personal networks at their disposal utilised such relationships with banks, friends, government and suppliers in order to gain access to raw materials, loans and other forms of credit.

One respondent stated:

‘’It is very important that your relationship with the suppliers of raw materials should be excellent by your commitment and credibility with them in paying obligations to them in a timely manner. Thus, you will acquire their trust. And, you will obtain facilities in paying, and competitive prices. Also, you will find them besides you in any hard times, in the cases of lack of liquidity, or in the case of sudden large orders to provide you with raw materials quickly, and other services’’......SB11/PL3

One owner-manager stated that he had been able to obtain an electricity connection for his firm quickly and easily thanks to a friend who was a former work colleague. This respondent commented as follows.

‘’On one hand, personal relationships are very important in the process of obtaining financial support from commercial and specialized banks, of course, this is for some manufacturers. On the other hand, personal relationships are important with governmental organizations. For example, we had an experience with the electricity company. You can see that the high voltage electricity cables pass beside your project, but it is very difficult to obtain such a service without pure personal relationships and paying sums of money. Without,, you will need from 2 to 6 months to obtain it. So, trust and personal relationships are very important’’.......SB11/LB1

One respondent who reported a high level of personal networks said that trust and personal networks also played a critical role in recruitment, saying that:

“The role of personal relationships is important in the recruitment of employees in Libya because the social relationship gives a type of commitment for the employee towards the employer, as the employee cannot betray his work by revealing the secrets of the work to competitors. Also, he cannot be inactive or leave the work due to his loyalty to the relationship between him and the employer”.....SB17/ME1

This finding is consistent with Smallbone and Welter (2001) who stated that networking and the use of personal contacts can be very valuable tools for solving business problems. It is also consistent with Tjosvold and Weicker (1993), who suggest that skills in networking are very important for entrepreneurs, and make a substantial contribution to business growth through the entrepreneur's ability to network effectively, and thus develop a support system.

4.2.10 Motivation

The majority of owner-managers felt that they had no choice but to explore the self-employment career route owing to the employment situation within Libya, which they characterized as being poor and offering only very low salaries in both the public and private sectors, despite the increased cost of living in Libya. All but three respondents stated that they had voluntarily entered self-employment, using expressions such as:

> *"Life is an adventure. I love adventures, so I decided to establish my own project."…. SB4/ BL4*

> *"my motive is my love for free business, and being self-employed compared to a government job and its limitations"….. SB20/ ME4*

> *"First of all, independence and self-employment is better than government jobs in Libya in terms of the financial return. The lucky one manages to open his own business and succeed."….. SB26/ CL2*

This finding is consistent with Watson et al., (1998); Smallbone & Wyer, (2000); Hamilton & Lawrence, (2001) and Janssen, (2003), who highlighted the concept of push and pull factors in this area, as some of the pull factors noted include independence, opportunity, being one's own boss, and making better use of skills; push factors including frustration with current/past employment, redundancy and unemployment.

4.3 The Influence of Firm Characteristics on Growth

4.3.1 Sector

Table 4.14 illustrates growth performance by sector.

Table 4.14: Analysis of Employment Growth by Sector

Sub-Sector / Growth Category	Building Materials	Printing & Paper	Plastic	Wooden Furniture	Metal Industry	Food Industry	Clothing & Fashion
High	2	-	-	1	1	3	1
Growth	2	2	1	3	2	1	2
Stable	-	1	2	-	1	-	-
Decline	-	1	1	-	-	-	1
All Firms	4	4	4	4	4	4	4

20 owner-managers out of 28 (71%) placed a high importance on subsector as a determinant of growth. The differences across sub-sectors show some difference in growth rates achieved by firms. As indicated in Table 4.14 above, the building materials and food sub-sectors experienced the greatest degree of growth owing to government support of construction and lower production costs respectively, a result of customs and tax exemptions, high demand and low wages, all of which assisted such firms in competing with importers. This supports the findings of Davidsson and Delmar (1997) and Chamanski and Waago, (2003) who stated that those firms experiencing fast growth rates have tend to operate within high-growth industries, such as those centred on fast-moving technology. One respondent explained that:

"Some industries grow faster than others due to the economic conditions and the market needs. I believe that now the fastest growing industries are the construction materials and food industries, because the country is in a development phase in terms of construction; in addition, food products are a daily need for all citizens."..... SB13/ WO1

The plastics sub-sector which showed slowest growth, followed by printing and paper, clothing and fashion, metal, wooden furniture, building materials and the food industry, in that order. The majority of the owner-managers in the sample highlighted that growth was affected by the overall growth rate of not only a number of related sectors, but also the Libyan economy as a whole. One respondent stated:

"Of course there are slow and fast developing industries, according to the market demands, and the status of your project. A feasibility study is essential before the implementation of any project to comprehend the market demand and the volume of offers submitted by competitor factories and imported goods, in addition to the total costs of the project and its marketing."..... SB24/ FO4

Firms operating within the plastic and printing subsectors were found to have the lowest growth, with the owners of these businesses stating that informal businesses posed a particular threat. Notably, entry into such sub-sectors was simple owing to comparatively low initial cost, which subsequently induced the wide spread of informal businesses. As a result there had been a decline in the output of this subsector, with the smaller small firms being the worst affected. This finding confirms those of McPherson (1996) and Tybout (2000), who point to wide sectoral differences in terms of product demand, cost structures and unpredictable availability of resources, particularly in developing countries.

As mentioned by one respondent:

> *"There are some industries which are required in the local market and cannot be imported from abroad. Accordingly, these local industries grow more than those industries which have external competition, which grow slower.".....* *SB7/ PP3*

Initially, the low rate of growth in employment within the plastics sub-sector was surprising, given that Libya has a large petrochemical industry, producing a variety of raw materials necessary for plastics products at low prices, but these advantages merely acted as a spur to informal competition. Plastics manufacturers were predominantly concerned with dealing with only the Libyan market, neglecting to consider exports to African and Arab countries, possibly because of inadequate data concerning these countries.

4.3.2 Location

The majority of the sample firms were located in the main cities: Tripoli, the capital city, and Misurata, the second manufacturing city in Libya, These cities were selected due to the high concentration of small manufacturing firms to be found within them: the city of Benghazi, is large and economically active city and has a relatively small manufacturing base. 24 out of 28 (86%) owner-managers placed a high importance on location.

One respondent stated:

> *"Location is not significantly important in our business, which depends more on our reputation and the quality of our production. The client does not care to know the location of our print house, because communication is mostly done through the phone.".....* *SB7/ PP3*

Some of the firms reported that good infrastructure was to be found both within and around the capital city, such as in the form of a constant supply of electricity, good roads, sanitation, telephones, water, etc., all of which were more likely to remain stable and constant within such areas. As stated by one of the respondents:

> *"The location is very important. Our business is in the city center and all the infrastructure services are very good. This helped us to grow fast and easily reach customers. Also the transportation costs are much lower than if the business were located outside the city.".....* *SB14/ WO2*

Some other firms reported other benefits enjoyed by firms located in the capital city or suburbs. One respondent mentioned:

"The location is very important, as it is preferable to be in cities or city districts because of the presence of the necessary infrastructure all around the business such as: roads, transportation, and electricity. It is really difficult for these services to reach the factory if it is in rural areas, as well as telephone lines, as these kinds of service are limited in the capital's surrounding areas"...... SB4/ BL4

The majority of owner-managers indicated that their location choice was demand-based, with consideration also given to the availability of suitable infrastructure, which is commonly found in main cities. An owner-manager with a firm located close to Suqe Al Talat (the biggest commercial and manufacturing area in Tripoli) commented as follows:

"The location is very important for our success and growth. The marketing process is easier and cheaper. Most of our marketing is successful because we are close to a dense population area and close to the vital places in the city. The infrastructure is perfect and close to the area where the factory is located."..... SB25/ CL1

The majority of owner-managers explained that locating their firms outside the main cities and their suburbs in Libya was virtually impossible, owing to the lack of infrastructure and facilities and low demand in rural areas, commonly resulting in poorer growth and performance.

These findings are consistent with Storey (1994) and Davidsson et al. (2002), who found that smaller firms operating within larger, urban locations tended to achieve higher growth rates than those located in rural areas. The findings also support a number of research projects that have been conducted in Africa, concluding that those operating within commercial areas were expected to achieve growth at a faster rate than those positioned within normal villages and towns (McPherson, 1996; Mead & Liedholm, 1998; Sleuwaegen & Goedhuys, 2002). Similarly, Sleuwaegen & Goedhuys (2002) who observed that firms located within Abidjan (the commercial capital of Cote d'Ivoire) achieved a faster rate of growth when contrasted against small firms in a number of other cities.

4.3.3 Firm size

Table 4.15: Analysis of small firms' size by growth category

Firm Size	No. of Employees	High Growth	Growers	Stable Firms	Decliners	Total
Smaller Small Firms	1-8	-	3	3	3	9
Medium Small Firms	9-16	3	5	1	-	9
Larger Small Firms	17-25	5	5	-	-	10
All firms		8	13	4	3	28

Table 4.15 shows that firm size was important in relation to its impact on growth. The data from the sample show that all of the firms in the high-growth category were in the larger category, with none of the smallest firms achieving high growth. This could be explained because the larger firms were more likely to make use of high-growth strategies, perhaps because of available resources, including human capital. Conversely, the smallest firms showed lower rates of growth, perhaps because of inadequate resources, some having been established with a very small production capacity.

Two respondents commented:

"Large businesses grow faster because their capital is bigger and therefore it moves quickly, and investment can be expanded by accepting big projects. On the other hand, a small company with limited capital attempts to preserve its size, therefore its growth tends to be slow due to its limited resources''...... SB17/ ME1

"It is true that the large business which has big resources and good management can grow faster, because the market demand is large, therefore, it can implement large assignments and make huge profit, unlike a small business with limited resources."...... SB18/ ME2

A number of owner-managers of the smallest firms felt that their larger counterparts were in a position to negotiate tax exemptions and benefits, which ultimately provided the larger businesses with additional benefits. Nevertheless, it was established that some of the smaller businesses were interacting and communicating with larger small firms with the aim of establishing regulatory changes.

As mentioned by one respondent:

"When you establish a large project in the Libyan environment, it naturally means that you have big capital and a huge network of relationships all

over the city. Therefore, business with most of the administrative stuff related to the government is easier to conclude.”..... SB27/ CL3

In general, the smaller firms tended to be the newest: for example, seven out of the nine smallest firms were aged between two and ten years, whereas most of the larger firms had been in existence for more than ten years.

Biesebroeck (2005) found that in Africa large and medium sized firms tend to expand their employment base more rapidly than smaller ones, but without any corresponding growth in productivity.

From table 4.15 above, the data obtained provided evidence that the larger firms were more likely to be high growers or growers than their smaller counterparts. Taking into account the other factors, it would seem that owner-managers with prior industry experience, an entrepreneurial family background, a higher level of education, were more likely to achieve faster growth in their businesses.

These findings support those of Barkham et al. (1996), who assert that small firm growth is determined by a complex range of interrelated factors.

4.3.4 Age of business

Table 4.16: Analysis of Firm Growth by Age of firm

Age-year **Growth category**	**3-10**	**11-20**	**21-30**	**Total**
High Growth	6	2	-	8
Growth	6	4	3	13
Stable	2	-	2	4
Decliners	2	-	1	3
All firms	16	6	6	28

Table 4.16 summarises the relationship between growth rate and age of firm**:** the oldest firm surveyed had been in existence for 27 years, while the youngest had been in existence only three years at the end of the study period.

The data suggests that growth had an inverse relationship with firm age; for example six out of the eight high growth firms were less than 10 years old.

One respondent stated:

“The manager of a young business normally has big aspirations and seeks to do his best in order to fulfil these aspirations. If technical and financial

possibilities are available for this business, then it will grow fast. The owner of a mature project has already achieved most of his aspirations and feels stable. Usually the growth percentage of a mature business is much less than a young business."....... SB25/ CL1

The highest proportion of younger firms was in the food industry sub-sector: out of 4 firms in the food industry sub-sector, 2 (50%) were below five years old.

In Libya, costs of living are expensive and there are few credit facilities, meaning that individuals must pay outright for cars, home appliances, etc. This may encourage people to opt for work in the private sector and encourage them to strive to achieve rapid growth so as to be able to meet the costs of living. In addition, younger firms tend to have simpler, less complex requirements, which undoubtedly assists businesses in initially achieving growth at a faster rate.

These findings are consistent with previous research which shows that younger firms experience more rapid growth when contrasted with older firms; in other words, the age of a business has an inverse link to growth (Storey, 1994; Wagner, 1995; Davis et al., 1996; Glancey, 1998; Davidsson et al., 2002; Andersson, 2003; Cabral & Mata, 2003). This study's findings are also consistent with Harding et al. (2004), who found that newly established businesses in Africa show more substantial and rapid growth owing to the fact that, in line with business maturity, greater constraints are experienced, such as restricted access to export markets, and limited demand.

4.3.5 Number of founders and owners (other owners)

Table 4.17 summarises the ownership structure of the sample firms.

Table 4.17: Analysis of Number of Owners

Number of Owners	**Number of Firms**	**Percentage %**
1	9	32
2	12	43
3	2	7
4	4	14
5	1	4
Total	28	100

The clearest finding is the very high proportion of businesses with multiple owners, which is a powerful illustration of the level of involvement of other family members. Despite this, it was also found that in all of the 19 firms with more than one owner, decisions remained the responsibility of only one person.

It was also found that 13 out of 19 (68%) of the firms with multiple ownership were also owned by family or close friends. Most of this family ownership was by fathers and sons or the oldest son and his brothers or cousins. Family members' presence within the firm was generally based on trust as opposed to skills and expertise. Two respondents stated:

> *"It is better if they understand each other, like me and my brother who is my partner. Each one is responsible for the areas he is skillful in. I am an accountant so I am responsible for financial and administrative affairs; while my brother is a mechanical engineer, so he is responsible for technical and operational affairs."....... SB11/ PL3*

> *"If they understand each other like my five brothers and I, who respect and appreciate each other and work in a unified unity, then this will play a huge role in the development and the success of the business."...... SB27/ CL3*

Even those owner-managers who were willing to take on new partners were unsure as to the structure such procedures should take. Although some held a preference for those who could support the business through positive influence by their position of power, others were required to bring other resources to the partnership, such as management expertise and capital. As mentioned by a respondent:

> *"Sometimes you will need partnership, especially in funding, because it is an alternative to bank loans with interest which is prohibited according to Islam. A partner is important in this case. Partnership is also important in terms of assigning tasks in the factory and lessens the burden on the manager."......SB1/BL1*

It was found that problems were commonly experienced with non-family partnerships, with owner-managers voicing dissatisfaction with Libya's inadequate legal system and its incapacity in terms of handling business-related disputes. Although a number of owner-managers attributed the failure of partnerships to a lack of trust, others considered that they lacked cooperation from some or all of the partners. Owing to the fundamental value assigned to trust, and its scarcity within the Libyan community as a whole, owner-managers were generally disinclined to become involved in partnerships with any individual outside of their network of family and close friends, despite the fact that outsiders could be more valuable in terms of expertise and skills and tangible resources.

One respondent stated:

"We have an old saying that says: 'normally a partnership will not continue forever, except a few'. It is not easy to find partners who understand each other and continue working with each other for a long time. As the time passes, the workload is on one partner more than the others. Accordingly, the conflicts appear between partners, as most partnership agreements in small businesses in Libya are mostly oral and undocumented. Here lies the mistake, because undocumented agreements are not binding, therefore, the law cannot be applied on those who are not committed to them. Accordingly, conflicts and separation between partners occur."...... SB6/ PP2

Table 4.18 tabulates growth rate against the number of owners of each sample firm:

Table 4.18: Analysis of Firm Growth by Number of Owners.

Growth Categories	**Multiple owners**		**Single owner**	
	No. Firms	%	No. Firms	%
High Growers	5	63	3	37
Growers	11	85	2	15
Stable	2	50	2	50
Decliners	1	33	2	67
All firms	19	68	9	32

The findings show that those businesses with multiple family or close friends owners were rather more likely to grow at a faster rate than businesses with one owner or those involving outside business people. It has been suggested that, owing to the lack of trust apparent amongst Libyan business people, failure was far more likely if joint ventures involved outsiders. It is considered that the poor legal system implemented within the country exacerbates this lack of trust; thus, a negative impact on growth was found in the case of firms with non-family or non-close friends owners.

This finding is not consistent with those of Walsh & Anderson (1994), who concluded that higher growth rates are achieved firms under sole ownership. However, it is inconsistent with that of Barkham et al. (1996), who reported that in the UK growth was improved by 19% during a five-year period with the presence of an active partner. Barkham et al. (1996) suggested two explanations for this finding: firstly, in firms owned or managed by one individual, gaining a reasonable living may be the only objective, so growth may not be a priority; secondly, multiple owners may have complementary skills and resources. The Libyan context is different for several reasons, including the strength of family ties, the general mistrust of others beyond family and friendship networks and the very weak enforcement of business law.

4.3.6 Legal status

By far the predominant issue regarding legal status was perceived unfair competition from informal businesses. The majority of the sample owner-managers, whose businesses had a valid legal status and were thus subject to taxation and regulation, complained about having to compete with firms whose legal status was not valid or fake, especially when competing for government or private tenders. Companies often win these tenders, then they divide it and resell it to sub-contractors, having obtained company status by illegal means for just long enough to win the bid. They are able to do this because legal status can be easily changed in Libya and usually takes place through private service offices which offer this kind of service, involving bribing employees working in governmental departments.

4.4 The Impact of Business Strategy

This section will explore the findings with respect to the business strategies adopted by the sample firms in order to achieve growth, with specific reference to the following issues: product innovation; process innovation; marketing strategies; business planning; and skills and training.

4.4.1 Product innovation

Product innovation was analysed by two parameters: the introduction of new products, referred to here as pure innovation, and the introduction of products new to the firm but available in other areas. None of the sample firms had engaged in pure innovation. This may be explained by the fact that the majority of businesses did not have adequate resources necessary for research and development applied to new products. Accordingly, 18 owner-managers out of 28 (65%) indicated that they undertook a low level of product innovation. Most owner-managers felt that it would be far more feasible and profitable to simply copy the actions of other businesses, as opposed to investing significant resources into the development of innovative products, as there were numerous well-known products not currently available in Libya and that pure innovation was risky.

This finding is consistent with Baldwin and Gellatly (2003), who stated that small firms tend to avoid product innovation because they feel unable to risk significant investment in research and development, marketing, and equipment to make products which have not proved themselves within a given market.

As stated by one of the respondents:

''I always like and seek to develop production and its quality based on the local market demand. This is in addition to imitating the current types and qualities in the local exhibits and markets. I launch them to the market and it has worked. Thanks to Allah, I like to imitate not to innovate; which means that I like to imitate the successful products to succeed also because, on the one hand, this success has been carefully studied and on the other hand, innovation is considered more risky. There are efforts to produce our own types, which are the fruit of my experience of local taste, and this represents 20% of our production''……SB27/CL3

Some respondents expressed the view that there was a significant degree of product imitation within Libya owing to inadequacies in the country's regulatory and legal systems, meaning inventors are not adequately protected.This finding is consistent with those of Joyce et al. (1996) who stated that firms which enter the market with a new product can expect a period of high returns before this premium is eroded by imitative products from competitors. This was confirmed by a respondent in one of our interviews.

''Of course we always innovate and develop to be able to compete with local and imported products. We have developed our products and improved their quality due to using skilled labour and high technology machines which many of our competitors lack''…….SB5/PP1

Table 4.19: Analysis of Product Innovation by Sub-Sector

Sub-Sector	**Low Product Innovation***	**Percentage %**	**High Product Innovation***	**Percentage %**
Building Materials	3	75	1	25
Printing & Paper	3	75	1	25
Plastics	3	75	1	25
Wooden Furniture	2	50	2	50
Metal Industry	3	75	1	25
Food Industry	1	25	3	75
Clothing & Fashion	3	75	1	25
All firms	18	64	10	36

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of product innovation as an influential factor on growth*

Table 4.19 provides a sub-sectoral analysis of how the sample owner-managers rated their product innovation activities. It was observed that product innovation was seen to be more prevalent amongst the food and wooden furniture subsectors. A fruit juice manufacturer reported that during recent years his firm had introduced a number of new products, with production ceasing in the case of others. The subsectors found to be less active in product innovation included printing, plastics, clothing, fashion and metal-working.

Even then, there was inconsistency within subsectors with respect to commitment to innovation. For example, within the food subsector, 3 out of 4 firms were high innovators, whereas in the building materials, printing & paper, plastics, metal industry and clothing & fashion sub-sectors, the situation was reversed, with 3 out of 4 firms in each subsector reporting a low commitment to product innovation.

The problems associated with innovation were described as follows by one of the respondents:

> *''We have previously expanded our production by producing a new product but it was a failure due to difficulty of tile production development in Libya. There are two reasons for that; the first is the types of the tiles required in the Libyan market as there are limited types that match the Libyan consumer's taste and demand, while the other reason is that when we want to take a risk and launch new product into the market, this requires new and modern machines which are expensive. Therefore, production is expensive at the beginning and this is not accepted by the Libyan consumer, however, the product can be firstly developed by adding a new packaging system which facilitates its transportation, and consequently its demand''……..SB1/BL1*

Table 4.20: Analysis of Product innovation by growth category

Growth Categories	**High Product Innovation**		**Low Product Innovation**		**Total**
	No. Firms	%	No. Firms	%	
High Growers	5	63	3	37	8
Growers	5	38	8	62	13
Stable	-	-	4	100	4
Decliners	-	-	3	100	3
All firms	10	36	18	64	28

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of product innovation as an influential factor on growth*

Table 4.20 portrays an analysis of engagement in product innovation according to levels of growth rate. There seems to be a relationship between innovation and growth, as all ten of the innovating firms reported growth, while among the non-innovating firms the proportion of growth firms was much lower, with 38% reporting no growth or decline.

Most of the innovating firms reported that they had some form of process concerned with product innovation; for example, three out of four firms within the food industry reported that new products were added to their product lines as a result.

This finding is in accordance with Smallbone et al. (1995) and Harabi (2003), who suggest that new product introduction can have a positive impact on demand. One respondent stated:

> *''Yes, we add new product approximately every year based on the demand of the international exhibits as well as the citizens and their repeated suggestions for specific types of beverages. Besides, we always develop the cartons and stop producing some juices when their demand decreases''........SB23/FO3*

Producers also strove to offer a choice of products as varied as that offered by importers of similar products. However, a number of the firms targeted during the course of this study highlighted a common concern: resource restrictions. It was suggested by some of the firms that, when partaking in product innovation, it was necessary for a number of production lines to be established, which considerably added to costs.

Table 4.21: Analysis of Product Innovation by Firm Size

Firm size	**High Product Innovation ***		**Low Product Innovation**	
	No. Firms	%	No. Firms	**%**
Small small firms	1	11	8	89
Medium small firms	3	33	6	67
Large small firms	6	60	4	40
All firms	10	36	18	64

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of product innovation as an influential factor on growth.*

Table 4.21 shows a clear relationship between firm size and engagement in innovation, with the larger and medium-sized small firms more likely to practice product innovation. Six out of ten larger small firms were involved in product innovation as compared with three out of nine in the medium-sized category and only one out of nine of the smallest firms. This finding is inconsistent with that of Smallbone et al. (1995) who found that product innovation is not necessarily a consistent characteristic of high-growth firms.

Owner-managers who expressed a keen interest in the arena of product innovation also tended to have both a university education and prior industry experience. This finding is consistent with Covin & Slevin (1990); Bantel and Jackson (1989) and

Edelman et al (2002), who established a significant link between the education of top management and functional expertise with regard to innovation This was emphasised by one respondent:

> *''We try to develop production quality every year through factory technical innovation as well as visiting international exhibits. It is true that there is some risk in launching new products to the market but this is part of the manager's role, education and experience in this field, as when he sees a new product in the international exhibits, he can, based on his experience, calculate its chance of success in the Libyan market''........SB2/BL2*

4.4.2 Process innovation and sophisticated technology

One of the concerns of this study was to assess the extent to which technology was used to achieve improvements in the manufacturing process. The interviews sought to understand how (if at all) process innovation was introduced by the sample firms, and which firms continuously used process innovation as a measure to achieve competitive advantage and growth. The focus on process innovation was intended to determine how often the firms undertook the purchase of new equipment or machines, technologies and improvements in its use of inputs.

It should be recognized that process innovation can take various forms, including the acquisition of new technology and improvements in the quality standards of production processes. Accordingly, the owner-managers interviewed may have had different perceptions of what constitutes process innovation and how changes should be implemented.

Table 4.22: Implementation of Process Innovation by Firm Size.

Firm size	**High Process Innovation***		**Low Process Innovation***	
	No. Firms	%	No. Firms	**%**
Small small firms	1	11	8	89
Medium small firms	2	22	7	78
Large small firms	4	40	6	60
All firms	7	25	21	75

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of process innovation as an influential factor on growth.*

From table 4.22 it can be seen that 7 out 28 (25%) firms in the sample were committed to process innovation and that these were mostly in the larger size categories, with 40% of the largest firms engaging in process innovation.

Our finding is consistent with the findings of North and Smallbone (1996) and Goedhuys (2007), supporting their conclusions that small firms are less likely to implement process innovation. As emphasised by Schumpeter (1934) and further advocated by Rothwell (1989), the innovativeness of small firms is commonly obstructed by a lack of resources, both financial and material, as such firms have modest budgets for the purposes of development and research, as well as restricted manpower resources. Lee (2003) emphasises that businesses in Malaysia adopting high process innovation tend to be both younger and larger and more likely to produce goods for the domestic market.

One respondent commented:

> ‘’ *Yes, we always develop production stages annually as per previously studied plans when our sales and profits increase. Development include management as for following up, monitoring and transforming production stages as per production specialization and adding technology to all the managerial and productive stages by way of central organization. This is in addition to developing machines, production and manpower by increasing skills through training and in maintenance. Of course, this is difficult due to lack of skilled technicians in the Libyan market’’……..SB4/BL4*

Table 4.23: Analysis of Process Innovation by Growth Category

Growth Categories	**High Process Innovation***		**Low Process Innovation**	
	No. Firms	**%**	**No. Firms**	**%**
High Growers	3	38	5	62
Growers	4	31	9	69
Stable	-	--	4	100
Decliners	-	--	3	100
All firms	7	25	21	75

**‘High’ and ‘Low’ refer to the owner-managers’ perception of the level of importance of the effect of process innovation as an influential factor on growth.*

The findings suggest that effective process innovation played a role in the growth of the sample firms. The data from table 4.23 shows that of the 28 firms, 7 (25%) were high in process innovation and all achieved growth. These firms regularly undertook process innovation in various forms, including the acquisition of new technology, equipment and machines, and achieving improvements to production quality standards.

Process innovation sometimes resulted in reduced employment. As stated by one of the respondents:

''We often develop production stages every one or two years. We have developed machines, and thus there is rapid and modern new technological production. This had a positive effect on our factory's growth, yet there is limit for such technology which we cannot pass due to the difficulty of dealing with very high technology for its expensive maintenance. Due to adding technology to some production lines, the number of workers was decreased from 28 to 24''……..SB1/BL1

21 of 28 (75%) owner-managers in the sample believed that they possessed and utilised adequate equipment, technology and resources and did not currently see any need for further changes in this area. They felt that the production processes implemented were adequate and suitable, aiding them in securing a reasonable price for their goods and appropriate levels of quality.

The findings are consistent with several authors who suggest that businesses pursuing process innovation as a strategy subsequently derive a number of advantages, including increased productivity, product quality enhancement and lower production costs (Smallbone et al., 1995; Barkham et al., 1996; Joyce et al., 1996; Baldwin and Gellatly, 2003; Jaumandreu, 2003).

Level of education had some influence on the application of new technology. One respondent commented as follows:

''Based on the experience of my brother as a partner, who is a mechanical engineer as well, and regarding the technical matters, he easily succeeded in replacing old machines with new ones which can give the same production type, yet with better quality and quantity. This was thanks to the experience and qualification of my brother, the factory's technical officer.''……SB11/BL3

Some respondents said that they had personally experienced declining growth as a result of their inability to select adequate technology. However, it was also acknowledged that high level technology could also be very difficult because some businesses lacked the necessary skills and resources to both maintain and function sophisticated technology.

One respondent stated:

''We have developed managerial work phases by using computers in most managerial procedures in the factory. We also have added two machines recently to raise finishing quality of our products, and this resulted in increased demand on our products and the admiration of our clients. It is not possible to use highly technological machines because we cannot get skilled manpower able to operate and maintain such machines. Besides,

the production types of such machines are limited, though huge''…….SB14/WO2

Table 4.24: Engagement in process innovation by subsector

Process innovation / **Sector**	**Low Process Innovation***	**Percentage %**	**High Process Innovation***	**Percentage %**
Building Materials	3	75	1	25
Printing and Paper	3	75	1	25
Plastics	4	100	-	--
Wooden Furniture	1	25	3	75
Metal Industry	4	100	-	--
Food Industry	3	75	1	25
Clothing & Fashion	3	75	1	25
All firms	21	75	7	25

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of process innovation as an influential factor on growth.*

The data in Table 4.24 show that businesses operating within the wooden furniture subsector were the most likely to practice process innovation, with three out of four (75%) of firms doing so, perhaps a reflection of a high level of competition. Furthermore, it should also be recognised that this subsector is known to have achieved the third-highest growth rate during the period under investigation, which perhaps results in part from the implementation of innovative processes. Another possible factor was that owner-managers in this subsector had significant industry experience in this regard.

The lowest engagement in process innovation was in the printing & paper and plastic subsectors. This finding is perhaps not surprising owing to the fact that there is a low demand for such products within the country owing to significant import penetration. Low demand was also a factor in the metal and clothing and fashion industries. In this situation, uncertainty surrounding future demand encouraged various businesses to choose technologies and approaches that were considered adequate for the short-term; however, such decisions may restrict growth and development in the long-term.

Three out of four owner-managers of firms within the building materials and food subsectors stated that there was no need to implement high-level process innovation owing to the fact that efficient technology and new machine lines were already being utilised.

These findings are consistent with those of Smallbone et al. (1995), who suggests that what constitutes process innovation may differ from one owner-manager to the next, and similarly, the overall effectiveness and focus of such activities may differ from sector to sector. It is also consistent with Goedhuys (2007) who observes in the context of a developing country, that sectoral variations are witnessed in line with innovative activities in Tanzania, with the plastics, metal working, and textiles sectors recognised as being the most innovative.

4.4.3 Marketing strategy

Table 4.25 illustrates the broad marketing strategies (mass market or niche market) adopted by the sample firms, analysed by sector and by firm size (niche/mass refers to a firm that pursues both strategies):

Table 4.25 Analysis of Marketing Strategies by firm size and sub-sector

Firm Size / Sub-Sector	**Smaller small firms**	**Medium small firms**	**Larger small firms**	**Total**
Building Materials	N/A	N/A	2 Mass 2 Niche/Mass	4
Printing &Paper	1 Niche* 1 Mass	1 Mass 1 Niche/Mass	N/A	4
Plastics	1 Niche 1 Niche/Mass	2 Mass	N/A	4
Wooden Furniture	1 Niche 1 Niche/Mass	N/A	1 Niche 1 Niche/Mass	4
Metal Works	1 Mass	1 Mass 1 Niche/Mass	1 Mass	4
Food Industry	N/A	1 Mass	2 Mass 1 Niche/Mass	4
Clothing&Fashion	2 Niche	2 Niche	N/A	4
All sectors	9	9	10	28

**A niche market is a focused, targetable portion of a market. A mass market is a market that covers substantial numbers of the population.*

Two clear findings are apparent from the data in Table 4.25. The first is that the smallest firms were the most likely to depend on niche markets; this is perhaps unsurprising, as they lacked the resources to target the mass market and to be able to compete on equal terms with the larger firms who did so. This has been suggested by many authors, including Wijewardena and Tibbits, (1999), who stated that a niche marketing positioning strategy is a key contributory factor to small business growth.

The second finding is that the implementation of either one of these strategies was dependent upon the industry in which the business functioned, as well as the availability of resources and firm size. Amongst those firms in the food subsector with significant growth in employment, a mass/niche market strategy had been implemented. One owner-manager explained that food producers usually had a range of products aimed at both high and low income customers, and therefore had a wider potential market.

‘’Food manufacture is addressed to the popular market (mass market) because most Libyans are of low income. They cannot afford expensive juices like these kinds imported from Europe’’….. SB23/FO3

A mass marketing approach was implemented by one of the four firms operating within the wooden furniture subsector, although such businesses later moved onto a niche market approach based on the production of high-quality products aimed at high earning consumers.

One of the respondents explained this as follows:

‘’At the beginning of the project, my marketing strategy was not well considered because I was new to the field and wanted to work. Therefore I targeted the popular and cheap production, yet I faced many problems such as competition, and prices speculation by manufacturers, especially the non-licensed ones. There were also problems in collecting debts because I was dealing with all social categories and therefore I aimed at specialized production and targeted the high income category with high quality product. I succeeded by providing high quality product to gain the client’s satisfaction and a good reputation. At the same time, I did not deal with governmental projects because it was difficult to get the payments, especial the final ones. In such cases, the law is weak and most of my dealings were with my clients or their friends, and hence there was a kind of guarantee to avoid debt’’......SB15/WO3

This owner-manager’s explanation was echoed by others in the same subsector, who were also driven by competition from informal businesses and importers to refocus their targeting to more affluent customers. This marketing strategy enabled them to achieve higher returns and achieve higher growth because informal companies were not able to compete in terms of quality. This firm was one of the four in the building materials sub-sector and, as the one with the largest market share, continued with a policy of manufacturing for the lower end of the market by adopting both mass and niche marketing strategies. The other firms included in the sample produced lower quality products, and had the lowest prices, relying on higher sales volume for their profitability. The owner-manager of one of these firms stated that they lacked the resources to buy or develop the technology necessary to move into the production and marketing of high quality products.

Table 4.26 shows the overall market orientation of the sample firms, analysed by growth category:

Table 4.26: Analysis of Marketing Orientation and Growth Categories

Growth Category	**High Marketing Orientation***	**%**	**Low Marketing Orientation***	**%**
High Growth	4	50	4	50
Growth	3	23	10	77
Stable	2	50	2	50
Decliners	1	33	2	67
All firms	10	36	18	64

**‘High’ and ‘Low’ refer to the owner-managers’ perception of the level of importance of the effect of marketing as an influential factor on growth.*

Table 4.26 shows that of the 28 firms, 10 (36%) exhibited a high degree of marketing orientation. However, there was no clear relationship between growth and market orientation, with a higher proportion of firms with a low marketing orientation achieving growth (78%) than those with low marketing orientation (70%). Even within the eight highest growth firms, four owner-managers stated that they had low marketing orientation.

These findings seem to contradict those of Brooksbank et al. (1992), Appiah-Adu (1998), Siu et al, (2003) and others, who that those firms that assign greater importance to marketing activities ultimately produce better performance than those which do not. However, the degree of market orientation is a qualitative judgment and some of the owner-managers, particularly those with high-growth firms and a higher level of education, may have described their firms as having a low level of market orientation because they were aware of how it may be improved.

The findings do however support the conclusion of Winston and Dadzie (2002) that, in the context of sub-Saharan African countries, many firms are more inclined to only pay lip service to marketing concepts owing to their abstract nature. Another reason why African businesses direct less emphasis and efforts toward marketing activities is that demand usually outweighs supply in a number of different sectors (Dadzie, 1989; Appiah-Adu, 1998; Winston and Dadzie 2002).

There were variations in marketing orientation across subsectors, with the food industry firms apparently most marketing orientated, followed by the clothing and fashion subsectors. Businesses in the wooden furniture subsector were least likely to implement any form of marketing strategy. Within the food industry subsector, all four firms considered themselves to be highly marketing oriented. One reason for this could be the strong competitive environment within this sub-sector, and it should be recognized that this sub-sector experienced the highest overall growth rate over the period of the study, which may have been the cause (or the result of) the high marketing orientation of firms within this sub-sector. One of these respondents observed as follows:

> *‘’Due to strong competition, we focused on our marketing policy which was the base of our success in this field, because we focused on building a good reputation for our trademark in the market by advertisement and media. We do devote 1% of the working capital for this purpose; in addition to our permanent focus on quality and its stability. The applicable marketing policy is represented in opening credit lines for distributors for one month, so that the distributor can pay and close his account by the end of each month. In case of delay, he suffers a quantity decrease, especially in busy seasons. There are also direct cash sales from the factory.’’……..SB23/FO3*

One indicator of marketing orientation was marketing expenditure and this was discussed with each respondent. It was found that the sample firms adopted a very diverse combination of marketing activities, including increased advertising, product quality enhancements, improvements in packaging and customer incentives.

Firms that experienced significant delays in payment or strong competition were more likely to implement marketing activities. Accordingly, such businesses sought to attract diverse consumers through intensive, proactive marketing activities. For example, a number of businesses experiencing a high level of competition from imports considered they had no other option but to implement highly competitive promotional approaches; although it was understood that competitive advantage could be increased through promotion, it was also felt that this activity may not be sustainable for cost reasons.

Again, there were differences across subsectors. For instance, in the clothing and fashion sub-sector, no marketing expenditure was found across the smaller and medium small businesses, whereas the majority of small paper and printing manufacturers that had experienced a high degree of import-related competition had opted to implement niche-related marketing strategies. The owner-managers of these businesses considered it less likely that high promotional expenditure would result in sale increases; rather, such businesses relied on their owner-manager's personal networks, resulting in tailoring products to specific market sectors and word-of-mouth recommendations.

Marketing activities were often implemented reactively, in response to high levels of competition. Below is a typical comment from an owner-manager:

> *''Due to rapid urbanisation in the country, factories have notably expanded and new factories have emerged. Thus, market competition has increased and we are placing more focus on marketing activities. We have a distribution centre in the downtown area as well as showrooms for our products in building materials exhibitions. In the case of huge orders, we deliver for free''……SB3/BL3*

In terms of firm size, among the smaller small firms 7 of the 9 (68%) owner-managers of firms in this category stated that they either undertook a low level of marketing activities or not did not undertake any, while 5 of the 10 (50%) larger small firms were more highly marketing oriented. These firms utilised fewer marketing approaches and had limited resources that could be directed at securing an effective distribution channel. Markedly, those businesses that had implemented niche marketing methods were found to be less likely to have independent distributors owing to the fact that they prioritised customer relationships as a means of establishing business-related success.

The most commonly cited reasons for a reluctance to undertake marketing activities were a lack of demand and resources. In the case of the smaller small businesses, direct contacts and referrals were the primary means of acquiring customers. As noted by one respondent:

> *''Marketing needs representatives which is expensive. We market the products by using the simplest and lowest cost possible methods to achieve growth.''……SB7/PP4*

This finding is consistent with Stokes (2000), who suggests that the owner-managers of small firms often consider marketing as only being applicable to large-scale firms, even though it is understood to be a route to successful growth.

In consideration of distribution channels, it was highlighted by all of the owner-mangers interviewed that effective distribution channels were fundamental when striving to achieve growth. Furthermore, it was also found that the larger small firms tended to adopt wider and more efficient distribution channels, and belonged to the high-growth category. That was confirmed by one of the respondents:

> *''We deal with annual contracts with wholesale vendors to market our products. We also have a small marketing firm for areas not covered by our main wholesalers. We also have innovated new marketing policy due to our products' low profit margin, and consequently, there is no place for a broker between us and the retail vendors. We plan to increase our products' expansion by enlarging the distribution network in the country. Thus, we had purchased vehicles for individual distributors by annual premium payments to ensure wide and continuous distribution network, and as a result the individual distributors keep their vehicles because they will be owned by them after some time. There is also a water promotion policy by fixing the idea of children drinking canned water since childhood, while other beverage such as barley, they are promoted for adults and youths.''…….SB24/FO4*

The study results also highlight that owner-manager education and knowledge levels were fundamental for successful marketing. 20 of the 28 (72%) of the sample owner-managers held the view that they were suffering from knowledge inadequacy in regard to marketing, stating that marketing was an area where they required help.

One respondent, who had over 16 years of experience in the food processing sub-sector, stressed the importance of high quality human resources to the type of marketing strategy necessary in this subsector, stating that:.

> *''Marketing needs experience and it should be used inside cities only. Besides, there must be a place for marketing your type of products since all the clients who demand this type will come to this market. Thus, the products are marketed by being shown in our showroom in this market. The manager should understand marketing method and policy as well as how to persuade the client with his products by introducing the negative sides of the competitors' products and positive sides of his own products. This requires periodic following up of our products and market progress''..…..SB17/ME1*

These findings support those of Hogarth-Scott et al. (1996); Deng (1998) and Winston and Dadzie (2002), who state that resource inadequacies combined with marketing know-how shortages amongst small businesses may explain why small firms are seemingly less inclined to implement marketing activities, in both developed and developing countries. This is further acknowledged by Hogarth-Scott et al. (1996), who state that the knowledge and understanding of the marketplace has a significant effect in terms of lessening risk, and further contributes to the overall understanding of customer needs. Winston and Dadzie (2002), using data derived from Kenya and Nigeria, concluded that educational level, particularly in the arena of marketing, had a positive correlation with marketing orientation. The same authors also concluded that the low level of marketing training and practices apparent in a number of African countries means that the owner-managers of such firms are less inclined to adopt marketing as a means of establishing firm growth (Mitchell & Agenmonmen, 1984; Dadzie, 2002).

4.4.4 Business planning

In order to assess the sophistication of the business planning undertaken by the sample firms, they were asked whether they had a formal, written business plan. The findings are portrayed in Table 4.27 below, analysed by size and subsector:

Table 4.27: Analysis of firm's planning by firm size and sub-sectors

Firm Size	**Smaller small firms**		**Medium small firms**		**Larger small firms**	
Planning / Sub-sectors	**With Planning**	**Without Planning**	**With Planning**	**Without Planning**	**With Planning**	**Without Planning**
Building Materials	-	-	-	-	2	2
Printing and Paper	-	2	-	2	-	-
Plastics	-	2	-	2	-	-
Wooden Furniture	-	2	-	-	1	1
Metal Industry	-	1	-	2	-	1
Food Industry	-	-	-	1	3	-
Clothing and Fashion	-	2	1	1	-	-
All sectors	-	9	1	8	6	4

It was found that 21 (75%) of the sample firms had not devised nor implemented a business plan. Moreover, it was also ascertained that only a very small portion considered it necessary to even prepare to draw up a business plan, while seven (25 %) out of 28 of the owner-managers had prepared only a short-term business plan for 12 months ahead. The reasons given for this lack of formal planning included inadequacies in expertise and knowledge, resource shortages, inadequate support, and informal competition levels.

Table 4.27 shows a relationship between formal planning and size of firm. None of the smallest category of businesses used a business plan, while the majority of the larger firms did so, having the necessary resources in terms of finance, education and experience. All of the owner-managers of firms in the largest category had had higher education and most of them had prior industry experience, factors which enabled them to adopt business planning, and some hired experienced people to help them with their planning.

This finding is consistent with the conclusion of Mazzarol (2001), who argues that education has a positive impact on formal business planning. More broadly, Yusuf & Saffu (2005) suggest that small firm planning is significantly affected by a number of elements, namely the owner-manager’s attitudes, experiences, preferences and prejudices, as well as their general personality.

One respondent who owned-managed a larger firm said:

> *‘’Yes, We have an annual written plan for growth but it is not disclosed to the public. However, when we set this plan, we study the current market data and predict the outcomes in the coming years based on our experience in this field. Firstly, when there is an increase in demand, I look at my abilities and how I can develop them; regarding machines, raw materials, warehouses, manpower and cash money to be able to increase production to achieve profits and growth.’’…..SB4/BL4*

In terms of sector, none of the firms operating within the printing, plastics and metal subsectors used formal planning, regardless of size, while only one firm in the clothing and fashion subsector did so. This may go some way to explaining why small firms operating within these subsectors had experienced limited growth and why they had difficulty in responding to competition from informal businesses. In contrast, larger businesses operating within the building materials and food sub-sectors were the most likely to adopt a business planning based strategy. These were the subsectors that had experienced the highest growth in sales and employment, providing them with the resources to make better use of planning.

These findings are consistent with the findings of Robinson & Pearce (1984); Matthews and Scott (1995); Mazzarol (2005) and Yusuf and Saffu (2005) with regard to planning in transitional and developing economies, that it is likely that smaller businesses will tend to opt against implementing business planning for resource reasons. Yusuf and Saffu (2005) also observe that some smaller businesses do not observe any changes in performance level when implementing formal planning. This is also consistent with the finding of Owusu (2007), also found that long-term planning was rarely practiced by small firms but that focus is more keenly directed towards devising short-term strategies and upgrading services so as to circumvent demand shortages. This finding is consistent with the research of Matthews and Scott (1995), who found that sophistication in planning amongst small firms tends to decrease in line with the increase of environmental uncertainty. A respondent stated:

> *''Unfortunately, there is no written plan for the firm's development and growth. However, this matter is always in my mind and I wish to develop and grow. The reason behind not having written plans is the instable state of commercial regulations and laws; the last of which was the issuing of a resolution to transport all factories to the industrial areas, though this is all still being studied.'' ….SB9/PL1*

Another constraint on formal planning was said to be the limited availability of funding. Although there was loan credit available through a number of commercial banking institutions, some owner-managers did not wish to take out loans because of the prohibition of interest under Islam. Some were also deterred by the banks' requirement for collateral, particularly in the form of property and believed that luck and experience would, in time, fuel growth and success.

As stated by one of the respondents:

> *''Now I have no plans until the finance necessary for executing such plans is available, I do set unwritten plans, but they are like ideas in my mind, which become reality when I feel that the market requires justifies increasing production. Thus, we study the market and seek the financial support to execute the previous verbal plans.''…….SB26 /CL2*

This finding is consistent with those of Antoncic and Skrt (2004), who found little evidence of formal planning among small firms in Slovenia, with 30% of the firms in the sample ultimately basing their decisions on intuition.

Table 4.28: Analysis of firms planning by growth categories

Growth Categories	**With Business Planning**		**Without Business Planning**	
	No. Firms	%	No. Firms	%
High Growers	6	75	2	25
Growers	1	8	12	92
Stable	-	-	4	100
Decliners	-	-	3	100
All firms	7	100	21	100

The data in Table 4.28 suggests a clear relationship between formal planning and growth. All of the firms that practiced formal business planning had experienced growth, and all except one of these were in the high growth category. In contrast, only two firms (9%) out of the 21 without business planning attained a high rate of growth. This finding is consistent with Robinson and Pearce (1984) who stated that firms which implemented business plans had an increased chance of achieving high growth when compared with those that do not devise a formal plan.

With regard to the age of the firm, it was found that business plans were more likely to be found amongst the younger businesses, with 6 (38%) firms out of the 16 firms aged 10 years or less which having a business plan and one (8%) out of 12 firms of those firms aged above 10 years having one. One explanation for this finding is that the owner-managers of newer small firms, as has been seen, were more likely to seek growth than owner-managers of longer-established firms and tended to adopt business planning in order to develop their growth strategy.

This finding is inconsistent with Yusuf and Saffu (2005), who found that that longer established businesses were more likely to implement business planning than newly established ones. However, several researchers (Risseeuw & Masurel, 1994; Hannon & Atherton, 1998; Perry, 2001; Yusuf and Saffu, 2005) suggest that younger and smaller firms make plans with only one objective, to attract funding from financial institutions which require planning documentation as part of the evaluation process.

4.4.5 Skills and training

Commitment to training among the small firms in the sample was measured by the frequency of the firms with which they undertook training. Table 4.29 shows the use of training, analysed by growth category:

Table 4.29 Analysis of Firms Training By Firm Size and Growth Categories

Firm Size	**Smaller small firms**		**Medium small firms**		**Larger small firms**	
Training / Growth Category	**Formal Training**	**Informal Training**	**Formal Training**	**Informal Training**	**Formal Training**	**Informal Training**
High Growth	-	-	-	3	3	2
Growth	-	3	-	5	-	5
Stable Firms	-	3	-	1	-	-
Decline	-	3	-	-	-	-
All firms	-	9	-	9	3	7

Table 4.29 shows that 25 firms (89 %) out of the 28 in the sample stated that they frequently implemented informal training, rather than formal training, with only three (11%) out of 28 firms reporting that they used formal training in compliance with the ISO 9001 programme. The businesses using formal training were larger firms within the high-growth category.

This finding is consistent with those of Webster and Wood (2005), who found that, within a sample of 177 small firms, 69% used some degree of informal training. Curran et al. (1996) and Patton & Marlow (2002) suggest that the tendency to use informal training could be due to the flexibility of working in small firms, making it difficult to take time off for formal training, as well as a shortage of financial resources, the latter point being supported by numerous researchers (Storey, 1994; Westhead & Storey, 1997; Kitching & Blackburn, 2002; Edelman et al., 2002; Robertson, 2003; Savery & Luks, 2004). Westhead and Storey (1997) suggest that small businesses are less likely to deliver any type of training initiatives to their staff compared with larger businesses and that training becomes more prevalent as firm size increases.

As reported by two respondents:

‘’There is no scheduled training but when we purchase a new machine, we send my brother, a mechanical engineer, abroad to the machine manufacturing firm to be trained on its operation and maintenance and how to repair any faults it has. Then, he returns to train the factory’s technicians on the same.’’…..SB13/WO1

‘’The trained workers are very important; yet it is difficult to find them on a running basis, and if they are is available, it is difficult to retain them in the factory. Thus, the alternative solution is to train normal laborers, who become skillful and technically competent in time. This kind of manpower is important, especially when you want to expand. They must be sufficiently available. Before expansion, we train a new group to work on the new production lines’’……SB11/PL3

As has been shown, there was a strong positive relationship between growth rate and size of firms and these data also suggest a positive relationship with training, albeit with a small sample, with high-growth larger and medium-sized small firms utilising both formal and informal training.

As stated by one of the respondents who achieved a high growth rate and used informal training:

''At the beginning, I trained myself on maintenance through (working with) the technicians of the machines' manufacturing firm. Then I trained some workers, some of whom are still with me up to today, such as the current training officer. There is non-scheduled training, when necessary, and usually when new workers are appointed or new machines are purchased. The problem we face concerning the factory's technicians is that they keep some maintenance secrets and do not want to teach them to others, as they consider them the main reason for their position in the factory''……SB1/BL1

One respondent who owned a larger small firm stated:

"We seek the help of foreign engineers to train the supervising technicians, usually when purchasing new machine, then they train the remaining workers. They are trained on new machine every three months to ensure we bridge any gap in any production lines. Sometimes, we train some technicians abroad to ensure workers and technician efficiency in the factory''……SB24/FO4

Within all of the businesses targeted throughout the study, the predominant human capital issues were in the areas of skills and commitment, which were in turn linked with the way in which the firms had been established, as well as the recruitment, selection and training practices implemented by them. Moreover, it was also found that the majority of the firms in the sample had not devised or implemented efficient regulations and policies so as to ensure staff retention, which undoubtedly impacted on the attitudes of owner-managers in regard to training and development.

A further point to emphasise is that the low level of skills held by large portion of small business workers within the country is a result of prior employment with state-owned institutions. This had the effect of increasing the importance and necessity for training among private sector in order for them to achieve higher growth.

4.5 The External Environment: Constraints to Growth

4.5.1 Introduction

Based on the pilot study and examples of constraining factors derived from the existing literature, respondents were invited to identify the factors in the external environment that they felt constrained the growth of their firms, and what effect these factors had had on growth over the study period.

4.5.2 Inefficient government regulations and lack of support

Table 4.30 summarises the perceived importance of lack of support and inefficient government regulations as constraints on growth, analysed by growth category.

Table 4.30: Perceived importance of inefficient government regulations and lack of support

Growth Categories	High Perceived Importance *	%	Low Perceived Importance *	%	Total
High Growth	7	88	1	12	8
Growth	7	54	6	46	13
Stable	3	75	1	25	4
Decline	3	100	-	--	3
All firms	20	72	8		28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of lack of support and inefficient government regulations as constraints on growth.*

Table 4.30 shows that 20 (72 %) out of the 28 owner-managers felt that lack of support and inefficient government regulations were significant constraints on growth and that this was consistent across all growth categories. An explanation of this is that such businesses had directed strenuous efforts towards achieving growth, only to find inadequate support afterwards. Growth tends to increase the need for support in terms of efficient state-issued regulations. Furthermore, the owner-managers of those businesses in decline stated that efficient regulations and support in this arena would enable them to achieve growth.

One respondent stated

''There is no noticeable support by the state except in very simple cases when establishing a new firm, only that it is exempted from taxes for a period of time ranging from 1-2 years. This exemption is not obtained by everyone, only by each according to his personal relationships. Furthermore, the state causes problems because of the instability of the laws and regulations and the insecurity of the employees in their posts. Every new official abrogates some regulations and introduces new regulations. This causes us bewilderment, obstruction, and an unstable state which affects the process of growth and development''……..SB26/CL2

Table 4.31 below portrays the perceived importance of lack of support and inefficient government regulations**,** analysed by firm size.

Table 4.31 Perceived importance of inefficient government regulations and support by firm size

Firm Size	**High Perceived Importance***	%	**Low Perceived Importance***	**%**
Smaller small firms	8	89	1	11
Medium small firms	7	78	2	22
Larger small firms	5	50	5	50
All firms	20	72	8	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of inefficient government regulations and lack of support as constraints on growth.*

An interesting finding is that the owner-managers of the smaller firms tended to complain the most about government support and regulations, while those of the larger firms complained the least. An explanation for this could be that the smallest firms feel the highest impact of government regulations because they do not have the necessary administrative and financial capacities to deal with them. As a result, there was an urgent call from these businesses for effective regulations and support to be offered by the state.

As one respondent said:

''There is no support, particularly in the process of protecting our products from the similar products imported from abroad. Also, the process of conducting the electrical power from its source to the factory is expensive, and it is at the expense of the factory owner, and requires complicated procedures of the licenses from the governmental bodies''……BS20/ME4

There was some variation across sectors in attitudes to government regulations and lack of support. This was felt most severely within the plastic and printing subsectors, because these particular industries were having to cope with and overcome competition from informal businesses and from foreign imports. As a result, these firms felt an urgent need for support and adequate, effective regulations that could provide protection from imitation by local businesses and importers. The respondents stated that while laws existed to protect product innovation in the form of patents, registered designs and trademarks, these laws were weakly implemented and inconsistent. Furthermore, the governments were felt to be doing little to prevent the importation of cheap foreign substitutes to Libyan- made goods, and it was also stated that innovation was expensive, and that more funds should be made available for research and development by local companies, preferably employing the Islamic finance method provided by the Industrial and Development Bank of Libya. Conversely, firms operating within the food and building subsectors did not feel this was a problem, because of the support and customs and tax exemptions applicable to their industry.

The overall findings are consistent with those of Soderbom (2001) who found that in Kenya, there was a clear lack of an adequate support system, which was recognised to be a significant constraining element amongst small firms, as well as those experiencing a noticeable decline in relation to their employment figures. It is also consistent with the findings of Verspreet and Berlage (1998), who found that in Tanzania, small firms are inhibited in terms of their growth as a result of regulations, which tended to encourage the growth of the informal sector.

4.5.3 Inefficient taxation system

Table 4.32 summarises the perceived importance of an inefficient tax system as a constraint on growth, analysed by growth category:

Table 4.32: Perceived importance of an inefficient tax system by Growth Category

Growth Category	High Perceived Importance *	%	Low Perceived Importance *	%	Total
High Growth	7	88	1	12	8
Growth	9	69	4	31	13
Stable	3	75	1	25	4
Decline	3	100	-	--	3
All firms	22	79	6	21	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effects of high tax rates and inefficient tax system as constraints on growth.*

As shown in table 4.32, the tax system was felt to be of high importance in terms of its effect on growth by 22 owner-managers out of 28 (79%). Only firms in the 'growth' category seemed to be less affected but there was no apparent reason for this.

Table 4.33: Perceived level of importance of an inefficient tax system by firm size

Firm Size	High Perceived Importance*	%	Low Perceived Importance	%
Smaller small firms	6	67	3	33
Medium small firms	7	78	2	22
Larger small firms	9	90	1	10
All firms	22	79	6	21

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effects of high tax rates and inefficient tax system as constraints on growth.*

The data in Table 4.33 suggests that there is a positive relationship between firm size and perceived impact of an inefficient tax system, with 90% of the owner-managers of the larger firms highlighting a significant impact on growth caused by the tax system. Even then 6 out 9 (67%) of the owner-managers of the smaller firms complained about the tax system.

An explanation of this is that a large portion of taxes may be evaded by smaller small firms owing to their small financial impact, while larger firms are more likely to be in the focus of the tax authorities, and therefore cannot get away with evasion. As mentioned by one of the respondents:

'' The taxes in Libya have random evaluations and mostly are presumptive, and particularly for small firms, because most of its owners are not committed to submitting the correct report to the tax authority, and because originally they do not prepare the annual financial balance sheet which must be submitted to the tax authority. There is often concealment to the real values of the invoices to evade paying the real tax on sales and production, because it is unfair, and if it were completely paid, it would cause additional costs to the firm and a reduction of profits. In fact it is usually added to the capital ,and it is preferred to use personal relations or paying bribes to the tax officials to get the lowest possible tax estimation, and what assists in that is the weakness of the tax officials, as they need these bribes. Thus, they are lax with this category of firms''……SB17/ME1

There were some apparent differences subsectors with regard to the perceived impact of the tax system. Those firms operating within the clothing and fashion, printing, and plastics subsectors felt most affected, with the wooden furniture, food, and metal subsectors less so. The building materials sub-sector was the least affected: this was due to incentives granted by the state to businesses in the construction industry, including tax 'holidays' exempting new firms from taxes for a period of 2-3 years. In addition, customs exemptions were granted to imports of raw materials and equipment to encourage the establishment of such firms, and increase the growth of existing firms; as a result of these incentives and the very high demand in this sector for raw materials, many small firms emerged and achieved repid short-term growth during the study period

One respondent commented on this as follows:

> *‘’ The only thing that we have acquired from the government is the tax exemption at the beginning of our business, but only for the first three years. Now, after in view of the movement towards construction that takes place in the country, there is a modern and simple support by exempting building materials industries from taxes for occasional periods to encourage the establishment of these businesses to provide as much of these raw materials to contribute in the trend towards construction and architecture in the country. While for customs, there is a full exemption on raw materials and 10% on semi-manufactured materials. And this is considered as encouragement for the manufacturers in this field. So, we hope that this assistance will continue’’……SB2/BL2*

These findings are consistent with those of the OECD (1998), who argued that economic activities may be distorted in many different ways as a direct result of a high and inefficient tax system, for example investments, firm growth, labour markets and savings. Without question, high taxes reduce the income of owner-managers, subsequently hindering their potential for growth and expansion. Notably, high taxes induce a number of different consequences, which are felt more keenly by those businesses achieving high growth. De Soto (1989) identifies high rates of tax as being an incentive to tax avoidance and evasion, and a spur to the growth of the informal economy. This kind of tax system also constrains competition, leading to less efficient firms gaining a higher market share.

4.5.4 Government bureaucracy

Table 4.34 summarises the perceived importance of bureaucracy as a constraint on growth, analysed by firm size.

Table 4.34: Perceived level of the importance of bureaucracy by firm size

Firm Size	**High Perceived Importance ***	%	**Low Perceived Importance ***	%
Smaller small firms	3	33	6	67
Medium small firms	8	89	1	11
Larger small firms	10	100	-	--
All firms	21	75	7	25

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of bureaucracy as a constraining factor on growth*

Overall, 21 of the 28 owner-managers in the sample (75%) felt that bureaucracy was a serious constraint on growth, suggesting that it is a widespread problem in Libya. Table 4.34 also shows a clear relationship between firm size and the perceived impact of high levels of bureaucracy. 18 of the 19 owner-managers with firms in the two larger size categories felt that bureaucracy was a serious problem, while only a minority of owner-managers of the smallest firms did so (3 out of 9, or 33%).

A reason for this may be that the larger and more complex businesses are subject to a much greater number of regulations than the small firms with limited scale and simpler operations. Another reason is that the financial position of such firms was notably better than that of smaller small firms and as a result, procedures were commonly delayed as a consequence of bribe-related demands, with actions only initiated upon the payment of compensations and bribes.

One respondent from the larger small firms stated:

'' The nature of our work size means that we have many transactions. The problem is the administrative transactions with governmental institutions, particularly those concerned with the procedures of registering or renewing the labor registry, the customs, and the license renewals. These are all time consuming procedures because of the administrative routine, and may sometimes be complicated, which lead us to resort to the service offices which are naturally expensive, but which have their private methods for completing these procedures''……SB3/BL3

Another respondent from a smaller small firm stated:

''The nature of our firm is simple and we do not have a lot of the administrative transactions with governmental authorities and bodies. Most of these procedures are annual and there are sometimes simple procedures which occur within the course of a year''…….SB20/ME4

These findings are consistent with Goedhuys & Sleuwaegen (1999) that, in Burundi, regulations are recognised as being less restrictive for small firms and micro-enterprises. Baah-Nuakoh & Tutu, (2003) suggests that small firms are impacted to a much less significant degree in relation to regulations when compared with larger businesses.

4.5.5 The effect of late payments

Table 4.35 summarises the perceived importance of delayed payments by debtors as a constraint on growth, analysed by firm size.

Table 4.35: Perceived effect of delayed payments by firm size

Firm Size	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**
Smaller small firms	8	88	1	11
Medium small firms	6	67	3	33
Larger small firms	5	50	5	50
All firms	19	68	9	32

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of delayed payment of bills as a constraining factor on growth.*

Table 4.35 above shows that 19 owner-managers out of 28 (68%) felt that delayed payments had a significant impact on growth. The data in table 4.35 also suggests that the smaller firms were more likely to feel the damaging effects of delayed payments, with 8 owner-managers out of 9 (88%) saying that this was a serious problem. In contrast, only 50% of the owner-managers of the larger firms felt that delayed payments had a significant impact.

One reason why the smaller firms suffer more severely from delayed payments is they tend to have inadequate resources to cope with cash-flow problems and so cannot afford to fund long credit periods. Another reason is that larger firms are more likely to have effective credit control systems.

As mentioned by two respondents:

''Regarding our sales, we started dealing with credit, however, we suffered losses as a result and that is a danger for the business, so we minimized credit transactions except with a very limited number of guaranteed clients, and the remaining sales are mostly in cash.''…SB16/WO4

'' We usually deal in cash, and in very rare cases when we deal with credit, it is by means of a trustworthy person with whom we can deal in credit, with a guarantee of obtaining the due debt, because a lot of debts weaken and burden the business.''.....SB8/PP3

In terms of sector, the clothing and fashion, printing and paper, and plastic sub-sectors were the most severely constrained by delayed payments. These subsectors felt the impact more deeply as they were already experiencing pressure on cash flow as a result of competition from imports.

Table 4.36 summarises the perceived importance of delayed payments as a constraint on growth, analysed by growth category.

Table 4.36: Perceived importance of the effect of delayed payments by growth category

Growth Categories	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**	**Total**
High Growth	7	88	1	12	8
Growth	10	77	3	23	13
Stable	1	25	3	75	4
Decline	1	33	2	67	3
All firms	19	68	9	32	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of delayed payment of bills as a constraining factor on growth.*

Table 4.36 above shows that the owner-managers of businesses achieving growth were more likely to voice concern over delayed payments, with 7 out of 8 or 88% doing so. In contrast, only 2out of 7 (29%) owner-managers of stable or declining companies saw this as a problem. An explanation for this is that growing firms were more likely to sell on credit to their client base, while the stable or declining firms tended to sell on cash terms. Two of the respondents stated:

''There is a delay in credit collection from some clients and that of course affects liquidity in the factory and therefore the work flow, and therefore its natural for firm growth to be slowed down somewhat''……SB18/ME2

''To maintain the size of our sales during weak selling seasons, we have to increase sales on credit, as for the delay in payment of debts by some clients, in this case, we pressurize them by decreasing the quantities sold by 25%, and whenever they settle their debts, we increase the quantities''……SB23/FO3

These findings are consistent with those of Kimuyu (1997) and Kimuyu and Omiti (2000), the latter observing that in Kenya more than 50% of owner-managers interviewed stated that trade-credit-related problems needed to be overcome. The OECD (1998), which reported that small businesses operating within member countries were severely impacted by late payments. The report further outlines that late payments have more far-reaching effects in relation to small businesses than their large-scale counterparts, owing to the vulnerability and cash flow constraints of small businesses. This is sometimes exacerbated by small business owner-managers feeling that their only option to generate increased revenues is to provide credit-constrained clients with credit, although this usually results in many late payments followed by subsequent default, as recognised in the context of Zimbabwe through a study carried out by Fafchamps (1997).

4.5.6 Corruption

Table 4.37 summarises the perceived importance of corruption as a constraint on growth, analysed by firm size.

Table 4.37: Perceived importance of corruption by firm size

Firm Size	**High Perceived Importance ***	%	**Low Perceived Importance ***	%
Smaller small firms	9	100	-	--
Medium small firms	7	78	2	22
Larger small firms	5	50	5	50
All firms	21	75	7	25

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of corruption as a constraining factor on growth.*

In table 4.37 above an inverse relationship is indicated between the felt severity of impact of corruption and firm size. All 9 of the owner-managers of firms in the smallest size category felt that corruption had a severe impact, while only 5 out of 10 or 50% of owner-managers of firms in the largest category did so.

An explanation is that the smaller firms have limited financial capabilities and are obliged to pay bribes in most their procedures and transactions, which cause a severe financial burden that hinders their activity and growth.

These findings are consistent with Bartlett and Bukvic (2001), Beck et al. (2002) and Aidis (2003), who posit that smaller firms are affected to a far greater degree by corruption when compared with their larger counterparts owing to the fact that they do not have adequate resources to deal with unofficial financial demands.

One respondent stated:

''Corruption unfortunately exists and is considered a major obstacle for us in dealing directly with public entities and larger firms; middle men and commissions are a must and there is no transparency in tenders and bids, especially with public firms. There is also a problem when issuing and renewing licenses, which are not easy to obtain, it is in fact almost

impossible to the extent that you are forced to deal with service bureaus to finalize these procedures in return for a fee, and these bureaus then mostly deal with officials in charge of these licenses''……SB8/PP4

Table 4.38 summarises the perceived importance of corruption as a constraint on growth, analysed by growth category.

Table 4.38: Perceived importance of corruption by growth category

Growth Categories	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**	**Total**
High Growth	2	25	6	75	8
Growth	12	85	1	15	13
Stable	4	100	-	--	4
Decline	3	100	-	--	3
All firms	21	75	7	25	28

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of corruption as a constraining factor on growth.*

Table 4.38 above shows that the effect of corruption as a constraint was felt to be severe by all of the owner-managers of the stable and declining firms, and by 12 out of 13 owner-managers of the growth firms. The high growth firms were an exception, with only 2 out of 8 owner-managers feeling that corruption was a serious problem.

The low impact of corruption on most high growth firms may be explained by considering their overall financial capabilities, which allow them to offer bribes as a part of their overall financial budget. These respondents had become accustomed to bribes as part of the cost of doing business in Libya and some even saw some good in it, stating that it had a deterrent effect on the entry of multinational companies to the Libyan market.

This finding is consistent with Fisman and Svensson (2002), who posited a causal relationship between corruption and growth. Because growing firms generate more cash, they are perceived as better able to afford to pay for corruption, and they are willing to pay these bribes in order to maintain this level of growth. Bardhan (1997) argued that, through corruption, additional bonuses and remuneration are achievable by those who are not well compensated, subsequently heightening the problem.

In terms of sector, the findings show that the effects of corruption are the most detrimental to firms operating within the building materials, plastic, and metal subsectors. The less affected firms included those operating within the food, printing, and wooden furniture industries.

The reason behind the high impact of corruption on some sub-sectors can be explained by the fact that most firms operating within source the majority of their raw materials from public institutions. Staff working within such public institutions are most likely to practice corruption; thus, most manufacturing businesses are required to deliver bribes so as to gain access to raw materials.

As one respondent stated:

> *''There is corruption, especially in state factories and it is due to the lack of patriotism, education, awareness of employees and their lack of responsibility, so they resort to manipulating procedures in violation of laws and regulations for their personal interest. This is also due to lack of efficiency of the public administrative monitoring of employees in state departments, as those in charge are themselves brokers and unqualified for these positions, being hired by means of personal relationships regardless of their efficiency'' ….SB10 /PL2*

This finding is consistent with Kaufmann and Wei (1998), who found that corrupt officials sometimes deliberately delay firms in order to extort more money in the form of bribes.

4.5.7 Lack of access to finance

Table 4.39 summarises the perceived importance of the lack of access to credit as a constraint on growth, analysed by growth category.

Table 4.39: Perceived importance of lack of access to credit by growth category

Growth Categories	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**	**Total**
High Growth	7	88	1	12	8
Growth	8	62	5	38	13
Stable	2	50	2	50	4
Decline	3	100	-	--	3
All firms	20	72	8	28	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of lack of access to credit as a constraining factor on growth.*

Table 4.39 shows that 20 out of 28 (72%) of owner-managers indicated that problems with access to finance had a high level of impact on growth. This concern was highest among the high growth firms, with 7 out of 8 (88%) of owner-managers agreeing that this was an important factor, and among the declining firms, with all 3 agreeing. On the other hand, access to finance seemed to have the least impact on firms that were in the stable and lower growth categories.

These findings can be explained by the fact that high-growth firms tend to require additional funding for several reasons: to fund increases in working capital, to fund additional fixed assets in order to increase capacity, to recruit new employees and to fund a higher level of credit sales. Declining firms may need to make use of credit as a means of overcoming cash flow problems and to fund credit sales, offered in order to increase sales, although their chance of obtaining finance tends to be low.

An effect of this is that small business owner-managers in Libya tend to depend on their savings and the contributions of their family/friends and are anyway reluctant to borrow from banks because of the interest system, which is prohibited under Islamic law. However, these savings and earnings were necessarily limited, and not all owner-managers had a family member or friend who was willing to contribute capital to their business. In this situation, owner-managers were forced to resort to other methods, such as buying on credit, in order to overcome cash flow related issues. This particular approach has become commonplace among Libyan owner-managers, who often take raw materials from suppliers with a credit period of between three and six months. However, not all owner-managers were able to buy on credit, as this requires trust and an immaculate track record of payment, in addition to the sound reputation of the business owner-manager.

An alternative option is applying for a loan from the Libyan State Industrial Development Bank, which provides loans to small manufacturing firms without the implementation of interest, using the Islamic finance tool *AlMorabaha*. All of the owner-managers interviewed preferred Islamic finance methods but due to corruption it is very difficult to obtain this type of funding.

When credit or finance could not be obtained by business owner-managers, another method adopted was that of ‘business angel’ partnerships, with investment by private venture capitalists. However, investment risk is at its highest amongst newly established small businesses, and business angels tend to avoid becoming involved in such businesses.

When owner-managers found all of the available means of investment closed, they were forced toward interest-bearing loans from commercial banks. However, firms with sever cash flow problems are commonly viewed by banks as being significant risks and this reduces the probability of their being awarded finance. Moreover, the banks implement a 6% interest rate and usually require substantial collateral, equivalent to 125% of the total loan value as a means of guaranteeing the loan, which is often out of reach for small businesses requiring finance.

The study's findings are consistent with those of Storey (1994), Cook and Nixson (2000), Surdej (2000) and Baah-Nuakoh& Tutu, (2003) who found that the initial funding of many small firms may initially stem from personal and family savings. Smallbone and Wyer (2000) found that high growth firms were more likely to experience cash flow problems, and that a lack of credit in these circumstances could critical to their growth. Pissarides (1998) argues that this is a significant hindrance to the growth of small firms, exacerbated by the fact the fact that borrowing costs tend to be much higher for small businesses, further increasing the reliance on internal sources of funding. Baah-Nuakoh& Tutu, (2003) argues that inadequate access to credit is recognised as one of the most significant obstacles to growth for firms of all sizes and sectors, acknowledging that this problem has a more significant impact on smaller firms than larger ones. A lack of access to credit and adequate funding is particularly relevant to business growth, with this problem even greater in developing and transitional economies (Pissarides, 1998; Mookerjee, 1999; Tybout, 2000; Kimuyu & Omiti, 2000; Soderbom, 2001; Trulsson, 2002; Ayyagari et al., 2003; Aidis, 2003; Brinders et al., 2003; Brown et al., 2004; Eifert & Ramachandran, 2004; Biesebroeck, 2005).

As mentioned by two respondents:

''Part of the funding for my business was self-funded from personal savings and the remaining part was funding from a commercial bank. There is a grace period of one year but there was difficulty in fulfilling the requirements of obtaining the loan, and also the valuation of collateral assets was weak and therefore, we did not obtain the required amount. The cost of loan was not the problem; the problem was obtaining the planned amount of loan''…...SB15/WO3

''Our beginning was with a loan from the Industrial Development bank, which we obtained after huge efforts and after a long waiting period coupled with personal connections, and of course we preferred this bank because it does not deal with a system of interest rates, but deals with Islamic

finance ''AlMorabaha'', meaning that the bank purchase equipment and then resell it to clients on installment, after adding his profits, and this is not prohibited from the religious point of view. Now, we are trying to expand the business by partnership with one of the business angels''……SB6/PP2

Another respondent ascribed less importance to the lack of access to credit as a constraint on growth:

''I did not obtain any loan from trade banks, first because it is prohibited from the religious point of view due to the interest, second because it is difficult to obtain and requires huge collaterals and relationships, and in addition to all that, paying bribes to bank employees to obtain the loan. As for the funding for my business, it was all self-funded in that I started from scratch with my father, I gather simple capital and I rented a small workshop and used only one worker and with the help of my personal relationships, I obtained raw material on credit and until now, I have dealt on credit with raw material merchants. That is how the business gradually built itself up; due to experience, personal relationships and a good reputation in the first place.''...........SB13/WO1

Lack of access to credit was most severely felt within certain sub-sectors, including printing and plastic firms; on the other hand, building and food firms felt the least constrained by access to finance. An explanation for this is that in recent years, Libya has experienced a pronounced boom in the construction industry, with many firms achieving significant profits, establishing a good degree of growth, and generating internal funding, as well as being more able to access loans granted or to form partnerships with business angels. This was also found to be the case amongst those firms operating within the food sub-sector, which was also acknowledged as being one of the most successful sectors in terms of competitiveness, price and quality.

Firms that had been established for longer periods of time less commonly voiced a concern regarding credit; this may be explained by considering that a longer established entity may have earned a good reputation and a good client base, thus facilitating their capacity to either be granted credit or to otherwise become involved in joint ventures with business angels.

These findings are consistent with Baah-Nuakoh & Tutu, (2003), with regard to inadequate access to credit, which is recognised as being one of the most significant obstacles to firms of all size and operating across a number of different sectors, irrespective of how long they have been established, although it is nevertheless acknowledged that this problem has a more significant impact on smaller small firms than larger ones.

4.5.8 Competition from imports

Table 4.40 summarises the perceived importance of competition from imports as a constraint on growth, analysed by growth category:

Table 4.40: Perceived level of importance of competition from imports by growth category

Growth Categories	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**	**Total**
High Growth	5	63	3	37	8
Growth	6	46	7	54	13
Stable	4	100	-	--	4
Decline	3	100	-	--	3
All firms	18	65	10	35	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of competition from imports as a constraining factor on growth.*

Competition from imports was perceived to be a significant constraint on growth by 18 out of 28 firms (65%). Its impact varied, depending on firm size, sector and growth level.

One explanation for this finding is that the country's economic policy was subject to arbitrary and unpredictable changes by the government, liberalising imports and trade in an attempt to lessen the burden of unemployment. In the government's view, an open economy would provide new employment opportunities and increase internal competition between businesses, encourage them to export to other Arab and African states. However, this process resulted in a flood of cheap imports, creating ever-increasing competition for Libyan firms. Despite this, the state did not protect domestic products from imports and this created a major problem for local manufacturers.

Table 4.40 above shows that competition from imports was a concern most predominantly voiced by those firms in the stable and declining growth categories. In contrast, growing and high-growth firms expressed less concern about imports. An explanation is that high-growth firms were in a better position to handle competition, having more resources available.

These findings are consistent with Dinye and Nyaba (2001), who found that small firms were most significantly influenced by the impacts of high levels of imports and argue that, although liberalisation of trade has provided advantages to domestic manufacturing firms in gaining improved access to equipment and raw materials, it has nevertheless caused competition from imports to surge, causing problems for smaller firms. This is also consistent with the findings of Goedhuys and Sleuwaegen (1999), who found that in Burundi, aside from lack of credit, competition from foreign imports and informal local companies were the greatest obstacles to growth. However, the findings are inconsistent with those of Colantone et al. (2010), who found that in Europe large manufacturing enterprises were more affected by imports; this is possibly because unlike small manufacturing firms in Europe, those in Libya were less able to establish niche markets or specialise geographically.

One of the respondents stated:

‘’This forms a major problem for us in the form of competition, which leads to a weakening of our profits due to this strong competition, as it is tiring for us because we have to continuously develop a capability for competition, and this development requires continuous funding and this is difficult for us, and the state must intervene to protect us’’…..SB7/PP3

Table 4.41 summarises the perceived importance of competition from imports as a constraint on growth, analysed by firm size.

Table 4.41: Perceived level of importance of competition from imports by firm size

Firm Size	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**
Smaller small firms	7	78	2	22
Medium small firms	6	67	3	33
Larger small firms	5	50	5	50
All firms	18	64	10	36

** ‘High’ and ‘Low’ refer to the owner-managers’ perception of the level of importance of the effect of competition from imports as a constraining factor on growth.*

Table 4.41 shows that size was an important variable in the perceived impact of competition from imports. Among the smaller small firms, 7 firms out of 9 (78%) complained the most, while among the larger small firms 5 firms out of 10 (50%) complained the least.

An explanation of this finding is that larger small firms tend to have greater ability and resources to counter competition from imports. Owner-managers of smaller firms felt that Libyan consumers were more inclined to purchase less expensive imported products, even if they were compromising in terms of quality and that this had a notable impact on the activities and sustainability of their firms.

One of the respondents stated

> *''The problem is that we are facing a competition from products imported from Southeast Asia and also from some Arab States, but some products cannot compete with us in terms of price and quality and the second problem is that most imported products are manufactured from raw materials which have been re-manufactured, giving a lower quality and thus their prices are cheaper and unfortunately are demanded by consumers.''........SB10/PL2*

In terms of subsector, the highest impact from imports was felt by those businesses operating within the clothing and fashion, printing, plastic, and metal sub-sectors, with imports from China and Thailand causing the most price competition. The printing subsector also felt the effects of low prices of imports, in this case from countries such as Egypt, China and other Arab states. As discussed previously, there was little or no protection for local manufacturers by means of taxes or tariffs.

As one respondent mentioned:

> *''The impact of imports is very large on us, especially that there is no protection from the State for the local product, and hence their impact is large in terms of their acquisition of a large share in the market at cheap prices.''…. SB10 /PL2*

Those firms operating within the building, food, and wooden furniture sub-sectors voiced concerns in this arena to a much lesser degree. One explanation of this is these subsectors tended to experience less competition, as shipping costs may outweigh any profits garnered by importers. Moreover, customers in this sub-sector often prefer customised, tailor-made products, which poses difficulties for importers as the vast majority of imported wooden furniture is standardised.

4.5.9 The impact of inadequate infrastructure

Table 4.42 shows the importance that owner-managers placed on problems caused by inadequate infrastructure, analysed by growth rate:

Table 4.42: Perceived level of importance of inadequate infrastructure by growth category

Growth Categories	High Perceived Importance *	%	Low Perceived Importance *	%	Total
High	7	88	1	12	8
Growth	10	77	3	23	13
Stable	2	50	2	50	4
Decline	1	33	2	67	3
All firms	20	71	8	29	28

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of inadequate infrastructure as a constraining factor on growth.*

The data in Table 4.42 above shows that firms that had achieved growth complained the most about the impact of inadequate infrastructure, with 17 out of 21 owner-managers doing so. In contrast, the stable and declining firms complained the least, with 3 out of 7 owner-managers doing so.

An explanation of these findings was that high-growth firms sought to enhance their growth by expanding location, at which point there were a number of obstacles experienced, such as planning permits, reliable sources of electricity, a lack of industrial zones, etc. Several owner-managers reported that this factor could only be overcome by paying bribes or otherwise making use of personal relationships.

As two respondents mentioned:

> *''Infrastructure remains incomplete in the country, especially the process of water treatment and sewage system and also the fluctuation of the electric current. This makes us depend on electric generators and it is costly and is considered an increase of the total costs, which negatively impacts our prices and our profits. My opinion is that when infrastructure improves, the country will increase the growth of industry and thus the percentage of competition and therefore there will be more quality services in the market.''……SB2/ BL2*

> *'' There are problems especially in the connection of landlines and increasing the electric energy for the factory at your personal expense, which is considered a costly process. I applied for the electric company directly and I waited for three years until I obtained an electric generator generating the required electric energy to operate the factory, and that unfortunately delayed the strength of our production and all that of course needed strong personal relationships or by means of bribing the employees of the electricity company through middlemen in the market.''……SB22/ FO2*

Table 4.43 portrays the perceived importance of insufficient infrastructure as a constraint on growth, analysed by firm size:

Table 4.43 Perceived importance of the effect of insufficient infrastructure by firm size

Firm Size	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**
Smaller small firms	4	44	5	56
Medium small firms	7	78	2	22
Larger small firms	9	90	1	10
All firms	20	72	8	28

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of insufficient infrastructure as a constraining factor on growth.*

Table 4.43 above shows a clear relationship between perceived impact of infrastructural problems and firm size. Of the larger small firms, 9 out of 10 (90%) felt growth was affected by inadequate infrastructure and 7 out of 9 of the firms (78%) reporting the same. In Contrast, only 4 out or 9 smaller small firms (44%) felt that inadequate infrastructure was a problem.

An explanation of this is that larger firms suffered to a greater degree from infrastructural problems because of their larger scale and higher growth rate. An additional problem can be that larger firms typically had more equipment, necessitating larger volumes of electricity at higher voltages, and were more susceptible to the power cuts that occurred on s regular basis. Accordingly, it was necessary for owner-managers to operate only part of their machinery, which sometimes impacted on the operations of the business as a whole, restricting its activities and productivity.

Two respondents stated in connection with insufficient infrastructure:

''The problem is that infrastructure is weak outside the capital city since that larger problem now is that the Libyan government is evacuating factories and requesting them to relocate to industrial zones outside the capital, in one of the countryside areas south of the capital, however, unfortunately, until now the State did not construct any of these industrial zones meaning that all these zones are merely plans and have not been executed yet, and we are becoming more worried regarding this issue.''…….SB 19/ME3

''We hope that the State provides industrial zones so that the owner of a project can think and plan for the future but now we are threatened by demolishment at any time with the threat of urban development.''…….SB14/WO2

These findings are consistent with Reinikka and Svensson, (1999); Rankin et al. (2002); Wolff et al, (2004) and who stated that this is one of the most prevalent issues amongst developing countries, where poor infrastructure is widely recognised as a growth constraint, as is the case in small firms operating in Africa, with the absence of energy and telecommunications creating significant problems. For example, in Uganda, it has been observed by Reinikka & Svensson (1999) that, owing to regular interruptions in power, a number of firms spend 16% of their initial investment on securing energy resources. In addition, it is recognised that a lack of industrial sites also poses a problem to new and upcoming firms, which is a problem particularly relevant in both Ghana and Tanzania (Buam, 1996; Verspreet & Berlage, 1998).

4.5.10 Shortage and instability of skilled labour

Table 4.44 summarises the views of owner-managers on the importance of the shortage and instability of skilled labor as a constraint on growth, analysed by growth category:

Table 4.44: Perceived level of importance of a shortage and instability of skilled labour by growth category

Growth Categories	High Perceived Importance *	%	Low Perceived Importance *	%	Total
High Growth	5	62	3	38	8
Growth	11	85	2	15	13
Stable	4	100	-	--	4
Decline	3	100	-	--	3
All firms	23	82	5	18	28

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of shortage and instability of skilled labor as a constraining factor on growth.*

As shown in table 4.44, of the 28 firms, 23 (82%) mentioned a lack of skilled workers, and the instability of their employment, as highly important effects on the growth of these firms.

Table 4.44 shows that that most of those firms citing this as a problem were amongst the stable, declining or growth categories, with high-growth firms not highlighting this as an issue. An explanation of this was that the higher growth firms had already achieved a certain size, so had found solutions to this problem, such as carrying out their own training, which they also had the resources to do.

The main reason for the lack of skilled labour was the government's failure to provide adequate and modern training facilities for young people interested in building a career within industrial sectors. Owner-managers reported that most training establishments were old in terms of the technology and the methods available, with the government seemingly uninterested in implementing any form of modernisation.

Table 4.45 summarises the perceived importance of lack and instability of skilled labor as a constraint on growth, analysed by firm size.

Table 4.45: Perceived importance of shortage and instability of skilled labour by firm size

Firm Size	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**
Smaller small firms	9	100	-	--
Medium small firms	8	89	1	11
Larger small firms	6	60	4	40
All firms	23	82	5	18

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of shortage and instability of skilled labor as constraining factor on growth.*

Table 4.45 above shows that the smaller and medium small firms tended to feel the most impact of a lack of skilled labour, with the larger small firms less affected.

In addition to the problem of lack of resources mentioned above, another problem for smaller firms was the tendency for skilled workers to move to another, usually larger, firm for a better salary. This created serious problems for the operations of the business, because there was rarely a ready-made replacement within he firm, and since their financial resources were limited, it was difficult to hire replacement skilled workers or to carry out training. The scarcity of skilled workers in some subsectors led to competition for these workers between manufacturers in the form of financial inducements, leading to instability in the workforce, particularly among smaller firms. This problem was compounded by the weakness of employment laws, which even if they existed, were ineffective and erratically enforced.

Two respondents from the larger small firm size stated:

''The absence of the State's role in guiding and encouraging youth to enroll in vocational study and training along with the weak infrastructure for training institutions in the country created the problem of the lack of this

category, with the required quality for the labor market in the country creating a higher unemployment rate among Libyan youth''...SB 4/BL4

''The lack of stability of workers in their work is a huge problem and goes back to the unfair and unethical competition between firms as they tempt your workers with higher salaries to obtain better trained and skilled workers, without any efforts in training and qualifying them''….SB23 /FO3

Another two respondents from the smaller small firms stated:

'' The lack of laws related to occupational protection for the private sector which would protect the rights of workers and employer by forcing both parties to comply with the employment contract.''…..SB 16/WO4

''The national lack of skilled workers and their instability at work is a huge problem requiring a solution, despite that the fact of the existence of the Workforce bureau; however, it imposes unskilled and untrained workers to firms' owner-managers and requests them to be trained and qualified and that is a huge problem for us.''….SB6 /PP2

In terms of sector, the lack and instability of skilled labour was most keenly felt within the printing, metal, wooden furniture, clothing and fashion subsectors, whilst those operating within food, plastic and building sectors were less severely restricted. An explanation is that some subsectors depended more than others on skilled workers as well as machines, while the industries which suffered less from the scarcity of skilled workers depended more on machinery than on manual workers.

The findings are consistent with Trulsson (2002) and Owusu (2007) who argue that skilled and appropriately priced labour is one of the most important resources to support growth. It is also recognized that a national shortage of skilled labour, particularly within certain specializations or industries, provides a significant obstacle to the growth of small firms (Doern, 2008). Research has also shown that smaller firms are more likely to use unskilled labour, owing to the limited salaries they can pay staff; however, this increases the need to implement training, although this is then near-impossible owing to restricted resources and lack of funding (Westhead & Storey, 1996; Kotey & Folker, 2007).

4.5.11 Competition from informal businesses

Table 4.46 summarizes the perceived importance of competition from informal businesses as a constraint on growth, analysed by firm size.

Table 4.46 Perceived importance of competition from informal businesses by firm size

Firm Size	**High Perceived Importance***	**%**	**Low Perceived Importance**	**%**
Smaller small firms	7	78	2	22
Medium small firms	6	67	3	33
Larger small firms	4	40	6	60
All firms	17	61	11	39

**'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of competition from informal businesses as a constraint on growth.*

Table 4.46 above shows that the perceived effect of competition from informal businesses varied considerably with size. Within the two smaller size categories, 13 out of 18 (72%) owner-managers felt this to be a serious problem, while among the larger firms, only 4 out of 10 (40%) owner-managers identified this as problem.

A reason for this difference was that the smaller firms had a limited ability to compete with informal firms; due to the simple nature of their production processes, the effort of reducing their costs was difficult and price competition had an adverse effect on profit margins and growth. Illegal, informal firms exist mostly outside the capital and do not comply with any permits, do not pay taxes or fees for water and electricity and mostly are not subject to quality control and monitoring.

As mentioned by one respondent:

''There are several firms in the countryside which are not subject to sanitary monitoring, do not pay fees for water and electricity and not even for any permits. This is all because of personal relationships, bribery and corruption, and they mostly incur lower costs in their production and this enables them to drive off competitors or manipulate prices in the market, creating a problem for us.''…SB16 /WO4

Table 4.47 summarises the perceived importance of the competition from informal businesses as a constraint on growth, analysed by growth category.

Table 4.47: Perceived Importance of competition from informal businesses by growth category

Growth Categories	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**	**Total**
High Growth	2	25	6	75	8
Growth	9	69	4	31	13
Stable	3	75	1	25	4

Decline	3	100	-	--	3
All firms	17	61	11	39	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of competition from informal businesses as a constraining factor on growth.*

Table 4.47 shows that those firms more commonly voicing concern in this regard were found to be within the stable and declining categories, with high-growth firms less likely to consider this a problem. One reason for this was that the larger firms had valuable resources at their disposal, including expensive machinery, which then gave them an edge over informal businesses, which were clearly not in a position to acquire such resources.

In terms of sector, owner-managers in the wooden furniture, metal and clothing subsectors reported the most serious effect of competition from informal businesses.

A reason for this is that these types of business did not require much initial capital investment at start-up, which encouraged illegal investors to enter these sub-sectors, especially outside the capital in the countryside and villages, as the supervision of the government in these areas is very weak. They begin these businesses mostly without permits, without paying tax and fees for water and electricity and by means of bribes and personal relationships, and then sell their products within the large cities. As mentioned by one respondent:

> *''These firms manufacture products without any accredited specifications and with a weak and cheap quality, and because of the ignorance of citizens about the proper quality specifications, they directly go for cheaper products and that are of course negatively impacts our sales and profits.''…….SB28 / CL4*

In contrast, firms operating within the building, food, plastic and printing subsectors experienced less competition from informal businesses because of the larger capital investment required at start-up.

These findings are consistent with De Soto (1989), Kuchta-Helbling et al. (2000) and Tybout (2000) who argue that the informal sector is able to significantly limit the growth of the formal sector in developing countries. Kuchta-Helbling et al. (2000) suggest that the competitiveness of formal businesses is compromised by the fact that informal businesses do not comply with regulations and avoid taxes, which subsequently provides them with an unfair competitive edge.

4.5.12 Socio-cultural factors

Table 4.48 summarises the perceived importance of socio-cultural factors as a constraint on growth, analysed by firm size.

Table 4.48: Perceived level of importance of socio-cultural factors by firm size

Firm Size	**High Perceived Importance ***	**%**	**Low Perceived Importance ***	**%**
Smaller small firms	8	89	1	11
Medium small firms	7	78	2	22
Larger small firms	5	50	5	50
All Firms	20	72	8	28

** 'High' and 'Low' refer to the owner-managers' perception of the level of importance of the effect of socio-cultural factors as constraints on growth.*

As shown in Table 4.48 socio-cultural factors were perceived to be of significant importance in terms of impact on growth by 20 out of the 28 sample firms (72%). These issues were felt more keenly by the smaller businesses. 15 out of 18 (83%) owner-managers of firms in the two smaller size categories said that these issues were of high importance, in contrast to the larger firms, where only 5 out of 10 (50%) owner-managers saw socio-cultural factors as a problem.

An explanation for this disparity is that smaller firms suffered more from the impact of socio-cultural factors due to their small workforce and their limited financial capabilities, so that when there was any disturbance in work compliance and attendance from workers, this created a significant problem. Libyan culture regarding work is that it should be comfortable and provide good pay, whereas compliance with working regulations is less of an issue, especially within the work of government institutions, where the work ethic found in the public sector is almost nonexistent. Former government employees were considered by owner-managers to work with the government mind-set of noncompliance and lack of efficiency at work.

Some owner-managers reported a special problem if employees were family members, as many were using family funding and hence there was an obligation to other members of the family and their friends in terms of hiring workers in the factory. Most of the owner-managers said that they resorted to personal contacts in recruiting workers for their factory, but this brought with it problems. Since the felt social responsibilities of Libyans are extensive, this produces an element of conflict between the needs of owner-managers and the social responsibilities of workers, who may leave work to support other family members, with a negative impact on production, particularly in the smaller firms. As mentioned by two respondents:

‘’The culture of Libyan youth involves a lot of arrogance and refusal to accept any low paid job; the Libyan youth does not wish to start from scratch but wishes to mount the steps from the top. The reason for that is that the country adopted a socialist policy, and 99% of people dress eat and live the same way, and that is the nature of a socialist policy. However, after the recent modification to the capitalist system and due to the adoption of that change, a state of anarchy occurred at first leading to the emergence of a new capitalist class from nowhere, simply because it made use of certain opportunities from their posts in the state by receiving bribes and commissions, so it created this phenomenon of dissatisfaction among Libyan youth, such as not accepting minimal jobs since they will not realize by it what other realized, and they were like them one day. Therefore, it has become unacceptable among youth to accept any simple work at the beginning, they consider it as an insult and a degradation of their status, thus, even if they accepted any simple work, they work when they are discontented despite needing the work, this culture created more disguised unemployment among Libyan youth and also dissatisfaction of available simple employment, which leads to poor quality work from Libyan workers’’……..SB26 /CL2

‘’Emotions when dealing with employees, especially relatives, creates a lot of problems and sensitivities. Also the weak culture of loyalty engendered by working for the public sector is another problem. This culture has to start from the beginning of life as it cannot be acquired suddenly, but it has to be built gradually from the beginning at home then at school. Also the culture of carelessness and lack of compliance and lack of patience has been acquired due to working for state institutions because of weak supervision and management.’’.......SB7 /PP3

These findings are consistent with Takyi-Asiedu (1993), who found that socio-cultural factors may inhibit the growth of firms in Africa. Owing to the high social status enjoyed by business owner-managers and the extended family system within this country, a number of small firms direct their resources to supporting family members at the expense of their business, as highlighted by Kiggundu (2002). Takyi-Asiedu (1993) also emphasises that in Kenya a large proportion of resources are directed towards supporting family members, most commonly among female owner-managers.

CHAPTER FIVE: DISCUSSION

5.1 Introduction

This chapter seeks to highlight and discuss the key findings generated by the study, which are presented and summarised by means of a conceptual model (see 5.2). These findings are compared, contextualised alongside prior studies and prioritised according to their significance, in terms of their criticality to small firm growth and the degree to which they aid understanding of these issues in the specific context of Libya.

5.2 Conceptual Overview of Findings

The conceptual model of the key factors that influence the growth of small manufacturing firms in Libya represents a suitable point of entry to the discussion of the study's key findings, in accordance with the view expressed by Saunders *et al*. (2007) that the introduction of a conceptual framework can prove to be very valuable for a study.

The conceptual model highlights four sets of factors that appeared to have an impact on small firm growth in Libya:

i. Owner-manager characteristics

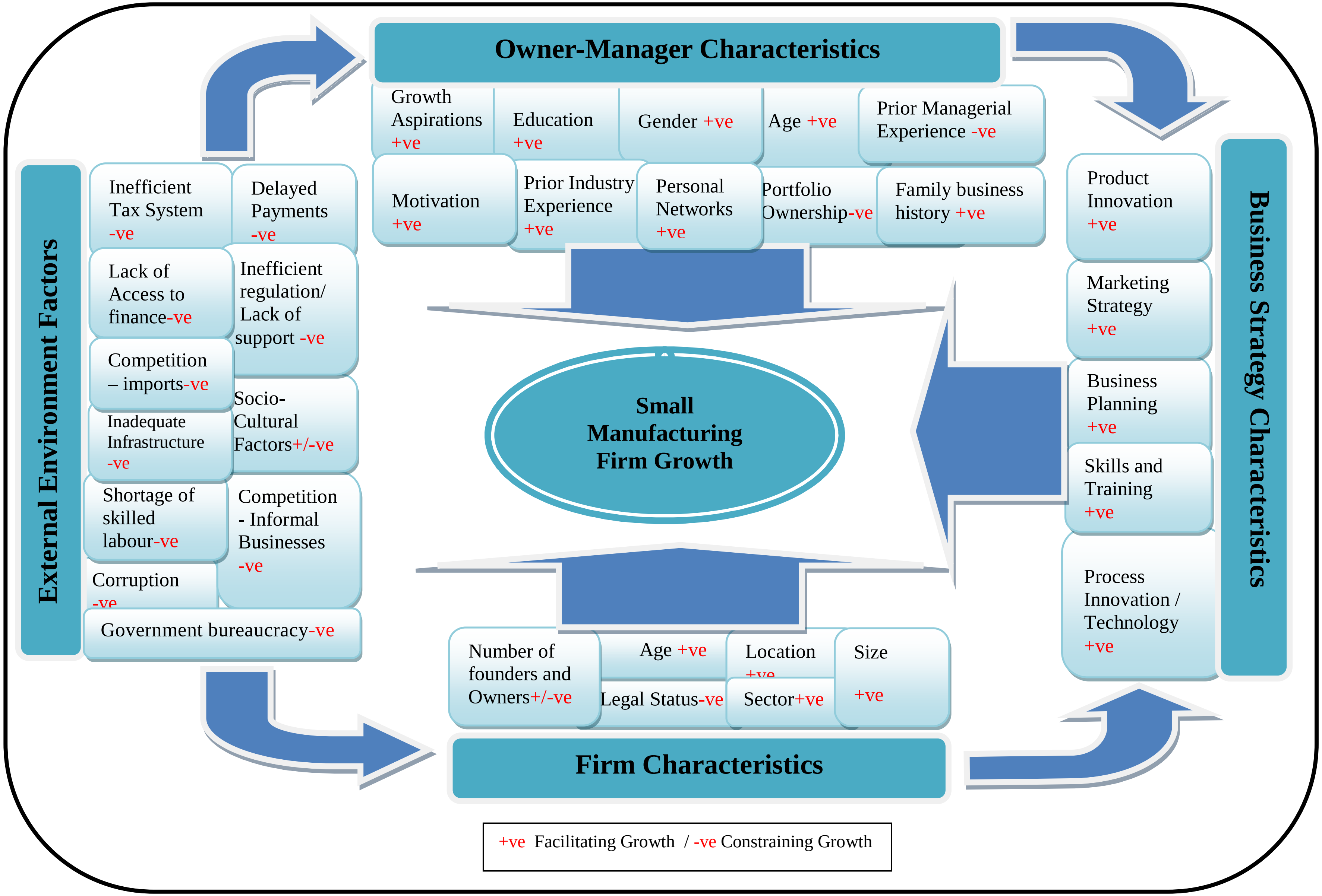
ii. Characteristics of the firm

iii. The strategy pursued by the firm

iv. Characteristics of the external environment

The conceptual model is illustrated below.

Figure 5.1 Conceptual Framework: factors influencing the growth of Libyan small manufacturing firms



Within these broad sets of characteristics, there are many specific factors that affect the growth of small manufacturing firms in Libya. These factors can be positive or negative in their impact, and can represent facilitators or obstacles to the growth and development of the firms under consideration. There are also complex interactions between the factors, which are difficult to illustrate but which became apparent during the analysis. The key findings concerning the impacts of these factors are discussed below, grouped under headings of the four groups of characteristics (owner-manager, firm, business strategy and the external environment).

5.3 Owner-Manager Characteristics

The factors of owner-manager characteristics that were explored and analysed were: growth aspiration; education; age of owner-manager; gender of owner-manager; prior experience (both industry experience and managerial experience); portfolio ownership of other businesses; entrepreneurial family background-family history; personal networks and motivation, all of which had significant influence on growth.

5.3.1 Growth aspiration

The growth aspirations of the owner-managers within the sample seemed to have had a generally positive impact on the growth and development of their businesses. It was also recognised that such aspiration was not in itself adequate to foster such growth; rather, there needs to be the presence of other factors, including industrial experience, education and age.

An interesting finding was that the growth aspiration of some owner-managers was strongly influenced by other factors in the business environment. For example, the surge of demand across many different product markets and industries owing to the government's policy orientation towards construction, development and urbanisation has had a positive impact on the growth aspirations of owner-managers in the construction sub-sector. Government policy towards privatisation of the economy also had a positive impact on market growth and growth aspirations, most notably resulting in the entry of a number of foreign companies to the Libyan market and becoming involved in the country's development and construction. This resulted in the demand for domestic goods increasing, especially within a number of particular industries, such as construction, food, metal and wood, again having a positive effect on growth aspirations. Another factor that motivated owner-managers to increase their growth aspirations was the government’s attempts to encourage exports to external markets, especially those of neighbouring countries, through such means as streamlined administrative fees in the arena of imports and exports. However, owner-manager growth aspirations were limited across some sub-sectors by the surge in inexpensive imported goods, particularly those coming from Arab and Southeast Asian countries.

As discussed in Chapters 2 and 4, the impact of growth aspiration on firm growth is fairly well researched and the findings are in line with those of research conducted in other contexts. However, it is reasonable to suggest that the impact of extreme changes in government policy on owner-manager growth aspirations were a special, if not unique, factor within the Libyan context.

5.3.2 Education

The findings demonstrated that higher-level education seemed to be an important and fundamental facilitator of higher levels of growth. More broadly, educational background was a factor that provided a number of opportunities to owner-managers, including networking with former fellow students who had the necessary expertise to aid projects or uncover business opportunities. Notably, it was found that those individuals interviewed who had been educated to university level were more likely to own and manage the larger small firms.

It was further noted that those owner-managers with higher education commonly utilised their university network to gain access to other professionals and secure contracts within the public sector as a result of such connections. Furthermore, it was also noted that bank loans and other funding was also facilitated through former university colleagues, thus providing these owner-managers with a further advantages.

It was highlighted that a higher level of education helped owner-managers to achieve a much faster rate of growth than those owner-managers who had not progressed with education up to this level. In this regard, university-educated owner-managers were recognised as having the capacity to identify new opportunities and manage growth in this way, which in turn fuelled higher growth aspirations. It could be concluded from the sample that those owner-managers who had a clear focus on high growth were more likely to have a higher level of education when compared to those who did not.

In general, the research found that the owner-managers in the sample with higher education tended to have higher growth aspirations and achieve higher growth than those without. This is consistent with the conclusion of many authors, such as Cressy (1994), Basu & Goswami (1999) and Lee & Matthews (1999), including some studies in Africa (Sowa *et al*., 1992; McPherson, 1996; Liedholm, 2002). In summary, these findings suggest that a high level of education confers three main advantages: expertise in a particular field; a ready-made network of useful and influential contacts, and the confidence to invest in growth opportunities that comes from the ability to calculate the balance of risk and reward.

The benefits offered in terms of relationships and networks were repeatedly emphasised by the respondents and it is reasonable to propose that there are two reasons why this is particularly important in the Libyan context. Firstly, for cultural reasons, established relationships are felt to be particularly important in Libya and this applies to all aspects of business. Secondly, this felt need is increased because of the lack of government support institutions for small business and the difficulty of obtaining external finance, whereby business owners tend to draw on personal networks for advice, introductions and access to finance.

5.3.3 Age of owner-manager

Within the sample, owner-managers in the 35-50 age group tended to have higher growth aspirations and achieved higher growth than those who were younger or older, with the latter group most commonly found to have lower aspiration for growth. These findings are very much in accordance with those of Kinsella *et al.* (1993) and Storey (1994), whose research found that middle-aged owner-managers were more likely to achieve significant growth in their businesses. Some owner-managers referred to the benefits of maturity and experience associated with age, reflecting the views of other researchers such as Westhead, Wright, Ucbasaran & Martin (2001), McGee & Sawyer (2003) and Andersson, Gabrielsson & Wictor (2004), who emphasise the benefits deriving from older owner-managers' greater depth of knowledge, information and resources.

Perhaps the issues regarding age discussed in the literature are universal but there are special factors that should be considered regarding the context of Libya. Firstly, in common with most developing countries, Libya has a relatively young population and ideas about age are different from those in developed countries with ageing populations. Secondly, Libya was a socialist country for a considerable period and the growth of the private sector is relatively recent, meaning that many people only have experience of working within state institutions.

5.3.4 Gender of owner-manager

It is inappropriate to draw conclusions concerning gender-related issues for this study, as only two of the owner-managers were female, thus reflecting the dominance of males in Libyan society and business as a whole. During recent times, however, it is recognised that an increasing number of females have been entering the private sector within Libya, particularly in pharmacies, private schools and clothes manufacturing; however, it is undoubted that this trend nevertheless remains limited. It is reasonable to argue that the concept of 'business woman', which is now prevalent amongst Western countries, is not yet well recognised in Libya. At a national level, the findings of the study reflect the fact that while great advances have been made in Libya in terms of educating women to a high standard, this advance in education has not been matched by advances in self-employment opportunities for women, especially in the private manufacturing sector.

Data from the two female respondents to this study confirm that they faced considerable obstacles as a result of their gender, especially in terms of forming the personal relationships necessary for a successful business in Libya, and that they relied on the help of male relatives to facilitate some of the necessary contacts to make their business grow. Such issues can cause female owner-managers to experience significant hindrance in terms of establishing growth. As discussed above, for cultural reasons this is a particularly important issue in Libya and it is reasonable to suggest that women are doubly disadvantaged in this respect. This situation is rather different in industries producing products specifically for women, as was the case with the two female entrepreneurs included in this study.

5.3.5 Prior industry experience

The research results indicated that this factor had an advantageous and significant link with growth, suggesting that those businesses owned and managed by individuals with prior industry experience were more inclined to experience a faster rate of growth. Moreover, those firms owned and managed by individuals with previous experience were more likely to be in the high growth categories. Other owner-managers were found to have previously traded products they subsequently went on to manufacture and were thus able to utilise the distribution facilities previously established in order to market their manufactured goods.

Across the sample, the majority of businesses owned and managed by people with previous industry experience in the same sub-sector tended to be of the larger size category. It was notable that those owner-managers with prior experience within a particular industry who subsequently established businesses within that industry had the benefit of understanding adequate planning and also had a high understanding of the industry, with their firms being relatively larger, having higher growth aspirations and achieving higher growth rates.

These findings supports other research findings that owner-managers who have previously worked in the same sector in which they established their business are more likely to survive and to achieve higher growth (Storey, 1994; Aidis, 2003; Dahl and Reichstein, 2004; Autere 2005). However, they also support the notion that personal relationship and connections, such as through networking, are fundamental when doing business in Libya. Moreover, it was evident that a business achieves a competitive edge if the owner-managers have industry-relevant knowledge, particularly concerning distribution channels, and this acts as a significant determinant of growth.

5.3.6 Prior managerial experience

Only a small portion of the owner-managers within the sample had any form of previous management experience and those who did have such experience were more commonly found to have firms of smaller size, and were also more likely to establish their business on a comparatively low scale when compared with individuals who had no management experience. Moreover, the owner-managers with previous management experience also tended to achieve lower growth.

On the face of it, these findings contradict those of Storey (1994), who found that managerial experience was positively correlated with faster growth. This apparent paradox may be owing to the fact that such experience is likely to have been gained through working in the public sector. The findings of this study suggest that Libyan employment conditions, particularly in the context of government-owned businesses, are so unstable that a number of previously employed respondents were lacking in terms of confidence and motivation, which could also be seen to impact on their new roles as owner-managers, acting as a constraint on growth.

On the other hand, amongst those owner-managers who did not have management experience but who had industry-relative experience, it was found that they had experienced problems working for others, and so they prioritised the growth of their own businesses to avoid this ever needing to be the case. However, owner-managers with prior managerial experience ensured they learned from past mistakes, although this delayed the rate at which growth could be achieved.

In summary, the most striking element of the findings for this study is that prior managerial experience in the public sector in Libya actually appeared to be a hindrance to the growth of small manufacturing businesses, a finding that must be of concern to policy makers and leaders of government institutions in the country. The inability of public sector managers to motivate their staff or bring significant transferable skills to their roles in the private sector suggests a malaise in Libyan state-owned organizations that requires urgent attention.

5.3.7 Portfolio ownership of other businesses

The study results show that owner-managers without other businesses were predominantly found to be within the growth and high-growth categories, and tended also to have a greater dedication to achieving growth. Furthermore, such owner-managers were found to similarly prioritise personal involvement, which was also considered to be important in striving towards and achieving growth.

It was also found that owner-managers with a higher level of education, e.g. university, were more likely to focus on a single business than those with less formal education. This finding can be explained by suggesting that those who had been more highly educated were more likely to be more vigilant and cautious when doing business, and also had a better investment plan, whilst those with less education were considered to be less concerned with risks, and were thus more likely to conduct business only on the basis of instinct.

Moreover, it was found that owner-managers with a high-growth orientation were more likely to direct attention to only one business as opposed to spreading their resources over more other businesses. In contrast, owner-managers who had more than one business were notably less committed to growth, which may be explained by the fact that such owner-managers hold an interest in establishing businesses but not in growing them, instead prioritising having a number of different streams of revenue as opposed to building on one.

Importantly, it was notable throughout the study that the majority of firms lacked fundamental financial and human capital resources, and so their owner-managers had no desire to further spread these resources and were therefore not in a position to seek to achieve a number of other investment-related aspirations. In this regard, it is highlighted that smaller small businesses and the majority of younger businesses were restricted in terms of resources, so their owner-managers were less inclined to invest in other ventures. On the other hand, however, the owner-managers of larger small businesses had a tendency to remark on there being a shortage of human capital, which was understood to inhibit their firms in terms of expanding into other businesses.

These findings are inconsistent with studies in developed economies (Gundry and Welsch, 2001; Wiklund and Shepherd, 2003). One reason for this is the very different economic and financial circumstances in Libya, whereby the owner-managers of small firms felt constrained by financial resource shortages and a lack of high quality human capital. A further reason is the importance of established relationships and networks, so that owner-managers were more reluctant to enter business in subsectors in which they had no such prior relationships.

5.3.8 Entrepreneurial family background - family history

Approximately two-thirds of the owner-managers in the sample had some degree of family business history. This finding is consistent with Storey (1994), Smallbone & Welter (2001) and many other studies, suggesting that this is a very widespread phenomenon. Notably, among the owner-managers from a family business background, there was a higher employment growth rate, probably owing to their position of benefiting from the expertise and experience of family members. While this is also a widely reported finding, there were special circumstances in Libya. These owner-managers also had better access to resources, which were commonly provided either by parents or through family networks within the local business community. In some instances, the firms they established were involved in completely unrelated activities when compared to those carried out by family members. However, it was often the case that there was some degree of involvement by other family members in management across such businesses.

In summary, the findings with regard to this factor were not very different from those that would be expected to be found in many other countries, especially developing countries. The advantage of having managerial and financial management skills within an entrepreneur's own family is recognized worldwide, and the fact that weak implementation of business law only adds to this advantage is not unique to Libya.

5.3.9 Personal networks

The study established that most owner-managers actively utilise trusted personal networks, and further cited personal relationships as being fundamental in relation to business growth and success owing to inadequate numbers of formal institutions in combination with the insufficient implementation of Libyan legal and regulatory systems. It is acknowledged that personal networks offer significant value and further avenues for growth, with investment opportunities and problem-solving facilitated through such means when owner-managers were able to gather data from banks, friends, relatives and suppliers.

In addition, when considering those owner-managers who had valuable personal networks at their disposal, to a significant degree they utilised such relationships with banks, friends, government and suppliers with the aim of gaining access to raw materials and other important resources, such as loans and other forms of credit, which were made possible as a result of the trust between the individuals and entities concerned. It was generally agreed by owner-managers that the utilisation of high-level personal networks is an important factor when striving to higher growth.

In summary, the findings with regard to personal networks are consistent with many other studies, e.g. Premaratne (2001) and Deakins & Freel (2003), which emphasise the importance of networks in the establishment and management of a successful business. As already discussed, these issues are vitally important in Libya, to the extent that the manufacturing sector in Libya is something of a 'closed-shop,' and that entrance for those without a strong network of personal contacts who can help them is extremely difficult. This is a clear barrier to the establishment of a modern economy and a waste of the talents of Libyans unable to enter this circle of influence. Measures aimed at transparency and openness are required, as are training in accountancy, recruitment, human resource development and tax administration in order to maximize the talent and potential that exists within the country.

5.3.10 Motivation

The owner-managers in the sample displayed a mixture of motivations for entering self-employment, including both pull and push factors, and this was consistent with many other studies, such as Smallbone & Wyer (2000), Hamilton & Lawrence (2001) and Janssen (2003). However, the majority felt that they had no choice but to explore the self-employment career route owing to the employment situation within Libya, which is widely recognised as being poor and offering only very low salaries in general in the public and private sectors, made worse by the relatively high cost of living in Libya. In addition to this, as discussed above, the success of their efforts within self-employment was highly dependent on the circle of personal relationships they possessed. It would be clearly be better for the Libyan economy if starting a business were regarded as a compelling business opportunity, rather than as an income source of last resort as it was regarded by some of the respondents.

5.4 Firm Characteristics

During the course of the exploration of firm characteristics, a number of factors were taken into account, analysed and evaluated, namely sector, location, size, age, number of owners, and the overall legal status, all of which were found to have a notable impact on the growth of firms.

5.4.1 Firm size

The results of the study suggested that firm size had a significant impact on growth, with the owner-managers of small firms in the larger category reporting more rapid growth than those with smaller firms. The reasons for this included a number of factors. The larger small firms were markedly more likely to make use of high-growth business strategies and also had the resources to do so, whether financial, managerial or technological. The owner-managers of these firms were more likely to have higher growth aspirations and establish their businesses with a higher production capacity.

Research in developed economies suggests that small firms in general tend to grow at a faster rate than medium-sized and large firms (e.g. Hall, 1987; Dunne & Hughes, 1990; Barkham *et al*., 1996; Bridge *et al*., 2003). However, few researchers have compared the growth of different size categories of small firm. However, this research has confirmed the findings of some prior studies in developing countries that highlight the impact of inefficient taxation and regulatory systems, causing some owner-managers to limit the growth of their firms in order to avoid such impacts (e.g. Sleuwaegen & Goedhuys, 2002; Welter & Smallbone, 2003). Some owner-managers in the sample said that they restricted growth capacity, even when demand was increasing, so as to ensure they did not attract the attention of the taxation authorities.

Highlighting similar problems, the argument was posed by a number of owner-managers of smaller firms that their larger counterparts were in a position to negotiate tax exemptions and benefits, which ultimately provided the larger small businesses with additional benefits. While some of these findings are perhaps common to many developing countries, it seems that owner-managers of the smaller small firms in Libya can be seriously disadvantaged by having insufficient resources to overcome corruption and inefficient regulation and taxation.

5.4.2 Sector

The majority of the owner-managers in the sample emphasised that growth was influenced by the overall growth rate of not only a number of related sectors but also the Libyan economy in general, with differences across sectors subsequently resulting in different growth rates achieved by firms. Markedly, it was established that the building materials and food industries benefitted most from lower production costs deriving from customs and tax exemptions, high demand and low wages, all of which assisted such firms in competing with those firms specialising in goods importation. On the other hand, those firms operating within the plastic and printing manufacturing sector were found to have demonstrated the lowest growth, with these businesses stating that informal businesses posed a threat, with competitive pressures and cost differentials between subsectors. The cost of entry into such subsectors is low, inducing widespread growth of informal businesses. Plastics manufacturers were predominantly focused only on the Libyan market, neglecting to consider exporting to African and Arab countries. As a result, these businesses simply guided sales towards the domestic arena, possibly owing to inadequate knowledge of external markets, such as African and Arabian.

These findings are broadly in line with many other studies that have highlighted differences in growth rates between sectors in both developed economies (e.g. Storey, 1994; Stokes, 1998; Davidsson et al., 2002; Bridge et al., 2003) and developing economies (e.g. McPherson, 1996; Liedholm, 2002). The latter studies also show that small firms in developing countries tend to be greatly affected by government policy and this is very much the case in Libya, where the overall picture is that where the government spends, business can flourish.

5.4.3 Location

The majority of the firms located in the main cities were more likely to experience growth at a faster rate than those businesses established in either villages or more rural areas. Markedly, the location choice was found to be demand-driven, with consideration also to the availability of suitable infrastructure, which is commonly found in the main cities in Libya.

This finding is in accordance with numerous prior studies that suggest that an urban location tends to support growth (e.g. Storey, 1994; Barkham *et al*., 1996; Sleuwaegen & Goedhuys, 2002; Hoogstra & Dijk, 2004) for reasons of access to markets and resources and a more favourable infrastructure. A further important factor in the Libyan context was that a rural location was associated with unfair competition from illegal and informal firms and considerably weaker regulation.

5.4.4 Age of firm

The research indicated that growth seemed to have an inverse relationship with firm age, with longer established firms experiencing growth at a slower rate than their younger counterparts. This is line with the findings of many other studies in different countries, e.g. Storey (1994), Glancey (1998), Davidsson *et al*. (2002) and Yasuda (2005), which suggest a variety of factors including increased motivation for younger firms coupled with lower complexity and less impact of regulation.

The issue of motivation is important in Libya, in common with other developing countries, where start-up for economic reasons is more widespread. In Libya, costs of living are expensive and there are few credit facilities, therefore meaning that individuals must pay for goods such as domestic appliances, etc. outright, which may encourage people to opt for self-employment and strive to achieve rapid growth so as to enable costs of living to be paid. Cultural factors are also an important explanation in Libya, where obligations such as tax payments, loan repayments, favours owed and bribes increase as the business develops and matures, making the task of the owner-manager more complicated and the rewards of growth less tangible.

5.4.5 Number of founders and owners

The research found that those businesses with multiple owners were rather more likely to grow at a faster rate than businesses with one owner. This is in line with other research (Storey, 1994; Barkham *et al*., 1996; Bridge *et al*., 2003) which suggests that those firms owned and managed by a number of people are more likely to achieve faster growth, as the founders are able to offer complementary skills and expertise.

However, the situation in Libya is more complex because of the general lack of trust amongst Libyan business people, emphasis on relationships and weak legal enforcement. For these reasons, most of the businesses in the sample with multiple owners involved close friends or other family members and most of these were owned and managed by the father and his sons or the oldest son and his brothers or cousins. The presence of other family members and close friends within the firm was generally based on trust, as opposed to skills and expertise.

The firms with other owners who were neither family nor close friends tended to be less likely to achieve fast growth. One reason for this was to do with the availability of finance, as involvement of close friends or other family members was often associated with the use of their funding. Owner-managers also reported negative experiences with non-family business partners or those who were not close friends that arose from disagreements. It is considered that the poor implementation of the legal system implemented within the country enhances this lack of trust and makes such disputes more difficult to settle.

5.4.6 Legal status

The main finding regarding legal status was negative, in that the majority of the sample owner-managers, whose businesses had a valid legal status and were thus subject to taxation and regulation, complained about having to compete with firms whose legal status was not valid or fake, especially when competing for government or private tenders. Such non-legal competitor firms often paid bribes to government officials in order to effect a change of status and thus to win contracts. For example, in the case of a competitive tender for a government contract, an unscrupulous small firm might change its status to that required to win that contract, despite not being adequately qualified to complete it, and then sell on the business to sub-contractors after winning the contract. This was seen as a barrier to the growth of small firms that refused to indulge in this kind of illegal activity.

As has been noted previously, there is an apparently unstable and unbalanced legal system in force within Libya; however, such a significant flaw cannot be overcome within a short time period. Nevertheless, it is fundamental that actions be geared towards improving the system, owing to the fact that, whilst there are laws implemented to ensure the above practices are not carried out, there is very little enforcement of them.

5.5 Business Strategy Characteristics

During the course of the exploration of business strategy characteristics, a number of factors were taken into account, analysed and evaluated, namely business planning, skills and training, marketing strategy, process innovation and sophisticated technology, product innovation, all of which were found to have a significant influence on the growth of firms.

5.5.1 Product innovation

None of the sample businesses engaged in the development and marketing of completely new products. Owner-managers explained this by saying that they did not have adequate resources necessary for conducting research and development and that such innovation is a high-risk activity. Another issue is that there is a significant degree of product imitation within Libya owing to inadequacies in the country's regulatory and legal systems, meaning inventors are not adequately protected. Instead, it was recognised by the owner-managers interviewed that it was far more feasible and profitable to simply copy the actions of other businesses in relation to product introduction as opposed to investing significant resources into the development of innovative products, particularly because there are many established products within the world not currently available in Libya.

Product innovation was more prevalent within the food and wooden furniture subsectors. Some fruit juice manufacturers, for example, sought to introduce a number of different products and lines with the objective of achieving a greater proportion of market share, thus facilitating improved growth, which is possible owing to the fact that the industry is relatively young. Most of the innovating firms reported that they had some form of process concerned with product innovation; for example, three out of four firms within the food industry reported that new products were added to their product lines as a result.

Across the sample, there was a positive relationship between innovation and growth, as all ten of the firms that did innovate reported growth and half of these were in the high growth category. This confirms the findings of a number of studies in both developed and developing economies that suggest that innovating firms are more likely to grow (e.g. Almus & Nerlinger, 1999; Freel & Robson, 2004; Hsueh & Tu, 2004; Yang & Huang, 2005; Chipika & Wilson, 2006). However, the Libyan business environment was clearly not supportive of innovation, because of the lack of finance and institutional support, weak legal protection and the danger of imitation by informal businesses.

5.5.2 Process innovation and use of sophisticated technology

The research showed a clear relationship between growth and a commitment to process innovation and investment in technology. While only a quarter of the sample firms demonstrated such a commitment, all of these achieved growth. These firms were mostly in the larger size categories, with 40% of the largest firms engaging in process innovation.

It was stated by the majority of the owner-managers that effective technology is a critical resource when striving to achieve a competitive advantage, suggesting that high-level process innovation is necessary in order to ensure the appropriate cost and quality advantages are achieved over competitors, particularly when considering competition from imports. Bearing out this point, three of the seven innovating firms operating in the wooden furniture subsector, in which there was a high level of competition, with Libyan firms, both formal and informal, and with imports.

However, the majority of owner-managers interviewed held the belief that they possessed and utilised adequate equipment, technology and resources, in line with the standards recognised across the Libyan market and accordingly they did not acknowledge any need for further changes in this arena. They also felt that the production processes implemented were adequate and suitable, aiding them in securing a reasonable price for their goods and/or appropriate levels of quality. Hence, at that time high levels of process innovation were not implemented as it was not recognised that there was a need for such.

It was also found that the decisions regarding equipment, machines or technology were influenced by the level of education and experience held by the owner-managers. Some of the individuals interviewed highlighted that they have personally experienced declining growth as a result of their incapacity to select adequate technology. It was also acknowledged that well-selected technology could also have a detrimental effect on growth owing to the fact that a number of different businesses lacked the necessary skills and resources to both maintain and function sophisticated technology.

In addition, the study also emphasised that technology outlays and investments were sometimes recognised as being too high in consideration to capacity utilisation levels owing to what was described as a relatively low demand in some subsectors, including clothing and fashion, printing and paper, the metal industry, and plastics. In this regard, uncertainty surrounding demand conditions of the future encouraged various businesses to choose technologies and approaches that were considered to be adequate for the short-term; notably, however, such decisions commonly restricted growth and development in the long-term.

Overall, the findings with respect to process innovation suggest that small Libyan manufacturers were mostly comparing themselves against each other and the Libyan national market, which was very natural and understandable. However, these findings show no evidence of owner-managers comparing their processes against foreign entrants to their market, or comparing their products to cheap foreign imports, which suggests that a change in attitudes needs to be fostered in Libyan businesses in the light of the liberalization of its economy.

5.5.3 Marketing strategy

The businesses in the sample adopted a very diverse combination of marketing strategies, including increased advertising, product quality enhancements, improvements in packaging and customer incentives. However, the overall picture was one of lack of sophistication in marketing, with some notable exceptions. Although 10 of the 28 sample owner-managers characterised their firms as marketing orientated, there was no clear relationship between this and growth. Even within high growth firms, some indicated that they had low marketing orientation.

These findings may seem to contradict other research that suggests a strong link between marketing strategy and growth (e.g. Barkham *et al*., 1996; Mazzarol & Ramaseshan, 1998; Stokes, 2000). However, two issues must be considered when interpreting this result. Firstly, the degree of marketing orientation was a qualitative judgement and this was dependent on the owner-managers' personal understanding of marketing. Secondly, some of the owner-managers, particularly those with high-growth firms and a higher level of education, may have described their firms as having a low level of market orientation because they were aware of how it may be improved.

In general, the larger businesses were more likely to adopt proactive marketing strategies and develop wider and more efficient distribution channels and such businesses also tended to show higher growth. The smaller firms tended to cite resource limitations as the reason why they did not adopt marketing practices. Such firms carried out marketing activities on an informal basis with the significant participation of the owner-manager and direct contacts and referrals were predominantly responsible for acquiring additional customers.

It must be emphasised that, in common with other developing countries, marketing is not widely understood in Libya and many of the sample owner-managers had relatively low levels of education. In this sense, the findings support the conclusion of Winston and Dadzie (2002) that in other developing African countries many owner-managers tend to pay only lip service to marketing concepts.

A further finding is that most of the sample firms were reactive in their marketing, with a tendency for marketing initiatives to be driven by pressures and constraints, rather than on any conscious decision to penetrate a new market area or introduce a new product to market. For example, those firms experiencing significant delays in payment or intensive competition, such as from imports, were more likely to implement marketing-related activities. This was the case within the furniture manufacturing subsector, where there were numerous informal businesses operating with a competitive edge owing to lower costs and also a high level of imports. A business life cycle pattern could be observed within this subsector, whereby businesses tended to start with a mass marketing approach but later moved to a niche market approach, producing high-quality products aimed towards high earning consumers.

This tendency towards a reactive approach is typical of developing countries in which market demand outweighs supply (Dadzie, 1989; Appiah-Adu, 1998; Winston and Dadzie 2002) and this reflected the situation across a number of sectors in Libya. However, many of the small firms in the sample were ill-equipped to respond to increased competition and these findings reinforce the fact that owner-manager education and knowledge levels are fundamental to effective marketing activity. It was observed by the researcher that the majority of owner-managers held the view that they were suffering from knowledge inadequacy in regard to marketing, emphasising that this was an arena in which they needed further assistance.

5.5.4 Business planning

The majority of the businesses sampled (21 or 75%) had neither devised nor implemented a formal business plan. Moreover, it only a very small portion of these owner-managers considered it necessary to draw up a business plan. There was a very clear link between business size and formal planning. None of the smallest businesses had a business plan while the majority of the larger businesses did so. This reflects a widely reported finding that smaller businesses tend to use informal planning, often making decisions based on intuition (Unni 1994; Ennis 1998; O'Gorman, 2000; Schindehutte & Morris, 2001; Antoncic & Skrt, 2004). Owner-managers reported a number of reasons why they did not adopt formal planning, including inadequacies in terms of expertise and knowledge, resource shortages, inadequate support, and high levels of informal competition.

The businesses operating within the building materials and food subsectors were more likely to adopt business planning, whilst those operating within the wooden furniture, printing, plastic, metal and clothing and fashion subsectors were less inclined to do so. This finding may be explained by the fact that the building and food subsectors were experiencing high growth, owing to high market demand driven by government support, providing firms within them with the resources to make better use of planning. The majority of the businesses operating within the clothing and fashion, plastic, printing and paper, and metal subsectors were most severely affected by environmental uncertainty and demand shortages, and were therefore less inclined to adopt any form of planning.

The research found that formal planning had a valuable role to play in terms of high growth, those owner-managers who practiced business planning finding it useful to achieve the growth and success they desired. There was clear evidence that this strategy was successful, as all of the firms that practiced formal business planning had experienced growth, and all except one were in the high growth category. This confirms many other research findings, e.g. Robinson *et al*. (1984), Matthews & Scott (1995) and Mazzarol & Ramaseshan (1998).

Education was again a significant factor, with those owner-managers who had received university education having a business plan, whilst those owner-managers with lower education did not, supporting the conclusions of Mazzarol (2001). It was also found that business plans were more likely to be developed by those businesses that were newly established. Unlike new firms in developed economies, who tend to be required to submit a business plan by financial institutions (Risseeuw & Masurel, 1994; Hannon & Atherton, 1998; Perry, 2001), the owner-managers of these firms had adopted business planning in a bid to ensure growth.

Another finding related to the availability of bank funding in a number of the sectors. Although there is banking credit available through a number of commercial banking institutions, some owner-managers were nevertheless deterred from borrowing by the interest charged on loans and due to the fact that banks were more concerned with collateral such as property than their business plan. This further reduced the motivation of owner-managers to devise formal business plans, instead believing that expectation, luck and experience would, in time, fuel growth and success.

In summary, the findings with regard to planning are perhaps those which should cause the most concern to policy makers and owner-managers in Libya. It may seem that planning is a luxury only indulged in by successful small firms, whereas it is deemed a waste of time and money by firms faced with highly uncertain environments of unpredictable regulatory enforcement and informal competition.

The correlation between higher educational attainment and planning suggests that this is an area where policy makers should direct their attentions.

5.5.5 Skills and training

All of the sample businesses reported the use of some form of training, which was generally informal in nature. Only three firms used structured, formal training programmes, having implemented the ISO 9001 programme, which makes formal training mandatory. However, higher skill levels and systematic training were more of an aspiration for most of the owner-managers interviewed, who typically expressed a desire to provide training, but felt constrained by a lack of resources, access to high quality trainers and training facilities and a fear that investment in training would be lost through workers leaving to find better paid jobs. These findings are typical of many other studies, e.g. Storey & Westhead (1997), Kitching & Blackburn (2002), Robertson (2003) and Savery & Luks (2004).

Those businesses that did ensure that staff received formal training were both larger and within the high-growth category, thus suggesting that formal training may play a key role in supporting a higher level of growth. These findings are consistent with those of many other studies that highlight such a link (e.g. Storey &Westhead, 1997; Kerr & McDougall, 1999; Van Der Heijden, 2001; Huang, 2001; Nottinghamshire Research Observatory, 2002a; Patton & Marlow, 2002; Jones, 2004).

For all of the sample businesses, the predominant employment issues were found to be in the areas of employee commitment and skills, as well as the recruitment, selection and training practices implemented. Moreover, it was found that the majority of the firms in the sample had not devised or implemented effective policies to ensure staff retention, which undoubtedly impacted on the attitudes of owner-managers in regard to training and development. It is also worthy of emphasis that owner-managers often attributed the low level of employee skills to prior employment with state-owned institutions, thus increasing the need for training in order to achieve higher growth.

5.6 External Factors

5.6.1 Inefficient government regulations and lack of support

Two of the most fundamental factors believed by owner-managers to restrict growth were inadequate or inefficient government regulations and poor support. Importantly, these factors were emphasised as a prominent constraint amongst 7 of the 8 firms within the high-growth category; this is perhaps because such businesses had directed intensive efforts towards achieving growth only to find inadequate support afterwards. The attitudes of owner-managers whose firms were in the low growth and stable categories were more mixed, while all of the owner-managers of declining businesses stated that efficient regulations and support in this arena would enable them to achieve growth.

While the smaller small businesses voiced concern over the lack of efficient government regulations and support, the larger small businesses, on the other hand, did not. This could be explained by the fact that smaller small businesses are most predominantly affected by support- and regulation-related weaknesses owing to the fact that they do not have developed administrative and financial capacities.

The lack of government support was felt as being most severe by firms in the plastics and printing subsectors. An explanation of this is that these industries are having to cope with and overcome intense local competition, in addition to competition stemming from imports, most particularly from neighbouring Arab countries and from south east Asia. As a result, owner-managers of these firms reported an urgent need for support, in particular with access to funding, and adequate, effective regulations providing protection from imports, such as higher importation taxes.

The problems experienced by the sample owner-managers reflect research findings from other developing countries concerning lack of support (Soderbom, 2001) and weak regulation, encouraging the growth of the informal sector (Verspreet and Berlage, 1998). However, these problems have been made more acute in Libya by recent measures to liberalize the economy, while government support for small Libyan businesses has not advanced at the same rate, and small Libyan businesses are therefore exposed to strong foreign competition and an aggressive informal economy without the necessary protection of the state.

5.6.2 Inefficient taxation system

Perhaps unsurprisingly, most of the sample owner-managers (22 out of 28, or 79%) complained about the Libyan taxation system and felt that it was a constraint on growth. The study results suggest a positive relationship between firm size and perceived problems with taxation, with the larger firms highlighting the most significant problems. This can be explained by the fact that a large proportion of taxes may be evaded by smaller small firms owing to their small scale, whilst larger firms, are more likely to be in the focus of the tax authorities.

The owner-managers of firms operating within the clothing and fashion, printing, and plastics subsectors felt most significantly affected by taxation issues, with the wooden furniture, food, and metal subsectors impacted to a lesser degree. The least affected subsector was that of building materials, which could, once again, be owing to the fact that the state encouraged businesses within specific industries, especially the construction industry, to progress and achieve growth, with such firms provided with various incentive advantages, including tax and customs exemption.

A further effect of the inefficiency of the taxation system has been to encourage the growth of the informal sector, in line with conclusions of a number of authors (Bartlett & Bukvic, 2001; Smallbone & Welter, 2001; Aidis, 2003; Welter & Smallbone, 2003). The intensity of competition from the informal sector has had a major constraining impact on the growth of legally constituted firms across a number of sectors. The research suggests that the Libyan government could provide a substantial boost to the performance of small firms through adjusting the balance of taxation and improving the efficiency of collection in order to reduce evasion.

5.6.3 Government bureaucracy

The owner-managers of businesses in the medium-sized and larger size categories reported greater problems resulting from high levels of bureaucracy and concomitant corruption than did the owner-managers of smaller firms. The reason for this may be their higher visibility and the greater number of transactions carried out with governmental institutions, and also that the financial position of such firms was notably better than that of smaller small firms. As a result, procedures were commonly delayed as a consequence of bribe-related demands, with actions only initiated upon the payment of compensations and bribes. The activity levels of the smaller small firms were markedly lower than those of their counterparts, and a lower level of complexity involved in their transactions, resulting in a lower felt impact of government bureaucracy.

In summary, this factor can be seen as a major constraint to growth, because the growth of a small manufacturing firm in Libya carries with it the risk of drawing bureaucratic attention to the firm, and making demands for tax, licence fees and the bribes necessary to facilitate much official business more likely. Clearly, owner-managers have a difficult decision to make in such a context, and the costs of these additional bureaucratic requirements must be factored in to any growth plan. This dilemma of growth was felt by several owner-managers in the sample, bearing out findings from other studies (de Soto, 1989; Bartlett & Bukvic 2001; Trulsson, 2002).

To conclude**,** the findings with regard to problems with bureaucracy illustrate the hold that public sector jobs have on the Libyan employment field. In the 1970s and 1980s huge government departments were formed to provide employment to Libyans and ensure the distribution of oil incomes to the population at large. However, many of these jobs are not productive, or in many cases even necessary, and the effect of this weight of bureaucracy on a more open economy attempting to encourage private enterprise is a profoundly negative one.

5.6.4 Late payments

The study findings suggest that debtors making delayed payments of invoices had a significant impact on firm growth, with the smaller small firms apparently experiencing more serious problems when compared with the larger sample firms. These firms often had inadequate financial resources and so could not afford to wait for long periods of time before debts were settled, a problem which tended to have a serious impact on their production cycle.

The fashion and clothing, printing and paper, and plastic subsectors were the most severely affected by delayed payments. This is because firms in these subsectors were experiencing problems with demand as a result of competition from imports, and pressures on cash flow meant that they were less able to deal with delayed invoice payments. The research also found that those businesses achieving high growth voiced this concern most commonly. One explanation is that, in search of sales growth, such firms opted to extend credit to their client base, which subsequently incurred additional delays, thus limiting the growth achieved.

The worst problems of late payment arose when making sales to public sector organisations. In this respect, the impact of delayed payments is closely connected to that of government bureaucracy: Libyan state institutions are cumbersome and slow by design, and they were intended to be complex and over-manned to provide sufficient employment. This was sustainable in a command economy with massive oil revenues, but now acts as a drag on a more liberalized economy, and urgently needs to be reformed.

5.6.5 Corruption

Corruption in Libya is widely recognised as a problem, the country ranking only 146th in a league table of transparency (Transparency International, 2010). The extent of this corruption has deterred the entry of some global companies, despite the attractiveness of Libya as a market and production base.

Perhaps unsurprisingly, most of the respondents reported problems with corruption, with the owner-managers of the smaller firms emphasising its severity, confirming the findings of Bartlett and Bukvic (2001), Beck et al. (2002) and Aidis (2003). This is explained by the fact that such firms have limited resources and capabilities, and when required to pay bribes during the course of their transactions and procedures, this causes not only delays but significant financial problems, which ultimately hinders their progress when seeking to establish growth.

An apparent paradox in the findings is that the high growth firms seemed to be the least affected by corruption. This can be explained by their greater overall financial capabilities, which allows them to fund the necessary bribes and compensation payments. Owner-managers of these firms tended to see corruption as simply an element of doing business in Libya, with some even suggesting that it has an ultimate benefit in deterring global firms from entering the market. This phenomenon was observed by Fisman and Svensson (2002) in a study in Uganda.

The research also found that the constraining impacts of corruption were the most severe amongst firms operating within the building materials, plastic, and metal subsectors. This is because these firms depend on public institutions to source the majority of their raw materials and were accordingly required to deliver bribes, or otherwise bear the purchasing costs from the market at far more expensive prices.

In summary, the research suggested that corruption in Libya is so endemic that the firms who could afford to simply built it into their budgeting as an additional expense. Corruption was seen as inevitable, and even by some respondents as a positive thing in that it would deter foreign investors from entering the Libyan market. Smaller small firms and companies involved in sectors facing a lot of competition from the informal economy were worst affected, but there was not a single firm in the survey that did not identify corruption as a drag on growth.

5.6.6 Lack of access to finance

The majority of the owner-managers in the sample voiced a concern regarding a lack of access to finance. This is explained by the fact that owner-managers of small Libyan businesses generally have to depend on their savings and earnings or the contributions of their family or friends because of their inability to gain such finance. However, these savings and earnings were necessarily limited, and not all owner-managers had a family member or friend with capital who was willing to contribute to their business.

In this situation, owner-managers have been forced to resort to other methods, such as purchases on credit in an attempt to overcome cash flow-related problems. This particular approach has become commonplace between Libyan owner-managers, who are often required to take raw materials from traders through such a method, with the credit period lasting between three and six months. However, not all owner-managers in this position are able to gain access to trade credit as this requires trust and a sound business history, in addition to a good personal reputation of the business owner-manager.

The owner-managers most keenly feeling the effects of lack of access to credit were those in the high growth and declining categories. High-growth firms require liquidity to fund increases in investment and working capital, especially with high levels of credit sales and seasonal demand, whilst declining firms may need to make use of credit as a means of overcoming cash flow problems arising from their need to offer credit sales in order to maintain turnover. In contrast, the owner-managers of the longer-established firms voiced fewer concerns regarding credit, as these businesses had typically earned a good reputation and a reliable client base and were this more likely to either be granted credit or to be able to attract external investment.

There were substantial differences across subsectors in terms of problems with access to credit, with building materials firms and food producers having the fewest problems with access to credit and thus with liquidity. Manufacturers of building materials had benefitted from the construction boom, while food producers had become acknowledged as one of the most successful sectors owing to their overall competitiveness, price and quality, which has facilitated their position to achieve a competitive edge and gain success and growth. Business angels are more likely to become involved with such businesses, and banks are similarly more inclined to offer finance and credit, which in turn helps to further boost the businesses within these sectors.

Some owner-managers felt unable to seek credit and loans from banking institutions, because of the interest system, which is prohibited under Islamic law. An alternative option is a loan from the Libyan State Industrial Development Bank, which provides loans to small manufacturing firms without the implementation of interest, using the Islamic finance tool *Al-Morabaha*, which all of the interviewed owner-managers said they would prefer. Unfortunately, due to corruption it is very difficult to obtain this type of funding, and even if owner-managers obtained loans to fund investment, they could not then obtain further funds to provide working capital for their businesses.

When credit or finance could not be achieved by these means, another method adopted by some owner-managers was that of business angel partnerships. However, investment risk is recognised as being high amongst newly established small businesses, and so business angels are known to avoid investing or otherwise becoming involved in such businesses, which tended also to be those most in need of additional funding.

When owner-managers found all of the other routes to finance closed, they were driven toward interest-bearing commercial bank loans as a last resort to save their businesses. However, the banks tend to view firms in this position as significant risk and, in combination with the weak legal system within the country and a lack of credit history for these firms, banks tend to fear that they will be unable to recover their loans. Moreover, in addition to a 6% interest rate, the banks usually require substantial collateral, equivalent to 125% of the total loan value, as a means of guaranteeing the loan. Often, however, such small businesses requiring finance do not have sufficient collateral and are unable to borrow even at commercial rates of interest.

Without question, the research has revealed that a lack of access to credit is a significant problem in the context of small Libyan firms, particularly within the less successful subsectors. One the one hand, this is almost a universal problem, highlighted by many studies conducted in many parts of the world (e.g. Pissarides, 1998; Mookerjee, 1999; Kimuyu & Omiti, 2000; Soderbom, 2001; Ayyagari et al., 2003; Brinders et al., 2003; Eifert & Ramachandran, 2004; Biesebroeck, 2005). On the other hand, there are special factors in the Libyan context that make the problem even more acute:

i. the lack of adequate sources of investment finance to Libyan businesses in forms acceptable to their beliefs and traditions.
ii. the lack of trust in the legal and regulatory framework that makes private investment too risky for all but close relatives and friends of the owner-manager.
iii. the prevalence of corruption, even in bank lending.
iv. the cultural requirement for trusted relationships that limits access to bank funding where there is no prior relationship.

The overall situation is that finance through credit and loans is at an immature level within Libya. This may be attributed to a range of political, social and even religious causes, some very deep-rooted, but it is an area that requires urgent attention if rapid economic development is to become a reality. Libya must achieve a virtuous circle of easier access to business finance leading to faster growing firms producing more goods which consumers are able to buy through personal finance methods such as credit cards and hire-purchase arrangements. Banks in Libya must decide how this can be achieved while providing products compliant with Islamic law, and further research is needed on what it is that Libyan consumers and business people want from their banks, and how this can be achieved in the best interests of the whole of the country.

5.6.7 Competition from imports

The study found that competition from imports is a concern most predominantly voiced by owner-managers of the smaller firms and those that are either stable or declining. The larger and growing firms seemed to be impacted to a lesser degree, which can be explained by the fact that they are in a better position to handle competition, through a stronger competitive advantage or greater resources. The smaller, stable and declining firms, on the other hand, may not be in possession of competitive and financial capabilities to allow them to overcome such competition.

There were differences across subsectors, with the highest impact from imports felt by businesses operating within the clothing and fashion, printing, plastic, and metal sub-sectors, with imports from Arab and Southeast Asian countries. Owner-managers operating within the building, food, and wooden furniture subsectors voiced concerns in this arena to a much lesser degree. This can be explained when considering the problems associated with such products being imported from abroad, as shipping costs may be considerable. As highlighted previously, the Libyan food sub sector has become sufficiently competitive to ward off imports, while the wooden furniture manufacturers compete by offering customised and niche products.

The problems of small Libyan manufacturers posed by competition from imports reflect a common pattern among developing countries pursuing policies of economic liberalisation (Goedhuys and Sleuwaegen, 1999; Dinye and Nyaba, 2001). This has been the case in Libya, whose government decided that an open economy would provide a number of new employment opportunities, increase internal competition between businesses, and encourage them to export to other Arab and African states. However, this process has resulted in a wave of cheap imports, which has caused the small firms operating within the Libyan market to face ever-increasing competition.

In a modern globalized economy, imports will always represent a threat to domestic production but the findings of this study indicate that Libyan businesses are less able to compete because of other constraints, both state and private, that are limiting their ability to compete with foreign manufacturers. Where competition is possible, Libyan firms are adopting defensive strategies and seeking niche market opportunities, which must be a situation of concern to policy makers.

5.6.8 Inadequate infrastructure

The research highlighted the problem of an inadequate infrastructure, which has a notable impact on the growth of firms. Owner-managers of the firms within the growth and high-growth categories, and those in the larger size category cited this issue as significant, whilst those in the stable and declining categories did not. The explanation of this may be the fact that many high-growth firms seek to drive growth by expanding location, at which point a number of obstacles may be experienced, such as permits for new locations, reliable sources of electricity, a lack of industrial zones within the capital, etc. Frequently, these problems could only be overcome through paying bribes or otherwise making use of personal relationships.

Another infrastructural problem cited was of the unreliability of utilities such as electric power supply, causing, financial problems owing to lost production, let down clients and damaged customer relationships. Such problems were more keenly felt by the larger small firms, which typically possess a greater number of resources such as machines with high power consumption. Accordingly, it was necessary for owner-managers to operate only part of their machinery, which sometimes impacted on the operations of the business as a whole, restricting its activities.

Weaknesses of infrastructure are widespread problems in developing economies (Reinikka & Svensson, 1999; Rankin *et al.*, 2002; Wolff et al, 2004). However, Libya is a relatively wealthy, oil-producing country and despite the state's expenditure on large-scale and extremely expensive prestige infrastructure projects (e.g. the great man-made river), many of the fundamentals of Libyan infrastructure remain weak, especially electricity supply and telephone networks.

5.6.9 Shortage and instability of skilled labour

The findings suggest that a shortage of skilled labour is a serious problem among small Libyan manufacturing firms, with 23 (82%) of the 28 sample owner-managers citing it as an important constraint on growth. The larger firms seemed to suffer the least from this problem. A reason for this is that they tended to offer higher salaries and carry out more training, whereas when a skilled worker left a smaller firm, this created a gap in production lines and there was rarely a ready-made replacement in the factory. The scarcity of skilled workers in most industrial subsectors led to competition for these workers among manufacturers in the form of financial inducements, leading to instability in the work of manufacturers: this problem was compounded by the weakness of laws protecting the rights of owner-managers of the firm versus the worker, and vice-versa, which even if they existed, were ineffective and erratically enforced.

Problems associated with the lack and instability of skilled labour were most keenly observed amongst printing, metal, wooden furniture, clothing and fashion sub-sectors, whilst those operating within the food, plastic and building sub-sectors were less severely impacted. The explanation for this is that these sub-sectors are more heavily dependent on skilled manual workers as well as machines, while the building materials industry, plastics and food industries are less dependent, making greater use of machinery.

It is clear from the findings that the shortage of skilled workers in Libya is increasing the cost burden on small manufacturing businesses and leading to constraints on growth. Small businesses faced with the prospect of investing in training an unskilled worker and the losing him or her to a better capitalized competitor are simply refusing to do so, and maintaining a low level of output because they see no prospect of a return on their investment in training.

Research suggests that the patterns of employment among Libyan small firms are common to many countries, in that they tend to recruit less skilled workers, have problems with retention and are less likely to offer training (Storey & Westhead, 1996; Trulsson, 2002; Owusu, 2007; Doern, 2008; Kotey & Folker, 2007). However, one of the main factors responsible for the lack of skilled labour is the government's failing to provide adequate and modern training facilities for young people interested in building a career within industrial sectors. Most training establishments within the country are old in terms of the technology and methodology available, with the government seemingly uninterested in implementing any form of modernisation within such establishments; accordingly, the current market needs are not fulfilled by their outputs. This has resulted in the training delivered by the centres being considered weak and inadequate, with the country subsequently suffering from poorly skilled labour.

5.6.10 Competition from informal businesses

In common with many developing countries, informal (non-legal) firms proliferate in Libya, existing mostly outside the capital. They do not comply with any permits, do not pay taxes or fees for water and electricity and mostly are not subject to quality control and monitoring. The research revealed that the impacts of competition from informal businesses affects both firm growth and overall firm size, with competition from the informal sector felt most keenly by the smaller firms and those struggling to achieve growth. Conversely, the owner-managers of larger and growing firms were less likely to see the informal sector as a serious constraint on growth.

The reason for this difference is that smaller small firms have a limited ability to compete with informal firms; due to the simpler nature of their production processes, the effort of lowering their costs was difficult and also involved lowering their profits, making competing with informal firms a very tiring process, impacting on their profit margins and growth. In contrast, the larger firms in the sample had valuable resources at their disposal, including expensive machinery, which gave them an edge over informal businesses, which were clearly not in a position to acquire such resources.

There were clear differences between sectors, with the clothing, wooden furniture and metal subsector firms most significantly affected by informal business competition, the reason being that the entry barriers were lower in terms of initial capital investment. This encouraged illegal investors to begin this type of business, especially outside the capital in the countryside and villages, as the supervision of the government in these areas is very weak. They begin these businesses without permits, without paying fees for water and electricity and by means of bribes and personal relationships. At the same time, they sell their products at the market inside the capital and mostly manipulate processes to increase their profit margin.

This research confirms the argument of several authors who make the point that the informal sector is able to significantly limit the growth of firms in the formal sector through price competition, particularly in developing countries (De Soto, 1989: Tybout, 2000; Kuchta-Helbling *et al.*, 2000). These findings confirm the urgent necessity for the Libyan government to take control of its regulatory framework and enforce the protections already nominally in place for small businesses. Unless this is achieved, the threat from illegal competitors will continue to make the establishment and development of new businesses extremely difficult.

5.6.11 Socio- cultural factors

This social and cultural issues nominated as problematic by the sample owner-managers were those surrounding work ethic, loyalty and reliability, and the tendency to prioritise family concerns over the workplace. Owner-managers were aware of the responsibilities felt by Libyan workers to take time off work to attend important social functions within the family and extended family group, such as weddings, funerals, religious festivals and other social gatherings, but complained about the impact of this on their businesses. This was a special problem where employees were also family members, especially where the family was also a source of funding. Many employees had previously worked in the public sector and some owner-managers blamed this for a lack of work ethic and commitment among their workforce.

The research suggested that the smaller small firms are most significantly impacted by this factor. The explanation for this is that due to their limited number of workers and their limited financial capabilities, when there is any disturbance in work compliance and attendance from workers, especially if they are family members or from the extended family, this created a problem and delay at work and hence, hindering production in the factory. The same firms were also more likely to use family funding, and hence there was an obligation to other members of the family and their friends, especially in terms of hiring workers in the factory.

A number of researchers have suggested that socio-cultural factors, particularly those concerning strong family loyalty, may inhibit the growth of firms in Africa and in other developing countries (e.g. Takyi-Asiedu, 1993; Kiggundu, 2002). As has been highlighted previously, these family loyalties are particularly strong in Libya but the country also suffers from having had a very large public sector, which has had a harmful impact on working efficiency.

In summary, this is an area where the influence of the government is limited. Instilling a more stringent management oversight of government institutions might have a beneficial effect in this context, but at heart these are issues that will be changed, if at all, only by the Libyan people themselves, and gradually over time. The findings of the study and the observations made throughout the field study period suggest that these issues constitute a serious problem for small manufacturing businesses and a major drain on national productivity.

CHAPTER SIX: CONCLUSION

6.1 Introduction

The main aim of this research was to explore and to understand the factors which influence the growth of small Libyan manufacturing firms from the owner-managers' perspective, through revealing and interpreting the most salient aspects of their attitudes, perceptions and experience relating to the growth of their small firms.

The objectives associated with the research aim were:

i. To explore the influence of the owner-manager in facilitating or constraining growth, in terms of background, characteristics, skills and behaviour.
ii. To explore the impact of firm characteristics on growth.
iii. To explore the impact of business strategies and decisions on growth.
iv. To explore the factors in the external environment that constrains or support growth.
v. To develop a conceptual model highlighting the influences of factors specific to the growth of the Libyan small manufacturing firms.
vi. To make tentative recommendations concerning the support of Libyan small firms in achieving growth and contributing to the economic development of Libya.

This study has been successful in fulfilling the objectives outlined above, and has also helped to develop a good understanding of, and rich insights into, the growth of small Libyan manufacturing businesses. Moreover, the research has also identified a number of obstacles and problems facing the owner-managers of such Libyan businesses when seeking to ascertain growth.

In this chapter, the key findings are highlighted and analysed in terms of the degree to which they are in conformance with other research findings, whether in general or with research specific to developing countries. The findings that reflect issues specific to Libya are identified and subjected to further analysis in order to provide an integrated understanding of the contextual factors that tend to support or inhibit the growth of small firms in the country.

The knowledge contribution of the study is highlighted and the limitations of this study are considered. The implications of the study for future research and for government policy are discussed, with tentative recommendations made for future government policy and support for the small firm sector and for owner-managers of Libyan small businesses. The chapter concludes with a personal reflection by the author.

6.2 Summary of key findings

In broad terms, this research has shown that a large number of factors support and constrain the growth of small firms in Libya. As shown in Table 5.1 below, some of these are common to many developed and developing countries, such as owner-manager growth aspirations, a family business background, strong personal networks and an urban location. Others are common to many other developing countries, such as the impact of economic need on motivation, lack of management education, shortage of skilled labour, lack of government support, an undeveloped financial system, poor infrastructure, corruption and competition from the informal sector. Some reflect particular issues in the Libyan context: these are highlighted in the right-hand column of Table 6.1.

Table 6.1: summary of key findings

Influencing factor	**Supports growth** Level of importance	**Constrains growth** Level of importance	**Common to many countries**	**Common to many developing countries**	**Special issues in Libya**
Owner-Manager Characteristics					
Growth aspiration	Very Important	Important	✔	✔	✔
Motivation	Important	Inconclusive		✔	✔
Education level	Very important	Quite important	✔	✔	✔
Age	Important	Important	✔	✔	
Prior industry experience	Very important	Quite important	✔		✔
Gender	Inconclusive	Quite important		✔	✔
Prior managerial experience	Quite important	Very important			✔
Family business history	Very important	Quite important	✔		✔

Portfolio ownership	Inconclusive	Quite important		✔	✔
Personal networks	Very important	Important	✔	✔	✔
Firm characteristics					
Age of firm	Quite important	Quite important	✔		
Size of firm	Important	Important	✔	✔	✔
Sector (and sub-sector)	Very important	Very important			✔
Location	Very important	Very important	✔	✔	✔
Number/relationship of founders	Very important	Very important	✔		✔
Appropriate legal status	Inconclusive	Important	✔		✔
Business strategy					
Product innovation	Quite important	Inconclusive	✔	✔	
Process innovation	Important	Quite important	✔	✔	
Business planning	Very important	Quite important	✔	✔	
Marketing strategy	Important	Inconclusive	✔	✔	
Employee skills and training	Important	Quite important	✔		✔
External factors (as constraints)					
Inadequate infrastructure	Inconclusive	Very Important		✔	
Inefficient taxation system	Inconclusive	Important		✔	✔
Government bureaucracy	Inconclusive	Important		✔	✔
Legal system/ Inefficient regulation	Inconclusive	Very important		✔	✔
Lack of government policy/support	Inconclusive	Important		✔	✔
Late payment of invoices	Inconclusive	Quite important	✔		✔
Corruption	Quite important	Very important		✔	✔
Lack of access to finance	Inconclusive	Very important		✔	✔
Shortage, Instability of skilled labour	Inconclusive	Very important		✔	✔
Competition - informal businesses	Inconclusive	Important		✔	✔
Competition – imports	Inconclusive	Very important		✔	✔
Socio-cultural factors	Quite important	Quite important		✔	✔

As can be seen from Table 6.1, the study found that Libyan small firms were subject many of the same influences, both positive and negative, as those in other parts of the world, as documented by a substantial amount of prior research. Moreover, it was confirmed that the Libyan business environment shares many characteristics with other developing countries, unfortunately many of them exerting a negative influence on growth. Beyond these broad similarities, however, there were many issues raised that are specific to the Libyan environment – these are highlighted in the right-hand column of Table 6.1 and discussed in 6.3 below.

6.3 Influencing factors specific to Libya

In Table 6.2 the Libya-specific factors from Table 6.1 are tabulated, together with with an explanatory commentary for each factor.

Table 6.2: Influencing factors on growth specific to Libya

Influencing factor	**Special issues in Libya**	**Notes**
Owner-Manager Characteristics		
Growth aspiration	✔	Strongly influenced by chages in government policy
Motivation	✔	Motivation for self-employment influenced by bloated public sector and under-developed private sector, both with relatively low pay
Education level	✔	Higher education plays important role in building relationship networks
Prior industry experience	✔	Industry experience critical for relationship-building
Gender	✔	Women disadvantaged in relationships/networks Family relationships/responsibilities very powerful
Prior managerial experience	✔	Public sector employment limits skill development
Family business history	✔	Very powerful impact/engagement of family Family often critical to networks and funding
Portfolio ownership	✔	Portfolio ownership a hedging strategy in Libya because of changes in government policy, rather than growth/entrepreneurial strategy
Personal networks	✔	Extremely important in Libya because of role of family and kinship and general lack of trust beyond established relationships

Firm characteristics		
Size of firm	✔	Larger firms better able to deal with public sector bureaucracy and corruption and withstand competition from informal sector
Sector (and sub-sector)	✔	Sector performance strongly driven by changing government policy
Location	✔	Urban-rural division very strong in Libya – rural location disadvantaged by poor infrastructure, weak legal enforcement and strong informal sector
Number/relationship of founders	✔	Shared ownership with family members and close friends due to need for support networks and lack of trust
Appropriate legal status	✔	Formal sector disadvantaged by large and poorly regulated informal sector – problem exacerbated by corruption
Business strategy		
Employee skills and training	✔	Bloated and inefficient public sector responsible for general shortage of skills
External factors (as constraints)		
Inefficient taxation system	✔	Inconsistent enforcement of taxation, with larger firms disadvantaged because of greater visibility
Government bureaucracy	✔	Bloated and inefficient public sector designed to create employment, funded by oil wealth
Legal system/ inefficient regulation	✔	Poor and inconsistent enforcement of regulations, particularly of informal sector, with widespread corruption
Lack of government policy/support	✔	Under-developed and inconstant enterprise support, with frequent policy changes
Late payment of invoices	✔	Serious problem for smaller and weaker firms, exacerbated by over-use of trade credit
Corruption	✔	Endemic corruption within public sector, particularly with respect to government contracts and enforcement of regulation Larger firms better able to deal with bribery demands
Lack of access to finance	✔	Undeveloped financial services sector, with lending complicated by bureaucract, requirement for prior relationships and corruption No Islamic finance, despite strong felt need
Shortage, instability of skilled labour	✔	Generally low skill levels from public sector employment Low commitment to employer because of conflict with family loyalties and responsibilities
Competition - informal businesses	✔	Very strong informal sector competition for some sub-sectors, with waek and inconsistent regulation Limiting factor to innovation and growth in some sectors

Competition – imports	✔	Strong competition but made unpredictable by frequent changes in governmnet policy
Socio-cultural factors	✔	Pervasive impact of criticality of family and kinship ties General lack of trust beyond established relationships

Table 6.2 higlights a number of recurring themes:

i. The criticality of family, kinship and established relationships in Libya, coupled with a general lack of trust of others beyond these relationships.

ii. The continuing impact of a public sector that was designed to create employment, breeding bureaucracy, inefficient ways of working and a low work ethic.

iii. The impact of rapidly changing government policy that has not been combined with adequate support or legal enforcement.

iv. A large informal sector whose growth has been encouraged by economic growth, by some of the changes in policy and by weak legal enforcement.

v. A high level of corruption that is embedded in the working of many state organisations and also extends into the private sector.

vi. The all-pervasive importance of personal relationships, which brings some benefits but also tends to support corruption, limit access to finance, confuse employee commitment and limit recruitment and skill development.

Unfortunately, the overall impact of these Libya-specific factors is negative, perhaps extremely so. Nevertheless, the research has also shown how some small firm owner-managers cope with these issues and manage to grow their businesses, for example in developing competitive strategies and dealing with bureaucracy and corruption. Other owner-managers, however, are struggling to survive in the face of competition from imports and the informal sector, delays in payment, labour problems and inadequate funding that not only hinders investment but limits their ability to pay essential bribes.

A further factor of great importance that has not yet been mentioned in this thesis is the recent revolution and the political changes that have followed. At the time of writing there are many uncertainties that have yet to be resolved and it is not yet clear which direction the new government will take. Whatever the political outcomes, the new administration will have much work to do in resolving the issues that have been highlighted in this research.

6.4 Contribution to knowledge

The outcomes of this research will help to provide further substance and value to the current body of literature in a number of different ways:

i. New insights have been generated in regard to the influences, both internal and external, on the performance of small businesses operating within a developing country with a complex social and political environment.

ii. New insights have also been generated in regard to the interplay and interdependence of these influences.

iii. A rich picture has been developed of the impact of these influences on small firms and of the strategies that are used to deal with them, through the eyes of their owner-managers.

iv. The research has also shown how some aspects of culture can have an all-pervasive effect on small firms, their external environment and the attitudes and behaviour of owner-managers.

6.5 Implications for Policy

As highlighted throughout this conclusion, the new government of Libya will face a large number of issues of concern with regard to the growth and development of small enterprises. The following are tentative recommendations for future policy, informed by this research.

6.5.1 Stronger regulation and curtailment of corruption

Policy makers in the new Libya must decide whether its economy can best be rebuilt by a dependence on business-as-usual, or if strong regulatory administration and a determined effort to curtail corruption can provide and environment where a wider range of Libyans feel able to start their own business and cease their reliance on public funds for their income.

Policy makers must consider how the problem of corruption in Libyan life can be tackled. Addressing this problem will be a task requiring many small, incremental advances and a general rise in pay and conditions for those workers who remain in the public sector after reform of employment levels.

6.5.2 Support for small firms

Future policy makers need to consider the assistance they offer to small manufacturing businesses as part of the totality of government policy, and recognize that while the adoption of liberal economic policies as a move towards global economic integration, small businesses in a developing transition economy also need support and protection if they are to grow and prosper in the future. Consideration should be given to what can be done to protect firms from imports, without damaging Libya’s reputation for economic openness, and to encourage exporting by Libya’s manufacturers.

Policy makers urgently need to reconsider the help and support given to businesses seeking to grow, and should at the very least ensure that state institutions do not represent a barrier to growth.

6.5.3 Reform of state institutions

Policy makers should urgently consider what measures might be implemented in the short term to reform state institutions, whose activities are an important constraint to small businesses through bureaucracy, inefficiency, late payments and corruption.

6.5.4 Reform of education and training

In terms of the future of education in Libya, policy makers should take heed of the advantages higher education brings, but also recognised that the Libyan education system is skewed towards the teaching of humanities subjects and that a greater emphasis on the teaching of management and technical skills is required.

In terms of further education and training, the level and quality of technical and vocational training in Libya needs to be raised, so that Libyan companies can develop the business and technological skills to compete with the foreign imports entering the country. As a specific point, policy makers in Libya should consider how they might encourage the use of international quality standards, such as the various forms of ISO certification.

6.5.5 Legal enforcement

Policy makers need to consider how business people of both genders can feel confident that the business they build will receive sufficient protection from the state to make its growth worthwhile. Legal enforcement of property rights and contracts must be tightened to protect the personal investments of business owners and the effectiveness of the patent protection available to Libyan innovators should be improved, so that new product ideas will be protected from imitation for a reasonable period, with that effective sanctions to enforce this.

6.5.6 Reform of business taxation

Urgent reform is needed of the levels of taxation imposed on businesses and the way that taxes are collected. The present situation of punitive and inequitable tax enforcement is not sustainable, and only ensures a thriving informal economy and tax avoidance. This study’s findings suggest that tax exemptions for start-up firms and consistent, realistic tax regimes for all established companies would allow significant growth to occur in private sector manufacturing in Libya.

6.5.7 Reform of business banking

Banks should be freed from regulatory constraints to research what products their customers want, and to provide them within the bounds of ensuring a good return on investment. Consideration should be given to the introduction of Islamic forms of bank lending.

6.5.8 Investment in infrastructure

Policy makers considering the area of infrastructure spending should decide where their priorities lie; if the economy is going to pitch itself more to attracting tourism and business visitors, large-scale infrastructure projects are necessary; however,if the manufacturing sector is to be encouraged, basic infrastructure such as suitable electricity supplies, telecommunication networks, and good roads need to be extended and upgraded, to cover areas outside the large metropolitan centres is essential. There is also a need for dedicated manufacturing zones (industrial parks) near to the main cities and sea ports, where small companies can find all the facilities they need such as high voltage electricity, sufficient storage space, worker accommodation, security, and adequate water and sewage provisionStudy Limitations

All research has some limitations and this study is no exception. The first part of the following discussion reviews the overall generalisability of the results as being illustrative of small businesses in Libya or elsewhere, whilst the second part focuses on specific issues within the research design.

6.5.9 Generalisability

The sample comprised 28 owner-managers of small firms based in Libya, all of which were located either in Tripoli or Misurata. The sample included only firms operating within the manufacturing sector, but seven different subsectors were represented. It would thus not be appropriate to generalise the findings to the overall small business population within other sectors. Moreover, although efforts were made to ensure diversity within the sample, including a broad range of businesses in terms of age, size and owner-manager characteristics, it cannot be claimed to be representative of the sector. However, as the research progressed, consistent patterns emerged, particularly with regard to the impact of external factors on business growth, such as bureaucracy and corruption in state institutions, the lack of skilled labour, owner-manager perspectives regarding government policies and the role played by family and personal connections in all walks of life. In the light of the author's own knowledge and experience and other sources, he can be reasonably confident of the generality of most of these findings. It is acknowledged that a larger sample may have generated additional insights but limitations of time and other resources prohibited this.

Another, broader question to be considered is whether the findings may be generalised to other countries. On the one hand, it is recognised that a number of Arabic countries, particularly those in North Africa, do have similarities with Libya in a number of different regards, such as culture, language, religion and social life. On the other hand, however, all of these countries differ greatly from Libya in terms of economic and political history, culture and economic structure, meaning that generalisation would be problematic.

6.5.10 Other limitations

Further limitations of the study include the following:

i. Some of the owner-managers owned and operated more than one business and researching each of these could have provided a more rounded picture. However, for reasons of available time, only one firm owned by each individual was researched.

ii. Only one growth measure (employment growth) was utilised, despite the fact that a number of scholars state that, whenever possible, multiple growth measures should be adopted (Davidsson et al., 2006) so that triangulation can be applied using both financial data and employment-based growth data. While this would have been more important in a large-scale quantitative survey, the use of in-depth, face-to-face interviews enabled the researcher to build a rich perspective of each firm's development.

iii. There was no inclusion of small businesses that had failed. This may have yielded additional, valuable data on the more acute problems faced by small businesses.

iv. The nature of the government that was in power during the fieldwork, and had been in power for some forty years, had the effect of limiting trust and making individuals cautious in their dealings with strangers. This had an impact on the relationship between the researcher and the interviewees and had an impact on openness, particularly in the early stages of interviews.

However, in each case, the owner-managers became more relaxed as the interviews progressed and the author is confident that this did not have a serious impact on validity and reliability.

Despite the aforementioned limitations, however, it remains the author's view that this study does make a significant contribution to the literature and also provides valuable insights for future policy-makers. Furthermore, the researcher hopes that this work will provide a foundation for future studies, particularly those carried out in Libya. The following section includes some ideas regarding this future research.

6.6 Recommendations for Further Research

This study has made a useful contribution to the understanding of issues in regard to the growth of small businesses within the context of Libya. Nevertheless, it can only provide a limited picture, so a number of suggestions are made below with regard to future research in this field:

6.6.1 Longitudinal research

Owing to the research limitations, namely modest financial resources and restricted time, longitudinal research could not be carried out. It would be particularly valuable to conduct longitudinal studies in which the growth of small firms could be explored over an extended period.

6.6.2 Other sectors and locations

For the same reasons, it was not possible to consider other sectors and locations within the country. As such, samples from other sectors and locations should be considered in order to provide greater support to the study findings.

6.6.3 Quantitative studies

Where significant issues have emerged, larger-scale quantitative studies would build on this research and extend it to other parts of the business population.

6.6.4 Comparative research - other economies

Comparative research into the growth and success of small businesses in economies similar to Libya’s would be helpful. In particular, such research should aim to explore the impact of government policy and institutions and explore the effectiveness of state assistance to small firms.

6.6.5 The informal sector

There is an urgent need for a better understanding of the informal sector in the Libyan economy. Although it would be difficult to conduct, further research would be very useful in informing policy towards this sector, particular in regard to bringing as many firms as possible into the formal economy.

The study emphasised the small number of female-owned businesses in Libya and revealed that female owner-managers in Libya have to deal with additional restrictions and problems in terms of dealing with the external business environment, gaining access to management skills, and building up and subsequently managing personal networks owing to cultural and religious barriers. Accordingly, it is suggested that further research should be carried out in order to explore these in greater scale and depth and to generate possible solutions to these problems.

6.7 Personal Reflection

The author’s doctoral research has been a challenging process, particularly in the light of revolution and war in his home country and being separated for a long period from his family and friends. However, it has been a very powerful learning experience, which has provided further insight into the following issues:

- The need to provide a sound defence to an argument, and how to construct one.
- The importance of methodological issues in the case of all studies.
- The value of qualitative approaches and the fact that they may in their own right fulfil research objectives.

- The fact that all well-managed methodologies are capable of producing beneficial results.

- The complexity and difficulty of interpreting and analysing qualitative data.

- Data collection can be very challenging, requiring considerable skill on the part of the researcher to overcome barriers, develop trust and to make the interviewee sufficiently at ease to provide valid data.

- How research results can help to deliver a greater understanding of the phenomenon under investigation at various levels. In this regard, how multiple factors interact to influence the growth and development of small firms in Libya and how this may be understood in the broader context of Libyan society, the economy and government policy.

Importantly, however, this overall research process has resulted in a greater degree of understanding, confidence and independence, all of which have enabled the researcher to progress on a personal journey of self-discovery and learning.

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APPENDICES

Appendix 1: Libyan Economic Policy and Development

App 1.1 Deficiency Indicators in the Libyan Public Sector Businesses

Through the references of national reports for human development for the year 2002, the continual decline of the public services in the governorates reflects how the public businesses suffer from malpractice. This has negatively affected the opportunities of refreshing the national economy and has not led to encourage the attraction of overseas and local investment. It negatively affected the potential for achieving positive rates for economic growth. As mentioned in the National Report for Human Development (2002), the quality of public services had an impact on the cost of local transactions, access to information, reducing the profitability, output, and use.

The most important of the questions of continuing malpractice in the public economic institutions is the great challenge of demanding high quality services which these institutions lack and this need has increased in the era of economic knowledge and the shifts that the global economy is witnessing.

The national report of human development proves that the continuation of these practices in the public sector and its permanence on the future term will lead to more mistrust and decline in the effectiveness in the public services. As a result the National Report (2002) has suggested submitting these services completely to the private sector, or through partnership with the private sector.

In the context of the governorates' role (local level), the success of the private sector businesses and especially the small one is subject to the following:

i. The provision of suitable infrastructure and markets.

ii. Facilitative and supportive legislation.

iii. A domestic sector that has competitive ability and tendency for investment.

iv. Ability to provide options and competition for the benefit of consumers.

v. Providing fund program and loans guarantees.

Despite these aspirations, the institutional weakness of public sector that has been described by the National Report of Human Development (Ministry of Planning, 2002) at the level of governorates and the spread of nepotism contribute to diminishing the expected benefits of privatisation and expanding the property base and popular participation in economic activity, leading to a waste of resources, administration and financial corruption. The 1990s witnessed economic stagnation and a parallel market, reflected by the modest size of the private initiative and the continued slow performance of the public sector, as recognised in the overall framework of the National Development Plan 2006 – 2010 (Libyan Ministry of Planning, 2005). Even after the state adopted and activated the activity of the private sector, especially during the years after lifting the embargo and sanctions suspension in 1999, the state decided to apply the economic program that opened the way for private sector activity. This activity did not have an independent role in particular, its field concentrated in services specifically in trade, typical industries, handcraft and maintenance. The Overall Framework of Transfer Plane (2006-2010) referred to this prevailing uncertainty, which was considered as one of the important reasons to deter this activity and reduce investment.

Even with this orientation to the ownership of the public sector, especially after issuing Law No. 21 (2001) and the establishment of general institutions for ownership and the regulation of company ownership and the public economic units (Law no. 31, 2003), it is evident that there are many difficulties, including:

i. Lack of available data on business sectors, in particular with regard to productivity and profitability.

ii. Disparity in the implementation mechanisms.

iii. Non-implementation of the framework for the banking system.

iv. Weak demand for the ownership of public units offered for ownership by staff and citizens.

App 1.2 The developing economic and social strategy

Hence, the overall trends of the economic and social strategy of the state emphasise:

i. The importance of the utilisation and investment of the existing assets, manpower, organisational and administrative power in the existing institutions, efficiently updated by targeting the maximisation of the productivity of the production factors.

ii. The sale or restructuring of the ownership of public businesses that have been consuming scarce resources more than they have been adding.

iii. Giving room to private sector as a strategic option to activate its role in the mobilization of resources and to employ it in the services and the productive businesses, while working on attracting the foreign investment that leads to an increase in the growth potential through obtaining technology, technical and administrative skills.

iv. Reviewing, amending and simplifying the procedures, regulations and rules related generally to the economic activity and specifically the private sector, which need to be characterised by simplicity and clarity, and not to be a deterrent to economic activity, which should lead to the result of obtaining economic activity with the least possible amount of documentation and procedures.

App 1.3 The economic and social trends of the Libyan state

According to the National Development Plan 2006-2010 (Ministry of Planning, 2005), the orientation of the strategic plans of the state are summarized in two main axes:

i. Creating a suitable social, economic and institutional climate in order to encourage a variety of economic activity, i.e. creating economic alternatives for petroleum alongside the continuation in developing its production and reserves.
ii. The optimal exploitation of the available natural and human resources.

These two axes aim to maximise the productivity of all the production factors and especially maximizing productivity and the reserve capital that is achieved through reducing waste in all fields as industry, education, transportation, health and infrastructure.

The implementation of these two axes requires fundamental changes in politics and the economic institutions, in addition to significant changes in organising working practices and the labour market, through adopting modern methods in organisation, administration and the structure of economic institutions which highlight hard work and competition as the main engine for achieving sustainable development and a high standard of living.

Therefore the general direction of planning strategy should go to adopt the rearrangement of the economic conditions and the optimal exploitation of the available resources and innovation, i.e. general economic attitudes should be embodied as follows:

i. Setting policies which aim at preserving the natural resources such as petroleum, gas, water and rationing their exploitation.

ii. Developing the reserves of petroleum and gas.

iii. Conserving the environment.

iv. Adopting the diversity in the sources of the national income through improving the vital sectors such as taking care of tourism and improving the export industries.

v. Achieving a growth in the domestic production exceeding the rate of population growth to achieve suitable living level.

vi. Encouraging the private sector as a strategic option, to channel its energy and employing it in the small and medium productivity businesses integrating with the existence industries to form connected economic networks.

vii. Encouraging foreign investments, which improve national developmental capabilities through the acquisition of different skills, and consequently technology settlement.

viii. The diversification of ownership of public sector establishments which have economic feasibility, and which can contribute to creating real work opportunities, and to increasing productivity, which can then be directed towards exportation.

ix. The reorganization the role of the public sector in the economic development through increasing the capabilities of the general industries and investment in infrastructure such as transport, transportation, communication, information technology, the business and financial and banking services, and investment in the tourism sector, also most notably encouraging businesses in the medium and small private sector to contribute in such sectors.

x. The development of education and vocational training, so that its outputs respond to demands and the requirements of the labour market through the integration of the public sector in its large institutions and the private sector through its medium and small institutions.

xi. Adopting programs aiming at achieving suitable regional development for a growth in construction, and improvements in civilized behaviour.

xii. Achieving the social development through maximizing the role of woman and increasing her economic contribution in the society.

xiii. Formulating African Arab Libyan identity and ensuring national distinctiveness.

xiv. Encouraging creativity and innovation through establishing technological regions, works and technology oases and business incubators.

App 1.3 Investment in the private sector in Libya

In Libya, the private sector consists almost entirely of medium and small businesses. According to Al Zletni (2008), it is remarkable that these small and medium businesses have such a large role in making essential changes in the economic organisation of the public and private sector.

The size of investment estimated in the private sector (the small businesses) was 407 million Libyan Dinars (LD) in 2005, which is expected to grow to about LD 868 million in 2010 (by prices of the basis year 1997). In other words, it is expected that the proportion of the contribution of private sector investment will increase from 15% of total investment in 2005 to 25% in 2010. This expectation requires an encouraging environment of a healthy economic performance to achieve this increase, most notably a suitable economic climate of growth, and the confidence of the private sector in the public institutions (Al Zletni, 2008).

App 1.4 Reasons for Libya’s reorientation towards the private sector and the activation of small businesses in Libya

The economic trend of the state through the overall framework of the development plan 2006-2010 and the reference inputs of the National Reports of Human Development from 1999-2002 ensure that the most significant reasons of the trend towards offering public services through the private sector are the following:

i. The feasibility and effectiveness of the private businesses which can encourage the spirit of initiative in the local community of each governorate.

ii. A high capability to create vital economic growth.

iii. Arousing competition that leads to reducing production costs, flexibility and high quality services.

iv. The superior qualification of private business because of competition input, risk calculation, and the increased demand at the global level for goods and services.

v. Private sector owner-managers are capable of flexibility, quick action, and freedom to act which enables them to rationalize their manpower and efficient employment to improve productivity and performance rates.

vi. Freedom from the bureaucratic constraints that constrain public sector work.

App 1.5 The development of private sector participation in Libyan economic activity

The official references indicate the existence of qualitative development in the significance of private sector participation in economic activity emanating from the ownership of the means of production by the private economic sector, which is based upon free, individual and participatory, interdependence and activating the social market mechanism, which are considered as one of the main decentralized supports which are based on direct democracy. Therefore, the role of the private sector is to develop economic activity through participation mechanisms and the individual distribution of services to become active economic pioneers among the components of the economic structure in its service and production continuity and as a tool to overcome the restrictions of the public sector (National Institution for Information and Documentation, 2002)

In general, the available references indicate that the private economic sector establishments form 78% of the total businesses according to the data of 1999 and it works through three forms:

i. Individual businesses

ii. Cooperatives (partnership of between 2 or 3 persons).

iii. Stock Partnership companies.

The private small and medium business sector is regarded as the dominant factor in the private sector in the governorates economy, as it forms 99% of the total private sector businesses, of which solely owned business represent 94%. Most of the small businesses tend to be in the mode of trade and service work instead of productive output, and they contribute only by a small ratio of production work (National Institution for Information and Documentation, 2006). The data of the public census of population 2006 and the accompany statistics showed that medium and the small businesses did not employ more than 11% of the total manpower, and accounted for only by 4% of the total local production, (National institution for documentation and information, 2006). This paucity of productive output in the small business sector, and the marginal position of small manufacturing firms in the Libyan economy was another motivation for the researcher decision to investigate what encourages and hinders growth in this area (Al Zletni, 2008).

App 1.6 Historical brief on statistics on small and medium businesses in Libya

In Libya, the economic institutions did not collectively and definitely undertake a clear and fixed classification which distinguishes between medium and large businesses in each community in a specific and accurate way, although there is a definite trend towards traditional industries, family jobs, and individual businesses. Some institutions, such as the Statistics and Census Authority (until 1992), National institution for Information and Documentation, and the Ministry of Manpower, Training and Employment, issue statistical reports whenever required, adopting simple definitions when which may be used to infer some definitions which are related to small and medium businesses, and can be approached as follows.

The Statistics and Census Authority conducted the first industrial census in 1969, including only Tripoli and Benghazi. It aimed at a census of operating businesses in manufacturing industries, recording the number of employees, value and requirements of production, earned revenue, and added values. Moreover, there is available data in statistical groups, which show that there has been annual data since the beginning of the 1960s. Large businesses have been classified in these studies as those with 5 members and above who work in them and below this as small businesses, with no category of medium businesses. In addition, industrial businesses have been classified according to the type of economic activity.

The Statistics and Census Authority continued to issue annual publications about industrial production under the title ‘Annual Research for Large Businesses’ (i.e. those which consists of 5 members or above) during the period 1970-1992. This work was accompanied by two annual publications, one of which was about oil extraction, and the other was about oil services.

In 1973, The General Census of Population published the final results of the businesses census which included data about the important characteristics of all types of businesses in the country at the time (Ministry of Planning, 1973). The most prominent characteristics of these were as follows:

i. According to the census of 1973, the total number of businesses was about 42,000 establishments. The wholesale and retail trade sector accounted for 30,000 businesses (71%). The manufacturing sector accounted for 5000 businesses (12%), followed by social and personal services, representing 4,000 businesses (9.5%), while other activities made up the remaining 7.5% of the total.

ii. 88% of businesses were considered as small businesses, defined as those with fewer than 5 members.

In 1995, the final results of the General Census of Buildings, Housing and Businesses, conducted by the National Institution for Information and Documentation, resulted in data that included important characteristics for all types of businesses in the country. The most prominent characteristics of these were as follows (National Institution for Documentation and Information, 1995):

i. Out of a total of about 139,000 establishments, the wholesale and retail trade sector represented 73,000 establishments (53.6%). Social and personal services accounted for 37,000 establishments (27.1%). The manufacturing sector accounted for 16,000 establishments (11.7%), while other activities made up 8% of the total number of businesses in the country.

ii. 79% of businesses were considered as small businesses (defined as having fewer than 5 members.

The National Institution for Information and Documentation issued annual publications for manufacturing industries, and small and large businesses for 2002, 2003, and 2004. It modified the concept of small businesses to include businesses in which fewer than 10 members worked and redefined large businesses as those which had more than 10 members. These publications were aimed at large manufacturing businesses only, and were not addressed to small businesses at all. Also, surveys of large manufacturing industries have suffered from low coverage.

Under decision no. 321 (2004) of the Ministry of Manpower, Training, and Employment, a committee was constituted to determine a national definition for small and medium businesses. This decision involved the adoption of a national standard for small and medium businesses, which states that: ‘private productive or service businesses, and instrument for economic and social development, accommodate the strengths of youth, and which includes professional, administrative, and technical specifications which are suitable to operate efficiency'. The new classifications are shown in table App 1.1:

Table App 1.1: Libyan classification for productive, service, and commercial businesses

Used Standard		
Business	Size of employment	Size of fixed assets
Small	No more than 25	Less than 2.5 million Dinars
Medium	From 26 to 50	Less than 5 million Dinars
Large	More than 51	More than 5 million Dinars

Sources: General Peoples' Committee for Manpower and Training report (2004).

App 1.7 Features of development policy towards the establishment of small businesses in the decision of the Libyan Parliament

A change in legislative stance began in 1981, with the constraint of economic activity within the holistic approach of the general economy (public sector), with the announcement of the general objectives in the Parliament in 1981. The decision stated the need for achieving strategies and targets of economic and social transformation through increasing labour productivity.

The tendency towards encouraging smaller businesses is shown in the parliament's decisions at its meetings in 1982, which placed an emphasis on reducing employment in the administrative system, and a tendency to place productive capacity under state control as a part of domestic policy. Reference was made to the need to diversify the small and medium business sector's role in Libya, in particular that it should be based on local resources and the reduction of the administrative system, and a guided decrease in industrial production in small businesses.

In the ninth Parliament of 1989, the decisions of the early 1980s were reversed, which was related to the decisions of the proposed financial procedures to counter the global economic crisis, and which confirmed the role of small industries in order to assimilate the large number of relatively unproductive workers in the general administrative system.

In the tenth Parliament's decision, which was about the transformation of cities and urban populations to productive communities, and the expansion of lending to private businesses, encouraging and supporting small industries, especially those that contributed to provide and produce basic materials, using local raw materials, were emphasised.

Law no. 8 of 1988 emphasised the legitimacy of special individual economic activities and their role in creating jobs, and the assimilation of excess labour in the general administrative sector.

In holding the supplementary session of parliament in the period 2000- 2001, decision no. 15 of 2001 recognised the need to regulate employment through the transformation of procedures for production, and expedite the provision of loans and facilities in support of small and medium industries (Al Zletni, 2008).

App 1.8 The importance of small and medium businesses to the Libyan economy

The importance of the small and the medium business sector in Libya lies, like the rest of the world in general and developing countries in particular, in that provides an unmatched opportunity to develop a country's domestic product (Al Zletni, 2008). What assists it in that is the inherited characteristics of this sector, most notably the following:

i. The reduction of the required capital.

ii. Local production outputs are frequently used.

iii. The simplicity of administrative structuring.

iv. It is usually originates from occupational origins.

v. It assists the advanced technologies and equipment derived from the development of the small businesses, and is not always basic.

vi. It conforms to the tendencies of the minor savers who prefer the direct administration of their money.

The multiple studies undertaken on the experiences of the developing and advanced countries alike confirm that small and the medium businesses play a decisive role in comprehensive human development, through increasing economic growth, diversifying income resources and increasing job opportunities, and consequently reducing the poverty ratio. Therefore, the participation of the small and medium businesses sector in the national Libyan economy can be summarized as follows (Al Zletni, 2008):

i. Redressing the structure of the nation's industrial base through creating diversity in its productive capacity through the encouragement of diverse small and medium, as well as large businesses, and consequently creating integration between them.

ii. Providing multiple job opportunities, and consequently reducing the unemployment ratios in all the technical and scientific categories.

iii. Minimizing the poverty ratio and consequently building a work force which has the means of the human development as its goal.

iv. Augmenting personal savings and consequently attaining greater justice in the geographic distribution of development projects.

v. As a result, increasing local productivity and consequently minimizing imports and increasing exports.

App 1.9 Lending programmes to small and medium businesses for development in Libya

The Development Bank: The Development Bank is regarded as the leading national financial institution in supporting the private sector. The significance of this institution increased when the Libyan government, by its decree no. 20 of 1973 decided to allocate more than half a billion Libyan Dinars to finance small and medium businesses, with the aim of creating job opportunities through their conversion to production. The bank offers short and long term loans for these businesses which facilitates the foundation of new businesses. However, the state orientation during the 1980s towards a policy of public ownership meant that the bank lent mainly to public sector institutions, apart from some small investment in specific types of private companies. This hindered the private sector in taking advantage of the potentials of the Development Bank, and the loans were confined to the businesses of the public sector.

The Development bank resumed supporting the private sector in the early 1990s. Hence, the loans granted by the bank until 2004 amounted to what is slightly more than one million Dinars for 11,500 loans, granted to diverse public and private institutions. The activities that were completed during the stated period involved about 5,700 business, which received a total of 378 million Dinars. It also provided 8,000 job opportunities in all areas of Libya. These loans covered diverse economic activity such as the food industries, building and construction materials, chemical industries, plastics, metal industries, textiles, furniture, and industrial services.

Commercial Banks: The value of the loans granted by the commercial banks during the period 2004-2005 amounted to about 2,500 million Dinars; a significant part of these sums was allocated to small businesses.

Private Banks: The value of loans and facilities granted by the private banks during the period 2000-2005 amounted to about 400-500 million Dinars.

The Rural Bank: The value of the loans granted by the Rural Bank during the period 2003 -2005 amounted to 134 million Dinars.

In addition, the bank of Conversion to Production offered LD 60 million as loans in response to the decree of the Libyan government No. 115 of 2011 (Central Bank of Libya, 2004).

App 1.10 The Libyan National Council for Economic Development

The Libyan government issued its decree no. 3 of 2007, concerning the establishment of the Libyan National Council for Economic Development, which was commissioned with a social and economic development task involving (Al Zletni, 2008):

i. The optimal utilization of human and natural resources.

ii. Encouraging and advancing the private sector.

iii. Reviving and establishing small and medium businesses in the productive and service fields.

iv. Improving the work environment, defining its hardships and the hurdles, and identifying how to overcome them.

v. In addition, the council was entrusted with the task of establishing a one-stop administrative system, and approving an electronic registration system in establishing businesses.

vi. Revising the current lending system of the small and medium businesses and setting a system for financing new businesses.

vii. Establishing consultancy offices for small and medium businesses.

viii. Proposing the financial and moral incentives to encourage the innovation and creativity of the Libyan owners of businesses.

ix. Linking the private and the public sectors with the aim of ameliorating the communication and cooperation between them and assisting them to establish their companies.

x. To draw on the experience, technology and capital of international institutions in creating best practice for Libyan SMEs.

App 1.11 The Libyan National Programme for Small and Medium Businesses

The Libyan government issued its decree no. 845 of 2007 concerning the establishment of the National Programme for Small and Medium Businesses based on the recommendation of the Libyan National Council for the Economic Development. The new programme was commissioned with the following tasks (Al Zletni, 2008):

i. Implementing all approved plans and programs in the field of conversion to production.

ii. Contributing to the improvement of the competitive capacity of the Libyan economy through the support of innovative and creative people to found commodity economic businesses and services of high international value.

iii. Increasing the role of the medium and small businesses sector in the process of the economic development and creating new job opportunities for public sector workers.

iv. Rationalization of investment for natural resources and converting them to high value resources.

v. Disseminating a leadership culture in the society to create and encourage feasible ideas.

vi. Disseminating a complete quality culture to improve competitive capacity for the small and medium businesses.

vii. Amalgamating and activating the role of woman in diverse social and economic activities.

viii. Attaining an economic partnership between the private and public sectors to achieve sustainable development.

App 1.12 The characteristics of past programmes for small and medium businesses in Libya

Since the early 1990s, when government policy again turned to support for private enterprise, programmes for small and medium businesses have mostly failed and did not offer a real contribution to non-oil gross domestic product. There are many reasons for this, most notably the absence of an evident vision for the role of small and medium businesses, and a failure to define their fields and priorities. In addition, there has been an absence of strategy and clear plans. The domination of the state of all the activities of the economy over the long term had a significant effect in creating a culture of dependency and an absence of competitiveness, and consequently low productivity. According to Al Zletni, (2008), the most prominent of the features of this period are the following:

i. Complete domination of the state over the macro- and micro-economy.

ii. The inflation of the proportion of the workforce employed in the public sector, to a figure of 930,000 employees by 2006.

iii. Complete failure of lending programs and attempts to convert to productive programs.

iv. The non-clarity of the vision regarding the small and the medium businesses programmes.

v. The administrative instability and consequent hampering of all the small and the medium businesses programmes.

vi. The continuous change in legislation relevant to business and investment.

vii. The exacerbation of the gap between private and public sectors because of a loss of mutual confidence.

viii. The lack of control over prices, which has led to the difficulty in calculating the economic feasibility of any small business.

ix. The orientation towards imports of almost all consumer goods, on and the deterioration of domestic production, i.e. the complete conversion to a consumer economy.

x. A combination of poor services in the public sector, the prevalence of corruption and bribery, and the usurious dealing of the banks in Libya, which has resulted in the reluctance of many to establish productive businesses.

xi. The ownership programmes of the productive programs by the public sector have witnessed major failure for many reasons, most notably the dilapidation of these businesses and their need for significant operational capital, combined with their inefficient manning levels and working practices.

xii. The delay in establishing an orientation mechanism for small and medium businesses, such as the National Council of Economic Development and the National Program For Small And Medium Businesses.

xiii. The low quality of the outputs of academic and professional institutions and their inability to keep pace with the requirements of the labour market.

Collectively, these factors are capable of destroying the most powerful international economic systems, let alone the economy of a fragile developing country, weak in its economic structure because of its dependence on one source of income, oil, which is threatened with depletion within a period not exceeding 50 years, according to the evaluations of experts. What worsened the matter is the whole society's adoption of the consumption culture and the philosophy of 'spend what in your pocket, you will get what you need', and a reluctance to play a vital role serving the productivity increase and reducing national expenditure through reducing imports (Al Zletni, 2008).

Appendix 2: Other Theories of Business Growth

App 2.1 The Biological Model

This model holds that small firm growth mirrors that of human development from conception through to maturity and decline, but there is much evidence to demonstrate that in reality this theory does not hold up (Orser & Hogarth-Scott, 2002).

App 2.2 Macro-economic or Ecology Theory

This theory believes growth to be the outcome of the influences brought to bear by the economic environment in which the business operates (Orser & Hogarth-Scott, 2002). The economic environment is perceived as the most important variable in the determination of firm growth, but as researchers have discovered, whilst important, it is not the main influence on whether a firm expands, stagnates or collapses (Baldwin& Picot, 1995; Baldwin & Gellatly, 2000).

App 2.3 Economic Theory

This provides the classical account of growth relying on the maximisation of profit as the main driver (Orser & Hogarth-Scott, 2002; Rugman & Verbeke, 2004) and follow purposeful strategies in order to obtain the greatest profits which, if forthcoming, result in growth. Clearly, private enterprises must be profitable to survive, but economic theory does not provide a full account of all the variables that cause business success or failure, given that not all owner-managers attempt to maximise profit and most are driven by a much more complex set of motivations.

App 2.4 Disequilibrium Theory

Kirchhoff (1994) is attributed with this theory (also referred to as Dynamic Capitalism), which can be seen as a development of the creative destruction theory espoused by Schumpeter (1942) who saw the process involved as one of continual revolutionising of the economic structure from within, implying continual destruction of the old structure, and continual creation of a new one. Kirchhoff (1994) and Kirchhoff & Greene 1995) argue that both creative destruction and capitalism remain healthy over a half a century after their predicted failure by Schumpeter, one reason being that small firms provide employment opportunities and have a greater ability to innovate than large businesses.

App 2.5 Population Ecology Theory

This concept was introduced by Hannan and Freeman (1977), who believed that structural and processual influences cause businesses to become inert, and consequently limited in their ability to respond to change quickly. The outcome is that businesses that do not adapt to change do not survive and, as demonstrated empirically by Hannan and Freeman (1977), small firms run more risks than large firms in this respect. This finding was in contrast to pure neoclassical economic thought (Aldrich & Fiol, 1994). The notion of organisational legitimacy as it appears in institutional theory is also embedded in population ecology theory. It considers individuals as a vital resource, and holds that the market must recognise the firm’s legitimacy and its way of operating (Aldrich & Fiol, 1994; Shane, 2000). Accompanying the emergence of population ecology theory into business research were sociological ideas, to the approval of Granovetter (1985), which have been useful in interpreting real world events that economic theory has been unable to explain (Aldrich & Fiol, 1994; Shane, 2000). That said, it is not a growth theory and hence does not address the issue of why firms develop, although it does focus on the survival of businesses.

Appendix 3: The Interview Guide

Note: the questions and passages highlighted in red reflect the changes made following the conduction of the pilot interviews.

A: The historical background of the business

1) When did you start your business?
2) What is the nature of your business?
3) What is its legal status: it is a sole proprietorship or a partnership, joint stock company or limited company?
4) How many business partners do you have and what is their relationship to you? Are they friends or relatives?
5) Tell me about the stages of development experienced by your business.
6) What was the number of employees of your business, full time and part-time, managers and workers in the previous year (2009), as well as the four years that preceded that 2005, 2006, 2007, 2008?
7) *Do you consider your firm to be growing and developing, and if so, why? Also, if it is not growing, why do you think this is?*
8) What do you think are the factors that have influenced to the growth of your firm, and what are the factors that have constrained growth?

B: The industrial sub-sector and its dynamics

1) How would you define the industrial sub-sector which you operate in?
2) How many competitors do you estimate you have in this sub-sector?
3) *What advantages do they have over you, and how do these affect your growth?*
4) Is your sub-sector growing, stable or declining?
5) *If you know of any firms in your sub-sector growing faster than you, why do you think this is?*
6) *How would you describe the growth in your sub-sector – are the existing firms getting larger, or is it expanding in terms of the total number of firms?*
7) Based on your experience, what do you think are the important factors that affect the growth of your sub-sector?

C: Owner-manager characteristics and their impact on the growth of the firm

1) How did you become the owner of this business – did you inherit it or purchase it, or did you found it yourself?
2) What were the motives that made you want to work for yourself, and have these motivations changed over time?

3) What were your personal goals and ambitions behind the establishment of this firm, and what were your objectives for the business when you joined or started it?
4) What were your aspirations for the employment growth of this firm over the past five years were they: (no growth aspirations or between 1to20% low growth aspirations or between 21 to 50% high growth aspirations or above 50% very high growth aspirations), and have they been achieved?
5) *What skills and personal capabilities are required to achieve the fastest growth, in your opinion?*
6) What is your level of education *and how do you assess its impact on the growth of your business?*
7) What was your previous work experience prior to joining this firm? Did you have any managerial experience before working here, and had you worked in the public sector?
8) *How do you assess the effect of this experience on the growth of your firm?*
9) What has been the role and importance of personal relationships in the functioning of your firm, and what has been its impact on growth?
10) How old are you and your opinion, is the age of an owner-manager important to the growth and success of the business?
11) Was the lack of jobs in general employment one of the reasons for you to choose self-employment, and has this affected the growth of your firm?
12) What role does the gender of an owner-manager play in your sub-sector of manufacturing? *How important is the owner-manager's gender in the success and growth of their business?*
13) Are there firms in your sub-sector under foreign ownership? If so, are they successful and growing?
14) If there are foreign owner-managers, do you think they perform better than Libyan owner-managers? If so, how and why?
15) Do you have any family history in the field of self-employment or business ownership? If so, what impact did that have on you and your business's growth?
16) Do you own or have an interest in any other businesses? If so, have these interests had an effect on the growth of this business?
17) Do you have any other opinions about the characteristics of owner-managers that affect the growth of their businesses?

D : The characteristics of the firm and their impact on growth

1) When was your business started up? Do you perceive the age of a business to be a factor influencing its growth?
2) Where is your business located and why did you choose this site? What has been the impact of the chosen site on the growth and success of your business?
3) Does the current size of your firm constrain or enable its growth?

4) What is the impact of the sub-sector you operate in on the growth of your business?
5) What has been the impact of any business partners on the growth of your business?
6) Has your business's legal status had any effect on the growth of your business? *Do you think this is an important factor?*
7) What other factors related to the business itself, if any, do you think have an impact on growth?

E: The business's strategy and its impact on growth

1) Did you have an intention to grow your business over the past years? If so, how did you intend to achieve this growth?
2) Did you prepare any formal plans for the growth of your business, and what period of time did they cover?
3) If so, what was the impact of this planning on the actual growth of your business?
4) *Is there anything about your business that makes it unique and different from your competitors?*
5) Have you innovated in any area, for example product, process, level of technology or management?
6) If so, what has been the effect of this innovation on the growth of your business?
7) *In your opinion, which has had the greater influence on the growth of your business – you, the business or the market?*
8) Have you had a marketing strategy to follow over the past years? If so, did this have an effect on the growth of your business?
9) Is it necessary for your workers to be highly skilled to do their job? If so, *is it difficult to obtain skilled workers in Libya?*
10) Have you conducted training programmes to improve the skills of your workers over previous years? If so, did this training have an impact on the growth of your firm?
11) *Are there any other competitive strategies that you employ but which we have not yet discussed? If so, what is their impact on growth?*
12) What is your system of financial management? Do you deal with the firm's accounts yourself, or do you use an accountant?
13) What kind of financial procedures do you use to help you? What has been the effect of your financial management system on growth?
14) Do you use any external advice, for example from banks, accountants or government bodies? If so, what has been the impact of this advice on the growth of your business?
15) Have you exported any of your manufacturing output outside Libya? If so, was this a benefit to the growth of your business? If not, why was this?

16) Are there any other aspects of your business strategy or processes that have had an effect on the growth of your business?

F: The external environment and its impact on growth

1) What has been the impact of government policy, laws and regulations on the activities of your business, and how have they affected its growth?
2) Have you received any support from the state, for example in the form of advice, protection from imports, easy-access loans? If so, what has been the impact of this support on growth?
3) What is your opinion of the government's tax and customs regime? Do you think it benefits the growth of your firm, or constrains it?
4) Do you receive government contracts? If so, have you experienced any delays in payment?
5) *Have you suffered from late payment by private businesses? What has been the effect of late payment on the growth of your business?*
6) What is your opinion of the government's administrative procedures? Are they easy to follow, or is there a high level of bureaucracy? *Do you ever use outside help to cope with government procedures?*
7) Have you suffered *(or benefitted)* from corruption in government? If so, what has been the impact of this on growth?
8) What is your opinion of the facilities available to you in your location in terms of utilities, road transport etc. *Are you in a specialist manufacturing zone?* What has been the impact of these aspects of your location on the growth of your business?
9) *Are there any other factors that you think important in terms of the government's impact on the growth of your business?*
10) What has been the impact of the economic situation in Libya, such as growth, exchange rates and inflation, on the functioning of your business, and how has this affected its growth?
11) What sources of business finance did you use at start-up and later? Was it easy to obtain finance for your business and has this been expensive?
12) *If you have needed external finance, how easy has these been to obtain? What has been the impact of your sources of finance on the growth of your business?*
13) What has been the impact of higher production costs, such as increased salaries and rents, customs, transport and taxes, on the growth of your business?
14) What has been the impact of competition on your business, especially in terms of imports from abroad and *products made by informal businesses?*
15) In your opinion, has the national culture of the Libya people had an influence on the management of your firm? *Is trust an important issue in appointing workers to your business? Do your social and family obligations affect your management of the business, or the behaviour of your workers? How do all these issues affect the growth of your business?*

16) Are there any other factors concerning the political, cultural and economic situation of the country that has had an effect on the growth of your business?

The changes and additions made to the pilot study interview schedule are shown in italics in the final interview schedule. These changes and additions arose out of the answers and observations of the participants in the pilot study, and reflected circumstances particular to the Libyan manufacturing environment that were not represented in the questions arising from the literature review. In particular, the influence of the government as the dominant force controlling the entire economy, and the power of government officials to withhold licences, finance and support without the payment of bribes emerged as a major factor influencing growth. Several questions were added or amended to reflect this. Furthermore, the influence of Libyan national culture in terms of attitudes to work, access to finance, the importance of family relationships and attitudes to gender were also highlighted as constraining or facilitating growth by respondents to the pilot study, and these issues are therefore reflected in changes to questions, or new questions. A brief description of amendments to each section of questions is given below:

A: The historical background of the business

Only one question was added to this section, which was designed to assess whether the respondent had a growth aspiration. This question arose when it emerged from the pilot study that some owner-managers did not actually want their companies to grow, because if the unwelcome attention this growth would attract from the authorities, in the form of demands for larger bribes, for example.

B: The industrial sub-sector and its dynamics

In this section, Q3 was added to reflect the influence of informal (illegal) businesses, which were identified by the pilot study respondents as an important constraint to their potential to grow, and the advantages held by companies with access to government contracts. Q5 invites respondents to comment upon the advantages their competitors may have, because the influence of the factors that emerged from literature review was not consistent with expectations in the pilot study. Q6 was designed to assess how growth was managed in booming sub-sectors that were benefitting from high levels of government investment: the pilot study suggested that successful firms tended to grow larger while remaining in one location, rather than expanding into new branches around the country, due to difficulties with administrative procedures, and a lack of industrial zones.

C: Owner-manager characteristics and their impact on the growth of the firm

This section of questions deals with the personal attributes of the respondents, and the changes and additions reflect observations made in the pilot study. For example, Q5 allows the respondent to mention personal attributes that the researcher may not have anticipated as being influential, while Q6 invites the respondent to assess the benefits (or drawbacks) of their education. One respondent to the pilot study mentioned the importance of friendships and personal relationships made at university as aids to the growth of his firm. Q8 adds to Q7 by asking respondents to assess the influence of their earlier career, especially on the public sector, on the growth of their firms. This was because one respondent to the pilot study felt that his managerial experience in the public sector was actually a disadvantage when he came to run his own business, because the habits he had developed were unhelpful in a competitive environment. Q12 has an addition which reflects the importance of personal relationships to the growth of businesses, and the difficulty women have in developing these relationships due to the religious and societal pressures placed upon them.

D: The characteristics of the firm and their impact on growth

In this section, Q6 received an addition which reflected the observation made in the pilot study that businesses were able to change their legal status to meet the requirement of lucrative government tenders if they were willing to pay the necessary bribes: this tendency disadvantaged formal businesses without the inclination to undertake these actions.

E: The business’s strategy and its impact on growth

Q4 was added because it emerged from the pilot study that some owner-managers had relationships that were particularly helpful to their businesses, in terms of giving them access to highly lucrative government contracts, for example. Such relationships could also ease access to finance and other support, allowing them to invest in high technology that gave them a clear competitive advantage.Q7 reflects an impression formed in the pilot study that sometimes the growth of small firms was due to a booming market in their particular sub-sector. Massive government investment in areas such as infrastructure development can cause sudden upsurges in profitability in a sector that is not reflected in the wider economy, and this question was designed to ask whether growth in a firm was due to such investment. Q9 was amended to reflect the concern expressed by respondents to the pilot study that there was a chronic shortage of skilled staff in Libya, especially in technical specialists, and that owner-managers were unwilling to spend money on training staff except for family members and close friends who were likely to remain with the firm after being trained. This is partly because work contracts are rarely enforced in Libyan law, and owner-managers feel they have no protection from competitors seeking to poach their workers. Q11 was added because pilot study respondents pointed out that often it is not only the conventional competitive strategies that advance a business in Libya, but also an easy familiarity with the network of patronage and corruption that facilitates access to government contracts; they suggested that alongside the inequalities caused by sudden injections of investment by the government, this is the most influential competitive advantage a firm can have.

F: The external environment and its impact on growth

Some respondents to the pilot study mentioned that in addition to late payment by the government, sometimes their firms suffered from late payment by other firms, so Q5 was added to the interview schedule. This tendency to late payment was partly attributed to the trade credit terms employed by Libyan firms; for example retailers and distributors often delay payment for goods in periods of low seasonal sales. Q6 was added to because it emerged from the pilot study that a number of service firms exist to act as intermediaries between small firms and government institutions, which facilitate access to contracts by making the appropriate payments to government officials. Q7 had the words 'or benefitted' added, because some owner-managers expressed a preference for corruption as it discouraged large international companies from setting up in the Libyan market. Q8 was added because certain pilot study respondents mentioned that a location on a specialist industrial zone was a major advantage for their company, giving access to reliable utilities and infrastructure. This was especially true in Misurata. Q9 was added to identify any government influence not expected from the literature review. Some pilot study respondents mentioned the government's control of the banks as highly influential on their access to credit and loans. Q12 was added because of the lack of access to finance in Libya, which results in the use of trade credit terms of up to six months to enable businesses to keep a workable cash flow. Pilot study respondents mentioned that while the Industrial Bank offer access to Islamic finance, it is very corrupt and requires payment of bribes. An addition was made to Q14 to reflect the feeling expressed in the pilot study that many small manufacturers suffered from unfair competition from informal businesses that had much lower costs and could therefore undercut their prices. In Q15 certain additions were made to reflect the preoccupation of pilot study respondents with the social, religious and cultural influences on Libyan business. For example, issues of trust and loyalty were mentioned as supports to growth, while the disruption to work caused by family commitments could be a constraint.

Appendix 4: Biographical overview of the sample owner-managers

Table: Biographical details of the sample owner-managers

Firm Code	Biographical overview
SB1/BL1 Gender: M Education: Degree Sub-Sector: Building Materials Firm Age:16	BL1 was in his early 40s and held a Bachelor in Statistics from a Libyan university, gained in the early nineties. Due to the fact that his father was working in the private sector in the field of construction and transport, his orientation was for self-employment, so after graduating he preferred to be self-employed rather than employed because of his love of independence and unwillingness to be limited to a salary or routine. He inherited a large piece of land located in a strategic site, so his colleague from the city who came from a family with experience in the industrial field, especially in the manufacture of tiles, offered to cooperate with him in a business for the manufacture of tiles. He welcomed the idea and offered to contribute the site while the second would contribute the capital. They started their business in 1994, with BL1 in charge of the business management while the partner was concerned with technical matters, due to his experience in that area.
SB2/ BL2 Gender: M Education: Degree Sub-Sector: Building Materials Firm Age:5	BL2 was in his early 40s and obtained a Bachelor in Agricultural Engineering from a Libyan university. After graduation, he preferred to emulate his father who was a merchant, so he began to trade until he settled in the field of trading marble. He continued in this area and succeeded, partly because the state in the years prior to this study was heavily involved in construction and urban development. There was great demand for building materials, so he decided to expand his enterprise and after studying the market, he decided to manufacture marble instead of just selling it, because marble manufacturing generate more profits than sales. He established a partnership with his

	cousin who had experience in the industry and was a mechanical engineer. They started the business five years before this study, and the number of workers had reached 23.
SB3/ BL3 Gender: M Education: Degree Sub-Sector: Building Materials Firm Age:17	BL3 was in his late 40s and obtained a Bachelor in Business Administration. After graduation, he and his brothers decided to be self-employed instead of having a government job with a restricted salary. They started their business from scratch by taking a loan from the Bank of Industrial Development with the guarantee of some land they owned. They started their first business, in manufacturing adhesive tapes, but after two years the business failed due to their inadequate feasibility study, and also due to the competition provided by similar products imported from abroad. They therefore decided to shut down the factory and sell it. After producing an accurate feasibility study, they changed their business to the production of cement floors. The business began in 1993 and BL3 has been the Manager of the business since then as he is the most educated partner of the three brothers; the factory has three production lines and 22 workers.
SB4/ BL4 Gender: M Education: Degree Sub-Sector: Building Materials Firm Age: 11	BL4 in his late 30s and obtained a Bachelor in Business Administration from a Libyan university in Tripoli in the early nineties. He believed that life is an adventure, so he decided to be self-employed. He first decided to gain the necessary experience to open his own business, so he worked with a relative in a paint factory. He worked and became familiar with the industry and became a technician in the factory, then a supervisor of workers, and then decided to open his own paint factory. He opened a basic paint production facility in the late nineties, where he aimed to build a brand and a reputation in the market to gain consumer confidence in Libya. He now has 25 workers and he is happy with his factory as a substantial

	source of income.
SB5/ PP1 Gender: M Education: Degree Sub-Sector: Printing and Paper Firm Age: 10	PP1 was in his early 40s and obtained a Bachelor in Accounting from the Accounting College in Libya. Due to difficult family circumstances and the death of his father, he had to work in the evenings during his study to help his family financially, so he worked at the age of fourteen in a state printing house. After graduation in the early nineties, he decided to abandon the job and opened a small shop to copy documents, and started to develop himself by taking several courses in computer technology and travelled to neighbouring countries to take courses in the field of maintenance of photocopiers to reduce his high maintenance costs. After that, he applied for a loan from the Industrial Development Bank employing the Murabaha Islamic financing system to purchase photocopiers from abroad. After years of waiting and building personal relationships, he obtained the loan, started his business in 2000, and now has 15 workers.
SB6/ PP2 Gender: M Education: Degree Sub-Sector: Printing and Paper Firm Age: 3	PP2 was in his mid-50s and obtained a Bachelor of Agriculture in the field of animal production. He started his working life as an employee of a state firm for animal production, becoming head of one of the departments and gaining managerial experience. In spite of his family history in the area of trade, the state restrictions , which prevented commercial activities in previous periods, meant that the only job opportunity was in one of the state firms. However, after a period of time he became convinced that his job had a limited income and decided to be self-employed, and made a partnership with his friend to establish a factory for manufacturing cardboard boxes, because his friend had experience in this field. They both applied for a loan from one of the commercial banks, with a minimum interest rate. At the same time, the terms

	of repayment were also simple when the business was established in 2007.
SB7/ PP3 Gender: M Education: Degree Sub-Sector: Printing and Paper Firm Age: 9	PP3 was in his early 40s and obtained a Bachelor in Physics from a Libyan university. He and his brothers worked with their father and uncle in a printing house in the school holidays, and after the sons graduated, the parents terminated the partnership and the father of BB3 retained ownership of the printing house. The three brothers worked as partners and the father was their Director. After the death of their father, the three sons sought to keep the inheritance because of its name and reputation in the market, and decided to continue working in the printing house and develop it. PP3 became the business manager and one of the brothers took care of the technical matters, while the youngest brother was in charge of marketing and procurement. However, the fierce competition from imported goods in the market led to a restriction on the growth of the business, but they sought to continue in and aspired to develop it more by using new machines and increasing the level of production quality in order to compete with imported goods.
SB8/ PP4 Gender: M Education: Diploma Sub-Sector: Printing and Paper Firm Age: 7	PP4 was in his early 60s and obtained a commercial Diploma in the early nineties from the Commercial Institute in Libya. He spent most of his life in a government job where he gained a lot of management and financial skills, and after his retirement, he preferred to establish a simple industrial business rather than living on his pension. He actually started at the beginning of 2003 and his business was a small printing house begun with three simple machines; he continued to work until the level of competition in the market increased, then he had to release some workers and keep just 4, and now he was waiting to get a loan from the Industrial Development Bank to purchase modern machines to increase the production and achieve

	better quality to compete with imported goods.
SB9/ PL1 Gender: M Education: Diploma Sub-Sector: Plastics Firm Age: 6	PL1 was in his mid-40s and gained an Industrial Diploma (Mechanical) from the Industrial Institute in Libya. He worked at the Ministry of Industry for 22 years, where he was involved with the technical management of state industrial businesses. One of those government businesses was a large factory for manufacturing basic plastic materials used in the manufacture of plastic doors and windows. As a result of the large production of these materials and the lack of demand for them, the factory faced a problem and the Ministry of Industry decided to provide industrial workshops from abroad but with easy installments for those interested in the manufacture of plastic doors and windows. PL1 left his job and applied to obtain one of these workshops in 2004, in order to improve his financial status and to take advantage at the same time of the expertise he had obtained during his work years. He started with 7 workers and had reached 8 at the time of this study.
SB10/ PL2 Gender: M Education: Degree Sub-Sector: Plastics Firm Age: 3	PL2 was in his late 30s and obtained a Bachelor of Engineering (Automatic Control) from a Libyan university, and he was preparing his M.A degree. He decided to make a partnership with three of his colleagues who had experience in the trading of plastic pipes, and they continued in that field until they decided to set up their own factory to manufacture this kind of pipes, because the raw materials involved in the production of these pipes are widely available in the petrochemical plants in the country. The business was established by a partnership between the four friends, and the business tasks were assigned. PL2 was the manager because he was an engineer and had experience in this area.

SB11/ PL3 Gender: M Education: Degree Sub-Sector: Plastics Firm Age: 22	PL3 was in his early 40s and gained a Bachelor in Accounting from the Accounting College in Libya. His brother, who was his partner, was a mechanical engineer, and their father was a merchant. After the state imposed restrictions on private enterprise, the father tried manufacturing and founded a plastics factory producing household items and plastic building materials. After the death of their father, the two brothers inherited the factory and they distributed the tasks among them; BL3 took charge of the management because he was the older brother and had more experience with his late father, and because of his education he also took charge of the financial and administrative matters. The other brother took care of the technical and operational matters as a mechanical engineer. Their aim was to develop the factory in terms of quality and quantity of production, and to increase the quality of administration, so they increased the output of their production lines and the number of workers had reached 15.
SB12/ PL4 Gender: M Education: Degree Sub-Sector: Plastics Firm Age: 21	PL4 was in his late 50s, and he had been a doctor, but left the field early when he took charge of the factory ran by his father due to his deteriorating health. He therefore found himself with his engineer brother managing a plastic factory specialized in the manufacture of plastic furniture. They had to maintain their father's long efforts and manage the business full-time because the income was excellent compared to the respondent's previous job salary. In recent years, they had obtained a loan from the Industrial Development Bank to buy another factory for the manufacture of basic materials within their industry. This was aimed to accomplish two objectives: the first was to provide materials at good prices, and the second was to make a fast profit from the rapid sale of these materials to other manufacturers.

SB13/ WO1 Gender: M Education: Degree Sector: Wooden Furniture Firm Age: 10	WO1 was in his early 40s and obtained a Bachelor in Accounting from a Libyan university. He started his business in 2000 after he became independent from his father, who he had worked with since his early youth, along with his brothers, in the manufacture of wooden doors and windows. He decided to create his own business without any partnership with his family. He rented a workshop equipped with two simple but effective old carpentry machines, and he started by hiring two workers while he operated as a manager, a worker, a technician, and a marketer at the same time. He benefited from his relationships with customers gained while working with his father and began to produce for them and deliver orders. Slowly he acquired capital, purchased other machines, and increased the number of workers, reaching 25 at the time of this study. His production doubled due to the increased demand from construction contractors, and because of the increased amount of construction taking place in the country in the years prior to this study.
SB14/ WO2 Gender: M Education: Degree Sector: Wooden Furniture Firm Age: 21	WO2 was in his late 40s and obtained a Bachelor of Architectural Engineering from a Libyan university. His experience extended back to his childhood years when his father established a business 30 years ago. He gained the experience of his father because he and his brothers worked with him since childhood. After graduation, he and two of his six brothers wished to be independent from the rest of the family. They decided they had the necessary experience, the capital, and the market relations to open a factory of their own. They started the business in the late eighties and specialized in the manufacture of wooden doors and high quality kitchens, and they gained an excellent reputation in the market. They started with three machines and six workers, and now they had

	eight machines and twenty-four workers.
SB15/ WO3 Gender: M Education: GCSE Sector: Wooden Furniture Firm Age: 9	WO3was in his late 30s and after obtaining his GCSE, he preferred to be self-employed instead of going to college like his peers. He worked first in the distribution of carpentry materials and supplies by purchasing these goods from wholesalers and selling them to the carpentry workshops in Tripoli and its surroundings. He began to gain experience of the carpentry market and had an goof knowledge of prices, competition, and the conditions and seasons of the market as well. He decided to set up his own business with the assistance of his friends in the carpentry market, who helped him in renting a workshop and bringing the necessary equipment, as well as buying raw materials in installments. He began by making doors and windows, and then developed to making wooden decorations, and at the time of the study he had eight workers.
SB16/ WO4 Gender: M Education: Diploma Sector: Wooden Furniture Firm Age: 6	WO4 was in his mid-40s and gained a Technical Diploma in Carpentry from the Technical Institute in Libya. After obtaining this diploma, he worked as a carpentry technician in one of the state-owned companies for the manufacture of furniture. After several years of hard work, he found that his financial status did not improve, so he decided to quit his job, benefit from his experience, and become self-employed. He began working in the houses of acquaintances, neighbors, and relatives in the maintenance of wooden doors and windows. Slowly he began to gain customers and a good reputation, so he decided to cooperate with one of his relatives to rent a small workshop in Al-Thulatha' market in the industrial zone of Tripoli, and they began operations in 2004, with only one additional worker. At the time of the study they had seven workers, and he was happy with the growth he had accomplished

	and aspired to expand the business if he managed to get the financing.
SB17/ ME1 Gender: M Education: Diploma Sector: Metal Industry Firm Age: 14	ME1 was in his mid-40s and gained an Accounting Diploma from the Commercial Institute in Libya. He worked with his father in the iron pipeline industry from his early youth, where he learned a lot about the techniques of the industry, and this drew his attention to the demand in the market for metal office furniture. So he decided in 1996 to establish a factory for the manufacture of this type of furniture with the aid of a cousin, who had graduated from accounting college, and who works in the morning in a tax institution. The cousin’s job helped him to form relationships in government departments and institutions and to obtain a loan from a commercial bank. Also, the status of his partner’s career helped them to market a part of their products of metal furniture to governmental companies and institutions, such as the police and army. In addition to this, they opened a showroom for metal furniture in Al-Thulatha’ market in the industrial zone of Tripoli.
SB18/ ME2 Gender: M Education: GCSE Sector: Metal Industry Firm Age: 15	ME2 was in his late 30s, and after obtaining his GCSE, he preferred to be self-employed instead of going to college. He started working with his cousin as a small manufacturer of aluminum doors and windows, and gained experience of this industry. This enabled him to establish his own business with the assistance of one of his friends who had experience in this field too. They both worked hard, and starting with only three simple machines, they now have 16 workers and eight machines. They have expanded their production to make aluminum doors and decorations for shops and malls. Their principles are truthfulness, honesty and commitment. Their goal is to increase marketing, so they recently opened a new branch in a promising location in the new Tripoli suburbs, where the density

	of residences in the region helped to increase demand for their products
SB19/ ME3 Gender: M Education: Degree Sector: Metal Industry Firm Age: 21	ME3 was in his mid-60s and obtained a Bachelor of Electrical Engineering from one of the European universities, at the beginning of the 1970s. Before he became the owner and manager of this business with his three brothers, he began his career as an employee in one of the Libyan government institutions as an electrical engineer. He was travelling a lot to attend training courses, so he had the opportunity to visit international industrial exhibitions in other countries. At this time he was collecting catalogues and thinking about establishing a factory of his own. He finally decided to establish a factory for the manufacture of metal shelves in 1989 with the assistance of his three brothers. It was the first factory in this field in Tripoli. At the beginning of the business there was a recession and few orders, so he benefited from his connections in obtaining contracts from three government agencies to provide them with large quantities of production. These contracts were the beginning of real work, and his company then built its name in the market until, to the extent that it now had 25 workers.
SB20/ ME4 Gender: M Education: Diploma Sector: Metal Industry Firm Age: 27	ME4 was in his early 60s and graduated with a diploma from the Institute of Art and Crafts in Libya. He began his work by becoming self-employed, because his father was a merchant. He began his career by establishing of an industrial business specialized in the manufacture of screws at the beginning of the 1980s. He started first with the assistance of his brother-in- law, but after a period after they both had a fund of capital, and they decided to terminate their partnership. ME4 became the owner and manager of the business at the beginning of the 1980s, and as a result of the fierce competition in the

	Libyan market from other manufacturers and screw importers from neighbouring country like Egypt, his goal was to maintain the competitiveness of the business and ensure its stability in the market.
SB21/ FO1 Gender: M Education: Degree Sector: Food Industry Firm Age: 3	FO1 was in his mid-30s and gained a Bachelor of Marine Engineering from one of the European universities, Tripoli, Libya. After graduating, he could not find a suitable job in his field, so he worked in his cousin's shop for wholesale food supplies in Tripoli. He began distributing food supplies in his own car to the retailers, and after years of work, he understood the market and had established excellent relations with wholesalers and retailers. After saving the necessary capital he became a partner with a friend who was working in the same area, and imported sweets from another Arab country, because of the high demand for its products in the domestic market. He continued for some time in this trade until he decided to manufacture these sweets in Libya in 2007. He imported the machinery from this Arab country, as well as raw materials for the manufacture of the sweets, and began production. The sweets were of as good quality as the imported, and he achieved great success because the production costs in Libya were lower than production costs in the other country, in addition to the cost of shipping and handling. The number of workers rose to 15 within three years.
SB22/ FO2 Gender: M Education: Degree Sector: Food	FO2 was in his late 40s and obtained a Bachelor in Mechanical Engineering from Britain, and a diploma in Metal Industries. He started his career as an employee in the main national iron and steel factory in Misurata, and then he was later transferred to the Ministry of Industry, where he was a supervisor in the water purification firms. He then worked as a supervisor of a private

Industry Firm Age: 10	business (a private contracting firm), so he thought of improving his financial status and decided to establish a simple industrial business in 2000 with the assistance of one of his friends, who had the capital, but a lower level of education. The two established a business manufacturing juices and bottled water. FO2 benefited from his long experience in the field of industrial management and was able to manage the business, and it succeeded. The business had been growing steadily during the past ten years at the time of the study, and the number of workers had reached 22.
SB23/ FO3 Gender: M Education: Degree Sector: Food Industry Firm Age:4	FO3 was in his late 30s and gained a Bachelor in Management from a Libyan university. He collaborated with his brothers in the wholesale and importation of sportswear and equipment, and food supplies such as juices and beverages. They had gained a good reputation in the market when they noticed the increase in the demand for juices and beverages mainly due to the nature of the Libyan environment with high temperatures in many months of the year thus increasing the consumer demand for different types of beverages. So the brothers thought of making these drinks and juices locally, to international specifications. After conducting a feasibility study, they set up the factory with FO3 as the manager, and with the assistance of his brothers, they actually succeeded in providing high quality products at good prices, so the consumers' acceptance was high. The factory started with one production line and then the business expanded and now has two production lines with twenty-five workers.
SB24/ FO4 Gender: M Education: Degree	FO4 was in his early 40s and obtained a Bachelor in Electrical Engineering. His father was a contractor and he encouraged his children to rely on themselves. FO4 began by importing small amounts of goods from China to Libya. After several trips to China he thought about importing desalination plants, due to the

Sector: Food Industry Firm Age: 10	levels of water salinity in the capital city. The idea succeeded, and he then established a factory for canning potable water in various sizes of bottles. He obtained the license for a plant in 2000 and started with one production line, which then grew to three production lines and twenty-four workers. The production was also developed by introducing water bottles of new sizes, to be used in hotels or at social events, and has achieved notable success in this business.
SB25/ CL1 Gender: M Education: GCSE Sector: Clothing and Fashion. Firm Age: 8	CL1 was in his mid-40s, and after obtaining a GCSE he attended university but did not complete his study. He worked with his father and brothers in Al-Mosher market, specializing in selling traditional clothing of various kinds. The market is located in the heart of the old city centre of the Libyan capital Tripoli, so he was working there after school to help his father and brothers. After years of work and gaining an understanding of the market mechanism, he decided to open a factory for the manufacture of the same type of traditional clothes. The factory opened in 2002 with the assistance of his brother, and began to produce traditional Libyan clothes of various kinds, provided the local market with their products. Their reputation in this field helped the marketing of their products. The factory expanded until the number of workers there reached 13 at the time of the study.
SB26/ CL2 Gender: F Education: Degree Sector: Clothing and Fashion. Firm Age: 4	CL2 was in her late 30s and gained a Bachelor of Mathematics from a Libyan university, Tripoli, Libya. She began her career as a teacher of mathematics in a high school, and after the death of her father and as the eldest of her siblings, she tried to open a small business to improve the financial status of her family. She first tried to sell wedding and soiree dresses for women in her family and neighbors only. After she had gained a few customers, the demand increased, so she opened a small sewing

	workshop for this type of dress in 2006 with her sister. They had only one worker and three sewing machines. CL2 was the manager, and after a period of work and perseverance, they became famous for tailoring, and sewing this type of women's clothing worn at weddings and social events, at competitive prices. In addition, they developed the small sewing workshop into a factory, where the number of sewing machines was more than four and the number of workers was eight.
SB27/ CL3 Gender: M Education: degree Sector: Clothing and Fashion. Firm Age: 19	CL3 was in his late 40s, and he obtained a Bachelor of Social Sciences in 1983 from a Libyan university. He worked in one of the government textile mills, until he became the head of the production unit. After the country was opened up to the world and free enterprise was encouraged, his father persuaded him into trade, so he and his brothers began trading by buying some types of textiles in high demand from state-owned factories, then selling them in the market. The five brothers formed enough capital to set up a small factory in 1991 to manufacture Arab suits (one of the traditional clothing styles and the most popular among Libyans, every Libyan must have at least one Arab suit). The factory expanded until the number of workers there reached 16.
SB28/ CL4 Gender: F Education: Diploma Sector: Clothing and Fashion. Firm Age: 23	CL4 was in her mid-60s and held a teaching diploma. She had worked as a primary school teacher, then as a worker in a government factory where the salary was better than teaching. The factory specialized in the manufacture of women's wear and lingerie. CL4 wanted to improve her financial status, so she applied for a loan from the Industrial Development Bank to buy a small factory for the manufacture of lingerie and women’s wear. After hard work and a long wait, she obtained the loan and set up her business in 1987. She began with a lot of work, but when trade was opened up again competition became

	very strong in the market due to imported goods, especially from Southeast Asia, Egypt and Syria. Despite all this, she managed to remain in the market because her products had a good reputation and she had loyal customers who became used to buying from her over the years.