

IMPROVING EFFICIENCY IN STARTUP ENTERPRISES

Abdulkarim SHAARANI
Siba Media Production S.A.R.L
ISEOR Research Center
University Jean Moulin Lyon 3
(France)
University of Balamand
(Lebanon)

1- INTRODUCTION

Entrepreneurship is defined as the creation or the establishment of a new venture or enterprise. (Mehzer, 34). So, entrepreneurs usually include small and medium enterprises, or SMEs. SMEs differ from large companies in the way of operations and in the fact that they are more volatile when it comes to external forces, and especially economic instability. In general, entrepreneurs are the heart of the business of any country. Not only they constitute the majority of companies, but also they empower the economy, contribute to solving its employment problems, and enhance its competitive position. However, in Lebanon, within an unstable environment that characterized by regional political disorder and local, legal, educational, infrastructural, and cultural hinders, entrepreneurs were and will face different types of obstacles and difficulties in operating. Thus, it is crucial at this stage that public policies and public and private assistance ship programs be formulated. And for that, understanding the causes of failure of small and medium sized enterprises are a prerequisite.

Talking about Lebanon, “Small and medium-sized enterprises (SMEs) form about 98% of all firms in Lebanon and employ 72.4% of the total workforce” However, Lebanon has a high failure rate of the small and medium enterprises with a large percentage of them failing within the first 5 years of operations. (“The Role of SMEs in National Economies in East Asia”: ESCWA, 2001). Therefore, a high failure rate of the major contributors to the Lebanese economy makes it significant for us to study the external environment in which they operate as well as the internal one in order to determine the main factors of failure.

Throughout my studies and research concerning the literature reviews of the entrepreneurship field and according to my experience in the Lebanese work field as an entrepreneur, I noticed that there is a gap within the literature reviews. There is absence of a simplified module that helps entrepreneurs avoid major operational and managerial mistakes that usually lead to high failure rates, avoid economic uncertainty, and provide alternative effective managerial tools for operations.

Having said that, this research will target the problem of entrepreneurship failure in Lebanon for the purpose of suggesting effectively dynamic innovative system for Lebanese entrepreneurs to help them overcome the failure factors and probable difficulties. This system is the Socio-Economic Approach to Management, or SEAM.

2- PROBLEM STATEMENT

Throughout my SEAM real intervention in my startup enterprise, Siba Media Production, I was able to apply some of its tools and track out several problems that are to be discussed in this document.

1 - Unclear vision of the company and undefined strategic plan are the main factors that increase dysfunction and minimize efficiency. How can SEAM's strategic management tools contribute to improve efficiency?

2- Conflicts and inaccurate financial reporting and monitoring are essential cause for waste of resources in our intervention field. How can SEAM financial tool helps in create accurate financial policy?

3- How can SEAM Methodology provide sustainable improvement in startup enterprises?

4- How can humanly integrated and simulating system of operational and functional information be an innovative approach to improve efficiency?

5- Can SEAM managerial tools play an effective role in organizing daily conflicts in startup enterprises?

3-AIMS OF THE STUDY

I chose this subject for two main purposes. First, as I own a startup enterprise and I have the potential and decision making power, I have the will to develop this startup with a scientifically-validated research methodology that is applicable in the process of enhancing the efficiency and performance within the enterprise. Second, increasing the efficiency in startups, which constitute the majority of businesses, in my economically and socially developing city would dramatically improve the socio-economic situation in the region. Therefore, I chose to apply the SEAM intervention in my own company to study its applicability and effectiveness for the ultimate purpose of modeling its tools to be applied in startups in North Lebanon.

4- HYPOTHESIS

4.1- Core Hypothesis

Improving Efficiency and Productivity in Startup Enterprises can be achieved through Socio-Economic approach to management.

4.2- Descriptive

Conflict between Human behavior and organizational structure and strategy is the main cause of dysfunction in startup enterprises.

4.3- Explicative

Humanly integrated and simulating operational and functional information system decreases the dysfunctions and hidden costs in startups enterprises.

4.4- Prescriptive

Humanly integrated system and simulating operational and functional information system can be achieved in startup enterprise by Applying SEAM managerial tools.

5- RESEARCH FIELD

Siba Media Production, a startup Services Company, is the field of this research. Siba Media Production (www.sibapro.com) is a leading entity that offers marketing solutions and audio and video production in Tripoli – Lebanon. We have been quite successful in short movies production, video advertising, and social network campaign designing and following up.

Siba media Production currently serves over 150 clients in Lebanon and the Arab World. Currently, Siba Media employs more than 10 employees alongside freelancers under its roof.

Job Description	Job Type	Count
Production Manager	Full-Time	1
Designer	Full-Time & Part Time	2
Sales	Full-Time	1
Administrative	Full-Time	3
Music Composer	Part-Time	1
Distributor	Free-Lancers	8
Photographer	Part-Time	1
Production Assistant	Free-Lancers	6

Table (1): Current Siba Media Production Team

Siba Production considered as an optimum example on startup enterprises. **SEAM** Intervention started on Dec-2016.

6-RESEARCH METHOD AND RESEARCH QUESTIONS

As mentioned before we will be using "SEAM" methodology to intervene through the following steps:

- a- Identifying the structure and the behavior of the enterprise .
- b- Functioning: Identifying right functioning and dysfunctioning.
- c- Regulation of dysfunctions.
- d- Identification of visible and hidden costs of performance.
- e- Increasing economic efficiency to get immediate results and create potential.
- f- Creating a strategy of negotiation with the business environment and society.

Socio-economic diagnosis of organization

This diagnosis is concerned with the study of the four-leaf clover; hypertrophied Dysfunctions, Atrophied structures, hypertrophied hidden costs, and atrophied behavior.

- a. Hypertrophied dysfunctions study focuses on the “working conditions, work

Organization, communication and coordination and cooperation, time management, integrated training, and strategic implementation”.

b. Atrophied structures study is concerned with “physical, technological, organizational, demographic, and mental” fields.

c. Atrophied behavior is studied through “individuals, work groups, professional categories, and pressure groups”.

d. Hypertrophied hidden costs are aroused from “absenteeism, occupational injuries, staff turnover, no quality, and direct productivity gap.”

This is an action research study. The principal investigator will do face to face interviews with the specialists in the field and decision makers to tackle the six different Dysfunctions categories specified by SEAM, which decreases efficiency in startup enterprises, taking Siba Media Production company as Research field.

7-INTERVENTION OBJECTIVE

As I am applying the real intervention at my own company, my main objective is to be able to optimize the efficiency inside the company and that would be tracked with several criteria. If those targets were achieved, this means that this intervention was effective and successful:

- ***Increase of Sales:*** the SEAM intervention is supposed to contribute to increase in 40-70% in company sales in the following year.
- ***Minimization of Time Waste:*** with the time management tools of SEAM intervention, we should be able to increase productivity by 20% within 6 months of the intervention.
- ***Maximization of Quality Control:*** the third success measure of the SEAM intervention would be measured through the enhancement of levels of quality control within my startup.

8- BIBLIOGRAPHY AND POSITIONING

According to a study by MasterCard, Lebanon was announced to be the joint first for entrepreneurship activities in the MENA region. 31% of the Lebanese citizens are involved in entrepreneurial activities. (“Lebanon first in region for entrepreneurialism”, 2010).

There are several indices that are used to define SMEs. The most important ones are the total amount of capital invested in the startup, sales volume, number of employees, and the production capabilities. Some countries use one of these definitions, all, or certain combination of them. However, the most commonly used index, and the one we will be using in this research, is the number of employees. (Mehzer, 36).

Table (1) below discusses the distribution of enterprises by size (number of employees) with their corresponding employment percentage, and output. Those data represents critical information that will be used further in this research.

Number of employees	Firms (%)	Employment (%)	Output (%)
1-4	73.6	38.34	20.4
5-19	24.3	34.1	27.45
20-49	1.35	7.78	13.33
>50	0.64	19.76	38.82

Table (1): Defining SMEs (Mehzer, 37)

Here comes the importance of entrepreneurship in any country as it contribute to the GDP, create jobs in the market, contribute to innovation and to the competitiveness of the Lebanese economy. (Burns, 2001)

The creation of emergence of either a new commercial or social enterprise is a process of several steps. First comes the initial opportunity recognition and conception of the venture, then comes the development of the conception, followed by progressing to the actual establishment of the venture, which finally leads either to its success and growth, or in many cases, to exiting from the investment or failure. (Lanteri, 3).

Failure must also be defined in order to be used in the research. There are several definitions that are used to explain “failure” in the business context. The most simplified one, and the one we will be using is the legal failure; i.e. bankruptcy. Or in other words, we can say that an entrepreneur failed if he or she exited the business sector, i.e. discontinuous of the business. (Mehzer, 39).

The latest statistics conducted in Lebanon concerning the failure rate of entrepreneurs was in year 2003. In that year, almost 5,000 new-born companies were registered of which 3,000 failed. This means that the failure rate is around 60% which is a very high rate. (Mehzer, 40)

Having said that, it is important to note that before any startup is initiated, the internal and external environments must be analyzed and studied. Analyzing the external environment involves studying all the factors that are outside the organization and usually out-of the control of the entrepreneur. It is divided into two parts; the societal environment (economic, political, technological... etc.), and the task environment which involves the stakeholders (shareholders, government, employees, suppliers, public groups... etc.)

On the other hand, the assessment of the internal environment consists of analyzing the variables that are within the enterprise itself and are typically within the control of the entrepreneur. The culture, resources, and structure of the venture are all included in the internal environment. In addition to that, as a part of the environmental assessment, it is very important to scan the personality of the entrepreneurs considering their political, analytical, and communication skills. (Mehzer, 41). And that will be done through interviews and questionnaire as will be discussed in the research methodology.

As a preliminary evaluation of the external economic environment, the Lebanese economy is characterized with instability and high volatility. As Economist Louis Hobeika emphasized, “the Lebanese economy is open and therefore sensitive to the conditions surrounding it.” He added, “The largest negative factor is the absence of internal political stability because it reflects negatively on Lebanese investments before foreign investments in Lebanon.” (Ayyoub, 2011). Thus, as a result of the political instability, the Lebanese

economy is suffering and an environment of unpredictability is being dominated and is affecting the entrepreneurship in Lebanon.

In addition to that, according to data published by the Ministry of Finance, the budget deficit of Lebanon has widened by almost 70% during the first half of 2013, and is expected to increase in the coming years if the political instability still present. ("Lebanon economy: Quick View - Fiscal deficit widens by nearly 70% in first", 2013).

As a consequence of the economic instability and political corruption, entrepreneurs in Lebanon are suffering from shortages of some indispensable resources for operation. For instance, in 2013, a statistic showed that 55 percent of Lebanese entrepreneurs stated that the supply of electricity is being a major or severe constraint to operate and do business properly. (Stel & Naudé, 255).

Nevertheless, the most important resource that entrepreneurs lack is the financial resources. Although some endeavors for helping Lebanese entrepreneurs were witnessed, entrepreneur Elie Habib says, "SMEs constitute over 90 percent of the country's enterprises but have been so far unable to reach their full business potential due to limited resources, especially access to smart capital funds". ("Promising future for Lebanon SMEs." 2012).

At this level, it is important to state how important is the bank's sector role in financing startups and display what decisions are made and actions are made concerning this issue. According to a report issued by the Central Bank, "providing incentives to banks to make equity investments in venture capital funds or startups will stimulate the Lebanese GDP growth in the long run." Also, it would create an entrepreneurship-supportive environment that would benefit the society. ("BRIEF: CSR Lebanon: Banks should support startups", 2014).

One of the most important initiatives to support entrepreneurs was the Impact Fund Banks one. This fund is sponsored by BLOM invest and MedSecurities invest and included the majority of the leading banks in Lebanon; Bank Med, FransaBank, Credit Libanais Investment Bank, Bank Audi, and Al Mawarid Bank and other banks are expected to join in the coming period. The impact fund will invest \$500,000 to \$5 million in startups and new venture capitals that are expected to grow into regional and even global success stories. In parallel to that, the Central Bank guarantees up to 75% of the banks' investments to be dedicated for startups and VC funds. ("Impact Fund banks on ICT potential", 2014). Those initiatives and guarantees are very important, but they still didn't solve two problems.

Rana Chemaitelly, a top AUB engineering professor and a successful entrepreneur, states that the Lebanese banks are not being effectively supportive of entrepreneurs since even they are given loans, they are always asked for collaterals in return. She also added that entrepreneurs are starting their businesses, thus they may not be able to provide the banks with collaterals. Therefore, banks should offer loans with lower interest rates to startups in addition to giving them the necessary facilities. ("Lebanon's banks 'not supporting young entrepreneurs'", 2010).

Moreover, not only the financial obstacles is what concerns startups, but also the stability of the country and availability of baseline services and infrastructure. ("Promising future for Lebanon SMEs." 2012)

Therefore, as mentioned in the introduction, the percentage of failure of entrepreneurs is high in Lebanon. Keeping in mind the importance of startups to

economies, here comes the significance of this research which will study the correlation between the failure rate of entrepreneurs and managerial approach of the followed in their startups for the purpose of suggesting an innovative solutions depending on the Socio-Economic Approach to Management to guide them in establishing and launching of their businesses.

This paper, in fact, provides an original content in Lebanon concerning the managerial approach in startups on the level of literature and practical applications. On the level of literature, there are several research papers that were published concerning entrepreneurship in Lebanon. Most of them are descriptive that analyze the situation of entrepreneurship in Lebanon. However, in this document, we will propose a practical approach to solve the managerial and operational dysfunctions that are typically faced by entrepreneurs in Lebanon. On the practical level, what makes SEAM a relatively more realistic approach is that it focuses on three main levels; the epistemological principles, the research methodology, and the managerial approach. Thus, SEAM offers a holistic theoretical and practical tools and approaches to the problems faced by entrepreneurs. In this document, we will try to represent those tools in a simplified module that depends on real life intervention in a startup in North Lebanon.

9- TIMELINE OF THE INTERVENTION

		2017												2018					
Tasks		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1	Literature review	[Blue bar]												[Blue bar]					
2	Integral diagnosis (9 interviews on technical and managerial level)	[Blue bar]												[Blue bar]					
3	Mirror effect		dysfunction notes			HDN cost													
4	Hidden cost calculation		[Blue bar]																
5	Applying SEAM Managerial tools		TM																
6	Project group																		
7	Evaluation																		
8	Document submission B						*												
9	Publication 1																		
10	Publication 2																		
11	literature review consolidation																		
12	Dissertation Writing																		
13	Dissertation defense																		

10-REFERENCES

- ESCWA Report, "The Role of SMEs in National Economies in East Asia": ESCWA.). 2001.
- Mehzer, T., et al. "Entrepreneurship in Lebanon: A model for success and failures." *Journal of Arab Culture, Management and Sustainable Development* 1.1 (2008): 34-52.
- "Lebanon first in region for entrepreneurialism. McClatchy" - Tribune Business News, Tribune Content Agency LLC, Washington, 2010.
- Burns, P. "Entrepreneurship and Small Businesses", Palgrave, New York. 2001.
- K. Ayyoub, "Lebanese economy struggles as political instability continues", 2011
- "Lebanon economy: Quick View - Fiscal deficit widens by nearly 70% in first", 2013
- Amin, Mohamad E. "Promising future for Lebanon SMEs." McClatchy - Tribune Business News, Washington, 2012.
- Stel, Nora, and Wim Naudé. "'Public-Private Entanglement': Entrepreneurship in Lebanon's Hybrid Political Order." *The Journal of Development Studies* 52.2 (2016): 254-268
- Lanteri, Alessandro. "The Creation of Social Enterprises: Some Lessons from Lebanon." *Journal of Social Entrepreneurship* 6.1 (2015): 42-69.
- Halawi, Dana. "Impact Fund banks on ICT potential." TCA Regional News, Tribune Content Agency LLC, Chicago, 2014.
- "BRIEF: CSR Lebanon: Banks should support startups." McClatchy - Tribune Business News, Tribune Content Agency LLC, Washington, 2014.
- "Lebanon's banks 'not supporting young entrepreneurs'." *The Daily Star* (Beirut, Lebanon), SyndiGate Media Inc, Beirut, 2010.