

Preliminary Concepy Note

Program for Upscaling companies in Lebanon

October 2019

The private sector in Lebanon is composed of tens of thousands of small and micro enterprises, with only a handful of medium and large size companies. In ranking companies by employees, the 100th largest company has 500 employees and the 1,000th has 70 employees.

See **Appendix A** for a definition of large companies in Lebanon

The lack of large size companies in Lebanon has deprived its economy from a necessary pillar complementing – should have been leading – the other pillars such as startups, small companies, and the public sector.

Large companies lead to a much higher positive economic impact than small companies in the following areas (see Appendix B for expansion of these points):

- 1) Job creation
- 2) Training and skills development
- 3) Expanding the tax base
- 4) Export of products and services
- 5) Foreign Direct Investments (FDI)
- 6) Technology transfer
- 7) Career development
- 8) Development of financial markets and instruments
- 9) CSR
- 10) Corporate Governance
- 11) Collaboration with higher education

Most companies (in Lebanon and around the world) reach a plateau in its size and find difficulties moving to a higher stage. In Lebanon the reasons include

- 1) Small market
- 2) Family company structure
- 3) Constraining regulation
- 4) Lack of leadership skills
- 5) Poor financial structure and balance sheets
- 6) Lack of access to equity finance which is scarce
- 7) Unprepared/unfriendly for third party investment

But there are a number of elements that are favorable to up-scaling medium-size companies to large ones:

- 1) Dozens of companies in manufacturing, Manufacturing, Trade, Professional Services, IT Services, Transportation, Hospitality, and other sectors are at a maturity level that allow them to grow exponentially given the right direction
- 2) 21 percent of companies surveyed (sample of 350 leading companies in Lebanon) are interested in allowing new investors (see **Appendix C**)
- 3) Favorable tax environment
- 4) Favorable workforce availability

Proposal

Creating a company up-scaling program that would lead to the development of medium-scale companies into large ones. The program will assist companies overcome the various elements hampering their development. This include help them revise their vision and mission and translate it into a comprehensive business plan, identify their areas of strength and weakness, and facilitate their access to resources needed for development. A sort of an incubator for larger companies.

Roadmap

- 1) Assembling a working group of parties interested in developing such a program
- 2) Review good practices in other parts of the world and identify experts
- 3) Develop a proposal for funding and identify possible funding sources
- 4) Identify a host organization to champion the project

Appendix A

Definition of a large company in Lebanon

In Lebanon, a medium size company, in the context of this concept note, is a company that has proven its business model, have reached a certain level but which growth level has stagnated to modest level, and which is profitable with healthy cash-flow generation.

Sector	Medium		Large	
	# employees	Annual turnover	# employees	Annual turnover
Trade	25-49	< \$15 million	50+	> \$15 million
Industry	35 -59	< \$4 million	60+	> \$4 million
Construction	20-69	<\$3.5 million	70+	>\$3.5 million
Hotels/Restaurants	20-59	< \$2 million	60+	> \$2 million
IT	15-39	<\$1.5 million	40+	>\$1.5 million
Other services	30-69	<\$5 million	70+	>\$5 million

Appendix B

Socio-economic benefits of large companies

1) Job creation

In developed countries, 80 percent of startups failed within the first few years. Those who survive the initial stage have an 80 percent chance to remain in business and grow. While there are no statistics for Lebanon, there are no indications that it is different. Small companies need seven years on average to reach 50 employees. But given the right stimulus and development plan, a 50-employee company can reach 300 employees in three years.

2) Training and skills development

Large companies can afford developing training programs that small and medium size companies cannot. SMEs rely on one-on-one and peer-to-peer training by trial and error, including learning the wrong ways to complete tasks. Large companies have standards and procedures that employees have to learn and follow.

3) Expanding the tax base

SMEs have on average poor profitability and are more able to evade taxes. Successful large companies are profitable, and are bound by internal regulation as well as subject to external controls which make tax evasion harder. All this lead to a larger contribution to tax revenues.

4) Export of products and services

SMEs are ill equipped to open new markets and develop business in other countries. The economies of scale place them at a disadvantage vis a vis much larger competitors from their own country or other countries.

5) Foreign Direct Investments (FDI)

Partnerships with international companies are difficult to establish by SMEs, It is large local companies that are able to develop a relationship with foreign manufacturers or service providers who will only conjointly invest with solid companies that can demonstrate financial as well as technical prowess

6) Technology transfer

Large companies are able to enter into licensing agreements for the usage of technology, which is necessary for a number of sectors (such as finance, pharmaceutical and food manufacturing, machinery, and many others)

7) Career development

The development of careers is limited in SMEs. Top HR, IT, Marketing, Finance, and other professionals need large companies for their careers to flourish. They lack this opportunity in Lebanon. Additionally, there are currently very few job opportunities for highly skilled and experienced returning expatriates, eespacilly those who have been employed in large companies in their current countries of residence.

8) Development of financial markets and instruments

The stock market in Lebanon is limited to a handful of banks and Solidere. The development of a large company segment will naturally lead to local listings, which in turn may lead the door to open to medium sized companies as well.

9) CSR

There are many definitions for CSR but they all apply to large companies who are better placed than others to develop environmentally sustainable business behavior, engage in charitable and volunteering work, and apply standards of good and positive corporate behavior.

10)Corporate Governance

Large companies are required – especially with outside shareholders – to use best practice in corporate governance.

11)Collaboration with higher education

Large companies collaborate with higher education, especially in the field of engineering, sciences, technology and other academic disciplines. This benefit both.

Appendix C

Survey results: Appetite for outside investment or partnership in leading companies

A survey was conducted by InfoPro with the largest 350 companies in Lebanon (excluding banks and financial companies). The following results have been noted

Is your company ready to partner with investor?						
Sector		Yes	No	Already have an investor	No Answer	Total
Manufacturing	Frequency	17	32	5	26	80
	Percentage	21%	40%	6%	33%	100%
Trade	Frequency	12	40	7	20	79
	Percentage	15%	51%	9%	25%	100%
Professional Services	Frequency	24	35	4	35	64
	Percentage	24%	36%	4%	36%	100%
IT Services	Frequency	3	14	2	15	34
	Percentage	9%	41%	6%	44%	100%
Transportation Services	Frequency	3	7	0	6	16
	Percentage	19%	44%	0%	38%	100%
Hospitality	Frequency	5	8	3	10	26
	Percentage	19%	31%	12%	38%	100%
Media/Entertainment	Frequency	4	5	0	3	12
	Percentage	33%	42%	0%	25%	100%
Holding	Frequency	5	2	0	2	9
	Percentage	56%	22%	0%	22%	100%
Total	Frequency	73	143	21	117	354
	Percentage	21%	40%	6%	33%	100%