

Global Outsourcing Summit

The 5th GOS 2012

Kunming

Topic 2: Global Market Opportunities and Business Demands of Outsourcers

A perspective View of the Lebanese Economy

By Prof. Roland (Jean) AKIKI

Vice-president for research

Holy Spirit University-Lebanon

Excellency (ies), Ladies and Gentlemen etc...

Lebanon, the country characterized by various political instabilities since 1975 and during the 1975-1990 civil war, experiences an inconsistent and unpredictable evolution of the GDP and its stock market. The later being established by the Beirut Stock Exchange, which had suffered a forced interruption of its activity in 1983 due to the war and was resumed a decade later in 1994. By chaotic evolution, we refer to the economic activity fluctuations that are important and irregular once we look back at the period from 1970 to 2009. Before 1975, the year when the conflict started, the Lebanese GDP growth rate reached a ratio of 12.5% in 1972, to fall to - 58% in 1976 and then increase up to 83% the following year, according to United Nations reports (2009). Such irregularities in the growth rate amplitudes continued until 1990, the year marking the end of the war. Therefore, following any economy, Lebanon is no exception to the principle of a "typical" economic cycle representing the macroeconomic variables movement on both sides of the long-term trends.

I) The structural characteristics of the Lebanese economy

A) The Lebanese production represents only 60 percent of domestic spending (consumption and investment). This is a fundamental fact, as Lebanon has never experienced, historically, a process of capital accumulation. Therefore, the country depends much more on external sources to satisfy its internal needs.

This situation is reflected in the structure of the balance of payments: the surplus balance of capital compensates the passive current balance: that is to say that Lebanon is completely dependent on the considerable inflows of the Diaspora, Gulf countries investments, and international financial aid.

B) In addition, the Lebanese economy is primarily a monopolistic economy. It operates according to the annuities logic at the expenses, thus, of the productive activity (largely discouraged) and of course the demand, which undergoes an outrageous levy:

- The exclusive agents for import and distribution of the majority of incoming products.
- The State Customs: Customs duties are very high with no economic justification (there is no local industry to be protected).
- The legal monopolies or legal de facto (Ogero for telecom, Sukleen for sanitation, Alfa /MTC, port, etc.).
- The agreements on local markets, tacit or not (cement cartels, banking, etc.).

II) The strengths and weaknesses of the Lebanese economy

A) First of all, Lebanon is not within the globalization process on the real exchange level since Lebanon is not a part of the WTO and its exports are minor. As on the financial flows level, the Lebanese financial market is not well developed and focuses primarily on the MENA region.

Such situation may sound negative, but at the same time the low exposure of Lebanon to the global economy has protected it from suffering of the global financial and economic crisis effects since 2008. In fact, and due to its modest level of bank risk management, the banking and financial system of Lebanon is a pioneer in this field: the Lebanese economy has outdid the global crisis of 2008/2010 (+5% of annual real growth)—thanks to a remarkable leadership of the Lebanese Central Bank in financial risks management. Finally, the situation in Lebanon seems more connected to the political and security situation rather than to the pure economic determinants.

B) On the other hand, Lebanon seems to be the land of missed opportunities:

- The natural resources are important, mainly in the agriculture field, however they are of little or no value.
- The human capital is - historically and culturally - significant, but the country has always suffered from the Brain Drain and Mass Migration phenomena.
- The construction sector is sturdy and flourishing, but, on the one hand it employs up to 90% of the foreign labor who never spend its income locally (as for the consumption or investment) and, on the other hand, the highly speculative market character casts a threat to crash (following the housing bubble model in Spain).
- The service sector is dynamic and innovative, mainly the highly value-added services: such as high-tech, auditing, finance, consulting, etc... Only this sector is composed of SME which cannot grow to export, due to the difficult access to funds (banks are fragile and the stock market inefficient).
- The banking-financial sector is efficient and resilient, it is henceforth a cliché, but at the same time it actually maintains the public debt which is of 80% of domestic banking and, therefore, the Lebanese banks have no interest in its disappearance.

- Finally, the oil resources recently revealed give hope as for the payment of debts and the recovery of the economy in the future.

III- The Outsourcing process

Over the last decade, we have observed a significant shift in the Lebanese companies' business model to include outsourcing of some of their business processes to third party enterprises. Many companies are substantially relying on outsourcing to leverage their core businesses and use the most suitable external resources as an approach toward business efficiency, organizational flexibility and increased market responsiveness.

The main drive to outsource in Lebanon is the specific need for specialized and unique know-how that is not readily available internally or is not cost effective. Moreover, the reason behind using outsourcing in special projects and extra orders in Lebanon is to produce explicit deliverables at a competitive cost in a relatively short time frame.

The outsourcing model in Lebanon can be categorized in two main types:

- 1) **Integrated Outsourcing:** Where the outsourcing is integrated with the function, activity or project of the company operations. In this case, contract expertise is brought into work internally as part of a team or within a function. For example, logistics outsourcing (Fattal Holding and Khoury Home outsourced their logistics and distribution operations to Agility logistics, also Obegi and MacDonald's of Lebanon outsourced their logistics and distribution activities to Logistica), IT outsourcing (major universities, banks and large organizations outsourced the implementation of their ERP systems to specialized IT companies), call centers (Peugeot is planning to outsource its customer service operation for the MENA area to a Lebanese company), HR training (many companies in Lebanon are relying on the service of third party training companies to train their employees), etc. The outsourcing is becoming not only a business trend towards improving productivity but also a solution to sustain the competitive advantage of companies in Lebanon.
- 2) **Deliverable Outsourcing:** Where the outsourcing is based on the delivery of a service or a product to the company is contracted out and completed handed by an external firm. For example, market survey (IPSOS and Massri Companies delivered customized marketing researches to Lebanese companies), HR recruitment and advertising agencies (local and international agencies are offering their services to large spectrum of Lebanese and Middle Eastern companies), consultancy, etc.

Each of these types has a specific value and strategic priorities that relate to the business objectives of outsourcing. Thus, when evaluating the outsourcing alternatives, it's a must to take into account the strategic context of the Lebanese businesses, the operational nature of the activities and the business performance aspects related to such decisions.

Finally, outsourcing services or products is not related only to large organizations in Lebanon but also to small and medium sized companies pursuing to manage their operations in a more effective and efficient manner for superior business performance.

In every case, the outsourcing process incurs several risks to avoid. Here, I refer in particular to the human side of the problem, which is a double sharp edge: on one hand, it is about a

loss of a high potential in country (i.e., the brain drain) and, on the other hand, the dismissal of the local employees for the benefits of foreigners.

Despite the huge moral difficulty to trade off fast earning against employees' dismissal, I would like, in conclusion, to reiterate my warmest “thank you” to the organizers of this conference and to the distinguished audience for this wonderful opportunity which allowed a small country like Lebanon to share our experience with the leading experts in the world of economy and politics.