BUSINESS RELATIONSHIPS BETWEEN LOCAL FIRMS
AND MNCs IN A LESS DEVELOPING COUNTRY:
THE CASE OF LIBYAN FIRMS

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Abstract

International business relationships have been widely researched over the last three decades. The major attention of these studies, no matter what their theoretical perspective, concerns the MNCs in the less developing countries (LDCs). Studies that illustrate how firms in LDCs behave regarding interaction with MNCs are slim. Therefore, this study focuses on firms in LDCs, namely Libyan firms, and their relationships with MNCs. The study reflects not only on the relationships between the local firms with MNCs but also the impacts of other interrelated business and non-business units on these relationships. The study employs business network theory for industrial marketing and develops a model applicable for studying such a market.

The empirical study employs a survey method which examines 60 Libyan firms’ relationships with foreign suppliers containing more than 300 questions. In the empirical part, the study shows that the relationships like technological adaptation, technological cooperation and information exchange were awarded low values. The measures on the other hand show a high value of impact from the political actors and even activities in the contextual environment. The study shows in detail where and how the political actions influence business relationships. These impacts from the local environment affect local firms more than the foreign suppliers, and thus have some bearing on the MNCs and local firms’ relationship weaknesses and strengths.

The thesis’ conceptual contribution stands on development of new notions in business network theory by integration of the contextual environment, in other words, network environment, and examination of their impact on the strength of the focal business relationship. The study further contributes knowledge, not only for firms and politicians in LDCs to understand the consequence of their actions, but also provides deep information for MNCs to understand issues like why firms in LDCs behave in a specific way. Such understandings facilitate the development of cooperation. The study provides information about a number of characteristics which are specific for the business networks of such a market which is dependent on only one resource like oil. While most studies in the field of international business regard the business activities of MNCs, more research is needed to also observe the behaviour of firms from LDCs to gain deeper knowledge on the relationship between the MNCs and local firms from LDCs. The role of political actors and the influence of dependency on one sole type of resources and aspects like change in the prices of this resource seem to be important, but are quite neglected in research in international business.

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To
Aisha,
Mohamed & Jasmine
PREFACE

Over the years, the relationships between the peoples from different countries were very closed for one reason or another, but I have spent time as a diplomat in Stockholm and as a Ph.D. student at Mälardalen University at the same time. This period has been very interesting, and several relationships have developed with various people.

To carry out this study would have been impossible without the dedicated direction, support and unceasing inspiration from my two wonderful supervisors, so I want to thank them both. Professor Amjad Hadjikhani and Associate Professor Peter Thilenius have been of assistance during the various critical stages the project has passed through. Moreover, they are also a very good source of inspiration and encouragement. Thus, I would like to express a special record of gratitude and thanks to them.

Furthermore, I would like to express my gratitude to Associate Professor Lars Ehrengren, and Dr. Mohammad Latifi, for their valuable comments and suggestions. I also owe much to my fellow doctoral students Abdelhakim Bashir, Peter Ekman and Peter Dahlin, for their valuable suggestions and comments on earlier drafts of the manuscript. Thanks are also to due to people who work in the libraries of Mälardalen University, and Stockholm University for the cooperation they have shown in providing whatever assistance I requested. Also I want to thank all the people that I have met at Mälardalen University’s School of Sustainable Development of Society and Technology (former School of Business), Thank you all for welcoming me and letting me take part in your business activities, special thanks to Elizabeth Catellani for her helpful assistance. Regarding the empirical studies’ conduct, special thanks are extended to workers in the firms for allowing me to collect the information. My special thanks go to my colleagues in the Ministry of Finance and the Centre for Science Economic Research and the Industrial Research Centre in Libya. Also, I am pleased to acknowledge the financial support provided by the Libyan government.

Finally, I would like to thank my parents and my wonderful wife Aisha, who took care of our birds Mohamed and Jasmine so that I could complete my work and also for her inspiration and tolerance during all the years of this study. I also wish to thank my mother Aisha and my bothers and sisters for their encouragement to complete my work.

Alsedieg Alshaibi
Västerås, July 2008
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<tr>
<td>BPSD</td>
<td>Barrels Per Stream Day</td>
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<td>CBL</td>
<td>Central Bank of Libya</td>
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<td>DCs</td>
<td>Developed Countries</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>General National Product</td>
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<td>IMF</td>
<td>International Monetary fund</td>
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<td>LD</td>
<td>Libyan Dinar (Libyan currency after 1970)</td>
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<td>LDCs</td>
<td>Less Development Countries</td>
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<td>LBC</td>
<td>Libyan Central Bank</td>
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<td>LP</td>
<td>Libyan pound (Libyan currency before 1970)</td>
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<td>MNCs</td>
<td>Multinational companies</td>
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<td>NOC</td>
<td>National Oil corporation in Libyan</td>
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<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>T&amp;D</td>
<td>Training &amp; development</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Chapter One: Introduction

1.1. Introduction

International business relationships have been widely researched over the last three decades. The studies cover major issues, especially regarding industrial countries. In recent times, and until now, the studies of multinational companies (MNCs) have always been a major issue in international business literature, and various international business and marketing theories based on social, economic and management theories have continued to emerge, with an emphasis on the existence and growth from the marketing mix to relationships and networks (Johanson and Mattsson, 1994). The major attention of these studies, no matter what their theoretical perspective, concerns the MNCs in the less developing countries (LDCs)¹ (Latifi, 2004; Hadjikhani and Thilenius, 2005; Yamin and Ghauri, 2004). Questions related to how those firms penetrate and expand in other countries have occupied the main attention of these studies. In respect of where these MNCs act in relationships with firms from developed or developing countries, the focal attention has been on MNCs’ behaviour. As a consequence of these research trends, there are very few studies on the business relationships of firms from LDCs, whose markets are unstable and suffer from many crises (Hadjikhani and Lee, 2006; Hadjikhani and Thilenius, 2005; Ghauri, 2006; World Development Report, 1989; UNCTAD, 1992; 2001). These relationships have not been subjected to in-depth studies in international business. In spite of the fact that MNCs interact with firms in these countries, apart from a few recent studies, the behaviour of firms from LDCs is left ignored and has become

¹ Historically, LDCs have been classified by institutions like the United Nations (UN) and the World Bank based on their economic conditions. This has been done by using indices such as GNP and GDP. There are many types of terms, such as ‘industrialized’, ‘developed’, ‘advanced developing’, ‘newly industrialized’, ‘developing’, ‘less-developed’ and ‘undeveloped’, which are used for grouping purposes. For the objective of this study, it is assumed that there are large numbers of countries in the group termed ‘less-developing countries’, which have specific characteristics (Farashahi, 1999). Other terms have also been used to indicate these countries, such as ‘industrializing countries’, ‘less-developed countries’, ‘under-developing countries’ etc. Each term tends to have a certain connotation, some being more complementary than others and some gaining popularity while others are no longer used. However, LDCs are not nearly as homogenous as LDs (Krugman and Obstfeld, 1994). They are a disparate group in many respects, e.g., when being considered as targets for investment and product markets (Dicken, 1992; Li, 1994). Kim (1998) argues that even LDCs vary significantly in many respects and may be categorized into three groups in terms of stages of development (Farashahi, 1999). In spite of these differences, there are some characteristics which these countries have in common.
neglected. There are a large amount of business studies that pay attention to the behaviour of the firms in developed countries (DCs). There has been some research on the interaction of MNCs with local firms from LDCs. They shed light on aspects such as cultural differences, market risks, etc. and are devised to study the behaviour of the MNCs with these firms. But this research field neglected the local firms’ point of view. Studies that illustrate how firms from LDCs behave are slim. An overview shows the serious need for studies that observe the market from the point of view of the local firms in LDCs. More research on the behaviour of firms in these countries will increase our understanding about these markets. Such studies will also highlight the nature of the cooperation difficulties between MNCs and local firms from LDCs. Recent studies mainly pinpoint the interaction problem but give it no deep consideration (Ehrengren, 1999; Hadjikhani and Thilenius, 2005; Yamin, 1988; Yamin and Ghauri, 2004).

The key to being able to understand the business relationships of firms in LDCs interacting with MNCs requires studying the business relationships from the perspective of local firms (Latifi, 2004; Hadjikhani and Thilenius, 2005, Lee, et al, 2007), the structure of the market and the information about the actors’ behaviour and the variables, which all have an impact on business relationships (Keillor and Hult, 2004; Keillor et al. 2005). Therefore, understanding and studying business relationships from the local firms’ perspective can be important for MNCs, local firms and LDC governments. In addition, studying the business relationships of local firms in these countries is of utmost importance for MNCs, many of whom work in LDCs and seek to enter and to extend processes in new markets. But doing so cannot be enough without having an understanding of the local firms and the way they manage their business relationships with MNCs and government in those countries. The next section summarizes some observations on two cases of local firms in the Libyan market when managing their business relationships with foreign suppliers.

1.2. Two Observations on the Local Firms’ Behaviour

1.2.1. Case 1: Transaction Electric Company (TEC)

The Transaction Electric Company (TEC) is one of the Libyan private firms which are wholly managed by Libyan businessmen. The company was established in 1988 with an initial capital of LDY 100 thousands and employs more than 20 workers in Libya. The TEC built up a project to develop the light industry and one of the companies that was influenced by the Libyan Government policies (See Chapter 5). The TEC made its first
purchase from a foreign supplier, SMC from Taiwan in 1988, and the major purchasing of electrical products and equipment was for a long time from SMC during the 1990s, the total amount was more than LDY 10 million, which satisfied part of the demand of the Libyan market.

TEC business relationships with SMC can be divided between two different actors. The first actors were the TEC, and the second were government authorities, and dealing with them usually took a long time because of the bureaucracy. The processes are supervised by the chairman of the board and the department of purchasing of the TEC. However, the documents needed by the Ministry of Industry had a major role to play with regard to dealing with SMC. Also, the ministry grants approval and the transactions have to be included in the budget for imports of commodities that are controlled by the Ministry of Industry, the Ministry of Economics and Commerce and by the Libyan Central Bank. Afterwards the TEC is given a licence to enter into contracts with SMC. In addition to this, all the contracts needed to be checked and audited by the Ministry of Control and Follow-up (Alqadhafi, 2002).

The business relationships between the TEC and SMC were not stable for some years; the business relationship between them was influenced by the government’s policies, especially the trade policy e.g., when the TEC needed to complete their business deals, these were covered by the import budget of commodities. Also, when TEC faced some problems, the TEC turned to the Libyan authorities to get support from them. After some time TEC and SMC found solutions to their problems, especially financial payments. However, the TEC’s business performance after the 1990s was good, and it again had financial problems with SMC.

Moreover, a number of the TEC’s characteristics, such as its production systems were of medium capacity, low productivity, and limited links with international companies, affected their relationships with foreign supplier. (Alqadhafi, 2002). In general, the TEC business relationship with SMC has been vulnerable to any changes in the import budget of commodities, which has been reduced as a result of the government’s policies that dominate the industry when purchasing from foreign firms. These, in turn, give the government the hierarchical power to control the TEC’s business relationships with SMC. Also the influence of the Libyan Government’s policies, which have a huge impact on the TEC’s activities, can either be of a direct or an indirect nature. For example, as mentioned above, the TEC had financial problems with SMC. This was caused by a lack of financial resources, which were limited by the budget for imports of commodities that fluctuated from year-to-year depending on the oil revenues.
1.2.2. Case 2: Al-Zawiya Oil Refining Company (AORC)

The Al-Zawiya Oil Refining Company (AORC) is a wholly owned subsidiary of the National Oil Corporation (NOC) and has since 1976 been incorporated under Libyan commercial law. The AORC’s first refinery was built by the Italian company Snamprogetti. The AORC, which was founded in 1974 with an initial capital of LYD 87 million, has more than 1500 employees. It started production with a capacity of 60,000 BPSD, and in 1977 the production capacity was doubled to 120,000 BPSD. It was designed to produce products to meet the latest specifications of the international standards (http://www.azzawiyaoil.com, 2005).

Among its clientele, the AORC has worked with many MNCs operating within the oil industry and it also conducts business with a string of companies that specialize in manufacturing oil equipment. The most important suppliers are five MNCs from Italy, and one from France and South Korea respectively. Later, after the end of the sanctions on Libya, and the increase in the oil prices in international markets, the AORC developed their business relations with companies, especially with the US and South Korean companies.

The main foreign supplier of AORC was the Italian company Nover Binioki (NB). In general, the company’s relation with NB was affected by the government’s policies and the crude oil prices, as well as indirectly by the lack of grants in the budget for imports of commodities, which the NOC decides upon depending on the needs of its wholly owned companies. As a result of the aforementioned factors, the purchases of AORC from their partner NB have decreased over the last five years. From a time perspective, the purchases have been irregular despite the optimistic expectations. The AORC has had some difficulties with NB concerning handling of the crude material and is in need of training programs and cooperation (Otman and Bunter, 2005).

The AORC, when dealing with NB, sees the importance of the NB determined by the size of the purchases, both exchanging technical ideas and its relationships. Also the AORC has been given the task of purchasing crude materials and industrial equipment all by itself. When it comes to the trade-related relations between the AORC and the NB, the order flow is at a very stable level. Concerning the delays, three months can have a great impact, since the company is dependant on legally binding written contracts in order to realize the agreements that have a critical influence on trade-related relations.

Among the most important steps AORC have taken in order to adjust to NB or other suppliers have been not only technical, but also non-technical information exchanges. The

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2. National Oil Corporation (NOC) was established in 1970
company spends much time on establishing good relations with NB and always takes the first step regarding making contacts and changes. Naturally, the NB is pleased with the company’s initiative. Also the AORC trusts the information handed over to it and relies on this information when handling production operations in official contexts.

Concerning the influence on business relationships of AORC with NB, in terms of the trade-related dealings and foreign trade policies, the effects caused by the relations between the government and the NOC have a great impact. Among the most important things are exchange rates, customs fees and the support the government offers. The government’s trade situation generally governs the relations between the AORC and NB.

Regarding political, non-trade related factors, the production specification has a great bearing. Thereafter comes the company’s share of the state-funded grants from the budget for imports of commodities in the oil sector, which is administrated by the NOC. Among the bureaucratic work that affects the relations are the verification measures and the Customs Department’s examination of and decision on the purchased goods.

Since the AORC’s administration of its trade policies takes place by way of contact with decision-makers and the adaptation of the production operation, the company can obtain an influence over and a change of the trade policies. This is because the AORC feels that a state’s trade policy is formed in accordance with the short-term industrial needs as well as the needs of some companies. The director-general and the director in charge of the purchase division emphasize the handling of trade-related questions with NB. In addition, the company thinks that competent departments, the NOC, banks and agencies have a tremendous influence. Regarding the influence on the relationship with NB caused by the change in crude oil prices, the drop in prices has a direct negative effect on the amount the AORC have in mind for purchases from NB and also on the production operations. A similar effect is noticeable regarding trainee and development courses and information exchanges. Usually the NB accept such circumstances, but not on a long-term basis.

1.2.3. Case Analysis

In the first case, the firm is from the private sector and in the second is from the public sector, which to some extent make them different. Therefore, the focus will be on the business relationships between the local firms and the foreign suppliers and the impact of the Libyan Government on business focal actors. This will be done by way of analyzing the relation between business actors and the influence of the government’s policy on focal relationships.
First of all, in the Libyan business context there are more than just business firms, government as a political actor has an influence on the performances of the TEC and the AORC. Both companies, when purchasing from their foreign partners, were influenced by the government policies to a very large extent: both firms are controlled by the Libyan Ministry of Industry and the Ministry of Economics and Commerce, and the Libyan Central Bank. Each of the TEC’s transactions as well as the AORC’s purchasing need to be first cleared by the ministries and the Libyan Central Bank regarding the amount that can be used for purchasing from their foreign suppliers. Since the Libyan Government established the budget for imports of commodities in 1982, this has managed the purchases made by Libyan firms from foreign suppliers. Since then, the government has assumed direct economic positions. In other words, it can act as the intermediary in a business exchange. This was the case with both Libyan firms: the SMC and the AORC senior managers were used to develop close cooperation with the national government and were prepared to invest resources in this sector as well as put their effort into cultivating their relations with NB and MNCs in general.

Therefore, the SMC and the AORC became tools of the government’s polices with regard to direct participation in policy-making. However, as the move towards greater government deregulation has accelerated in recent years, the company has begun to question the high degree of government control over production and marketing in the industry.

In these cases, government may also have an indirect economic position in a business network: both firms were the agents of a political ruler, namely, the government of the state of Libya. Another type of indirect economic position is that of a competitor, with these firms being dominated by government–owned marketing boards during the period under discussion. Also, in these cases, because political rulers and business firms need each other and because every action taken by one of them affects the other - both accrue direct and indirect benefits in the interaction (Welch and Wilkinson, 2004).

1.3. Positioning of the Research.

In Section 1.2, we presented some empirical observations on two local firms in the Libyan market. The cases revealed how the firms have managed their industrial purchasing from foreign suppliers and also the role of Libyan government. Contrary to this idea, the majority of the studies on international business and marketing focus on selling behaviour of MNCs (Boersma et al., 2003) and ignore studying the behaviour of local purchasing firms in LDCs. Therefore, there is a gap of studies on the industrial
purchasing and business relationships from the point of view of firms from LDCs. Within this context, the earlier studies, such as Hadjikhani and Thilenius (2005), state that the role of the local government is not deeply explored.

In the literature of international marketing, previous studies, which have used a mix of marketing and have considered marketing as a single transaction between buyer and seller, have focused on the supplier (Boersma et al., 2003). The studies by Ford et al. (1998), Shaffer and Hillman (2000) and Welch and Wilkinson (2004) have referred to the existence of other actors, such as the government, that interact with business actors. In recent studies, attention has started to be paid to the interaction between the business and political actors (See, for example, Welch and Wilkinson, 2004; Ehrengren, 1999, 2002; Ring et al., 1990; Hadjikhani, 1996; Hadjikhani and Thilenius, 2005). These studies have contended that earlier research has ignored the fact that firms accumulate resources to raise political competency and influence political actors.

Concerning the role of the government in the literature of international marketing, there are a number of studies that show the huge impact that a government has, e.g., studies on risk theories (Korbin, 1982; Simon, 1983; Boddewyn and Brewer, 1994; Campa, 1994; O’Shaughnessy, 2001). In other studies, the researchers have focused on the ways that host governments have adjusted in order to restrict foreign firms (Baines and Egan, 2001; Bonardi et al., 2005; Doz, 1986). The studies have failed to pay attention to how the relationship is structured between the business actor and the government, and the literature ignores the main fact that political uncertainty affects the MNCs directly or indirectly through local firms. Thus, this fact supports the viewpoint that there is no information about the local partners of the MNCs in LDCs, and these studies often describe the business relationships from the perspective of the MNCs, as though the local firms do not exist. From an interdependent point of view, the relationships between business firms and the government come from the fact that they need each other: the latter needs both local firms and MNCs for economic development, whilst business firms need governments to support the stability in the market (Ehrengren, 1999; Yamin and Ghauri, 2004).

1.4. Research Problem. However, there are knowledge gaps covering the business relationships between MNCs and local firms in LDCs, and the influence of the political actors. A research problem aiming to study business relationships in a market like Libya can increase our knowledge on this topic. Subsequently, the simple issue raised in this study is:
To describe how the purchasing firms from a less developing country, in this case Libya, manage their relationships with their counterpart, i.e. selling firms from MNCs. The research observes this question in a wider perspective and states that the answer to such a question lies not only in what the local firms and MNCs do in this focal relationship, but also raises another related question. The question is:

*How is this focal relationship affected by other business firms and non-business units?*

Within this context the sub-questions raised are, for example, how other related local firms influence this focal relationship. How do non-business units which have a vital role in a LDC like Libya, impact on local firms and also MNCs. And, why do different local firms act in a specific manner when interacting with MNCs (See Ehrengren, 1999). The further subsequent question in this study is:

*How are local firms’ and MNCs’ relationships in a LDC that has a high dependency on a specific resource influenced by changes in the environmental factors like change in the price of this resource?*

These questions concern the local firms in a number of exchange relationships having different types and contents. Any change in one relationship affects the other and finally imposes possibilities for or hinders the focal relationship. Exploring the research question in this manner discloses that the crucial issue for this study is not just to manifest how local firms or MNCs are related to each other. In getting deeper understanding of the impact, the study embraces the matter of how weak or strong the impacts of these relationships are and how any change in one influences the others.

Although, these questions are interesting from several perspectives: *A*) they aim to explore the relations between local purchasing firms from LDCs with selling MNCs; *B*) they reflect the interaction between MNCs, local firms and the government (as political actor). *C*) while MNCs’ concern is the marketing in LDCs, firms from LDCs consider the topic as a purchasing issue. This means that in some respects, studying the relationship behaviour in marketing (MNC’s point of view) is not completely the same as studying it in purchasing (LDC’s point of view). Some researchers in industrial purchasing have their concern in market condition in industrialized countries (Latifi, 2004; Lee et al, 2007; Ehrengren, 1999, 2002). They state that there are few studies that concern interactions between MNCs and firms from LDCs from the local purchasing firms’ point of view (ibid). Exploring this interaction can enhance research on similar topics and also increase the firms’ understanding to improve their business.
In order to study this research problem, the thesis employs the business network theory for industrial marketing. In this theoretical path, a vast majority of international marketing studies highlight long-term technological cooperation and interdependency between firms in industrialized countries. It would be thus interesting to employ the same theoretical ground for studying of industrial relationship strength for firms from LDCs (Hadjikhani and Lee, 2006; Hadjikhani and Thilenius, 2005). In order to answer the question, the theoretical concept employed is business network and the purpose is to examine the weakness and/or strength of the business relationships between 60 Libyan firms and foreign firms and the role of other firms and government policies and factors like oil price. However, the research question above raises interest for studying three different types of business relationship. The first is the focal relationship which concerns the relationship between MNCs and local industrial firms. The second type concerns the relationships between local firms and other interrelated firms. The third type of relationship concerns interaction between business firms and non-business units.

1.4.1. Importance of the Study.

Understanding and being able to discuss the environmental background of the local firms within the context of LDCs is important because MNCs carry out business with these firms with no knowledge about how local firms are positioned and influenced by surrounding factors. Knowledge about the local firms and how they behave is an important issue not only for researchers but also for MNCs, local firms and governments from LDCs (Hadjikhani and Thilenius, 2005). Researchers in international business marketing need to realize that understanding business in LDCs requires further knowledge on local firms’ dependency and strength in the market. Local government for example, needs to understand how its decisions impact on firms and thereby on the economic development in the country. MNCs also need to know how local firms are affected by impacts from other local firms that they interact with.

The attempt is to discuss in more depth the content of business relationships and the industrial purchasing of local firms from LDCs. This will help all parties to better understand international marketing in LDCs. Knowing the possibilities and opportunities of the local firm may assist foreign suppliers when interacting with them. Conversely, this may also help the local firms in understanding the strengths and weaknesses of their relationships with foreign suppliers. It also may aid governments in similar countries to realize their impacts on business firms and thereby development of the country.
From a theoretical standpoint, this study will develop a conceptual and theoretical framework that includes the links between business relationships and political actors. This is still a new area of research in the literature on international marketing and therefore this study has the opportunity to investigate this subject, which few studies have previously examined. MNCs operating in Libya, or in similar countries, can understand why local firms behave in a specific manner. In addition, the results of this study may be used to reduce the uncertainty between partners. Understanding the content of the business relationships of local firms can help local firms and governments and also MNCs to undertake strategic measures to assist in reducing the uncertainty of the interaction.

1.4.2. Methodology

The research has a descriptive aim and therefore the method selected in this study is simply to introduce an analytical framework and then describe the empirical facts. Following this framework, it describes firstly the content of the focal relationship and then the impact from the other firms and organizations on this focal relationship. The discussion on methodology is, however, presented in Chapter 4. In order to draw some general views, the survey method has been employed to examine 60 Libyan firms’ relationships with foreign suppliers. The survey contained more than 300 questions. There are, however, some other studies that have used the network view to analyze the facts gathered by using the survey method (Vissak, 2003). This strategy is being used in this study for two reasons: (1) the aim with such an empirical method was to gain a deep knowledge on the elements affecting the local firms’ behaviour towards MNCs. Further, the information from large numbers of firms makes it possible to draw some general conclusions and (2) to measure and compare the degree of impacts from several elements.

The survey questionnaire is based on the theory of business network. The survey contains these vital reactions. The first questions aim to measure the functions of business activities in general; the second part is devoted to questions for measuring the content of focal relationships. The third part is divided into sections which a) measure the nature of impact from the local business firms and b) also measure the influence of non-business actors and also oil price changes on the focal relationships.

1.4.3. Limitation of the Study.

No doubt, there are certain limitations in this study. Some concern the theoretical view for studying this area and some others are related to the empirical part. For the first, clearly, there are several other theoretical views which the study could employ. Theoretical views
in favour of uni-directional impact and hierarchical power of the states on local firms and MNCs may fit better for reasons like the type of country in focus. A country like Libya is governed by political rules which must be obeyed by firms. The study had this limitation in mind. But it selected the network view and put its emphasis on firms’ managerial behaviour to examine if firms act towards these coercive political rules. If firms did not put emphasis on managerial actions, then the relationship would be uni-directional and coercive. In this vein, the study integrates the hierarchical power of the political units into the theoretical frame of the study (please see chapter 2). No doubt, theoretical views like institutional theories could have been adapted for such a research question. But the nature of the question in a study like this must be changed. Since the focal question was related to the study of local firms and MNC’s relationship behaviour, such theories may have missed the content of this relationship behaviour.

The next fundamental limitation concerns the empirical part which contains several vital issues. One is the number of the firms in the interviews which is only 60 firms. The crucial question is whether this number is enough for a generalization of the firms’ behaviour. Naturally, there are more than 60 firms in Libya having a relationship with MNCs. According to Libyan national statistics, the numbers are more (about three times more) but not as much as compared to industrialized countries. Results from this number of firms can possibly give an opportunity for understanding other Libyan firms. Another shortcoming concerns the limitation in generalization on the type of firms; the aim was to study and analyse the business relationships of Libyan firms (state and privately owned firms). When analyzing, we divided the results on the base of ownership, private and state. Since the results showed no differences for these two types of ownerships, we decided not to include such structuring. After a short period of study, we noticed that if we wanted to study a special type of ownership or branch, then the number of the firms became sometime less than 10 (see section 4.5). Therefore, we place emphasis on the behaviour of the firms together. Further, studying the firms in general and also structuring them into types of industry could have given a better and deeper understanding of differences and similarities, and could have increased the range of the study.

Another crucial limitation regards the matter of generalization. The vital question which remains almost unanswered is how the results can be generalized for other countries. Naturally, the integration of aspects like oil can aid the generalization to those countries which are dependent on only one source of export. It may have been easier to
reduce the criticism by comparing with similar studies in other countries. There are of course similar studies with similar theoretical views and surveys. The comparison may have given new ideas and could increase the validity of the study. At the beginning of the study, we intended to carry out the comparison, but after a short period we noticed the problem of the increasing magnitude of this study and therefore we dropped the idea.

Another key limitation reflects the methodology that we only referred to local firms. This key aspect which affects the reliability of the study is valid and important. This shortcoming is mainly related to facts such as, a) lack of time and resources to conduct such a study; b) availability of the MNCs and their willingness to be interviewed, as in the Iranian case the MNCs refused cooperation; c) there are a large number of studies, doctorate dissertations, scientific articles using IMP views or business network theory that have interviewed only one of the partners. Naturally, if the study had employed the case study method, this shortcoming would not have been acceptable.

1.5. Study Outline.

This study contains eleven chapters divided into three parts: (a) an introduction and a theoretical framework, (b) an empirical study, analyses and an interpretation of the data, and (c) conclusions and an analysis of the results.

The first part consists of four chapters.

- Chapter One presents the introduction and the purpose of the study.
- Chapter Two deals with the literature review, focusing on the business relationships of the local firms in LDCs. It also surveys the existing literature on political actors, and it attempts to relate previous research to this study.
- Chapter Three contains the theoretical framework, and the study’s theoretical model.
- Chapter Four is devoted to discussing the methodology of the study and to describing the research process.

Part 2 contains five chapters that present the empirical study.

- Chapter Five gives some background on the Libyan economy and polices which are applied by Libyan government.
- Chapter Six presents the results on the focal relation.
- Chapter Seven discusses the adaptation between Libyan firms and their foreign suppliers.
- Chapter Eight focuses on the social relationship.
• Chapter Nine presents empirical facts on the influence of government policies and changes in oil price on the relation between Libyan firms and foreign suppliers.

Finally, Part 3 contains two chapters that present the conclusions and an analysis of the results.

• Chapter Ten presents the analysis of the data obtained from the method used in this study.

• Chapter Eleven contains the conclusions and analysis, together with some suggestions.
Chapter Two: Literature Review

2.1. Introduction.

As mentioned in the first chapter, a vast majority of literature reviews on business relationships focus on MNCs in industrialized countries (Latifi, 2004; Hadjikhani and Thilenius, 2005), and their activities are discussed in depth from different perspectives. On the other hand, a few researchers have directed their attention to studying the business relationships of local firms in LDCs (Hadjikhani and Thilenius, 2005). In this chapter, this study focuses on the relation between three parts 1) local firms 2) MNCs and 3) Governments as political actors. The first part will examine the local firms in these countries. The second part concerns the relationships of MNCs with local firms in LDCs. In the third part, we review the literature studies on the relationship between the business and the political actors with special reference to the role of the government’s influence.

2.2. Local Firms.

Studies in recent years have become more interested in understanding local firms\(^3\) from LDCs. Their business behaviour management, marketing culture and the human resource factor have been highlighted (Ehrengren 1999, 2002; Hadjikhani and Thilenius, 2005). Exploring the relationships between local firms and the MNCs requires a thorough understanding of complexities in all aspects: from the relationships and interaction between them, and their environmental contexts. Both parties need to create different types of management and strategies in order to manage interactions and transfer of technologies and training and development (T&D) (Tsang, 1998). Moreover, the interactions are restricted in terms of time and location, within a framework confined by social, economic and political dimensions (Ehrengren 1999, 2002; Tsang, 1998).

Some studies have highlighted the issue of the environment of local firms, with attention to the variables such as the local culture and the political system (Beechler and Yang, 1994; Dowling et al., 1999).

According to studies on business and marketing, the cornerstones of the local firms’ environment are the political, economic, social and regulatory systems. For example, the environmental regulatory procedure is one of the most unpredictable factors facing MNCs when they interact with local firms in LDCs (Walde, 1996). It also has a considerable

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\(^3\) In this study, the definition of local firms, in general, are firms whose business is to produce commodities and services in one country which is an LDC, and which purchase from other local firms and MNCs.
‘interpretative gap’ and has been administered with various degrees of margin (Verhoosel, 1998).

Some authors pointed out that management is a critical problem, as firms in these countries operate with a low efficiency due to some poor strategy and malfunction of management. Some of the major concerns, which affect the performance of LDC firms, are the management and development of the workforce (Hau, 1998; Walde, 1996). Moreover, one of the main differences between the MNCs and local firms is the way that individuals contribute to the companies and their perception of inducements. The contributions of individuals are not necessary in the form of capital, as skills or work, but rather mostly in the shape of social relations and their association with authorities, such as family names and social positions (Kinsey, 1988)

Concerning the characteristics of many local firms in recent years is the marked lack of a major requisite for growth and the use of high technology. These firms suffer from a low technology source and low rate of productivity. Besides these basic characteristics, some studies describe LDC firms as having certain characteristics of: small in size, a few economies of scale, primitive and crude technology, a lack of skills, inadequate physical and social infrastructure, low efficiency and so forth (Kinsey, 1988; Hau, 1998). These characteristics of local firms may be the causes of differences in the content of business relationships between MNCs and local firms in LDCs (Latifi, 2004), which this study tries to investigate.

Moreover, some studies point out the powerful family ties, political groups, or lobby groups that are able to dominate and impose or override rules and regulations based on their own interests, thus making the environment even more unpredictable (Hau, 1998). In addition, local firms face constraints, which occur because of the dual nature of their economies, the weaknesses in public administration and management, a lack of overall planning mechanisms and rural-based micro enterprises. Apart from these uncertainties, which MNCs face when interacting with local firms, sometimes, MNCs encounter problems where intricate relationships between business firms and government in these countries appear to be the norm (Khanna and Palepu, 1997). Some of the major concerns, which affect the performances of local firms, include the management and administration of the overall planning and supervision of the local environment and also MNCs.

In summary, local firms in LDCs find themselves in a situation with specific characteristics, such as political instability, currency devaluation, inflation, foreign debt,
undeveloped infrastructure and a generally high level of uncertainty. The political systems are unstable or unpredictable and the rules and regulations rapidly change and that increases the level of uncertainty affecting the local firms doing business with MNCs. In this study the Libyan firms which are under question have these characteristics to some extent, in particular they suffer from high technology and low rate of productivity (see Chapter 5). The next section is devoted to discussing the role of the government in LDCs and the impacts on the behaviour of firms,

2.2.1. The Role of the Government.

To explore the role of the government in LDCs, this study focuses on government, in particular the action (or inaction) of the government to influence the relationships between local firms and MNCs. Government policies include explicit steps to reward or penalize the conduct of business firms. This is critical for managers to understand because it is the filter between firms and their environment (Egelhoff, 1988; Keillor and Hult, 2004; Ehrenberg 1999, 2002; Mobus, 2005).

Some studies focus on the government policies as well as the legal, cultural, social, economic and political system of LDCs. They explain these as the major external factors that have levels of impact on the relationship of local firms with MNCs (Doz, 1986; Beechler and Yang, 1994; Dowling et al., 1999; Söderman, 2003). Within this research, for example, in the study by Hamilton (1992), the belief is that an authoritative or political economic approach, is the best explanation for industrial arrangements of the local firms. Two main factors are considered in the above studies: the relationships between the government and local firms, and the structure of the authority and cultural factors (Beechler and Yang, 1994; Dowling et al., 1999).

Regarding government policies, the literature suggests that some types of economic factors influence the strategies and policies of governments when interacting between local firms and MNCs by encouraging or impeding certain industrial relations. The objectives of LDC governments are development and industrialization, but firms, especially the MNCs, are more focused on the desire to make high level profits, market share, scale etc. (Korbin, 1982; Van Winden, 1983; Moran, 1985; Boddewyn, 1988, 1993; Ring et al., 1990; Makhija; 1993; Ballam, 1994; Boddewyn and Brewer, 1994; Dwyer, 1985; Hadjikhan, 1996; Hadjikhan and Sharma, 1999; Latifi, 2004). In other words, the basic objective of MNCs is to maximize profits, and thus it is almost inevitable that conflicts will arise between LDC governments and MNCs. However, the local firms and
MNCs need to know how the government policies in any LDC can help or harm their business relationships with local firms and foreign firms (Wells, 1977). The government policies may be called ‘active’ in some areas and ‘less active’ in other areas (Goldsmith, 2002). The question regarding MNCs is how can one generalize about the business of MNCs with local firms under government policies? It is widely believed that business and government have clashing interests and pull against each other. Some studies characterize the relationship between business firms and the governments in LDCs as ‘adversarial’ (Goldsmith, 2002). This characteristic is partly true: business firms and governments are probably more openly at odds, with some benefits for each partner. Also, distrust between governments and business firms is deeply embedded in the LDCs, and regulatory policies often mean for owners and mangers a reduced profit and the freedom of the firms being restricted. The conflict constitutes only half of the relationship between the business firms and the government in question: there is another side to this, namely, mutual support. Cooperation between the business firms and the government receives less attention than the adversarial aspect.

The ideology in most LDCs holds that the government is supposed to avoid the business community, not work with it, but in some LDCs, the government assumes the role of an active actor in the business environment (Goldsmith, 2002). Lindbolm (1977) maintains that business always has a privileged position in LDC economies and claims that states dependent on business defer to it on major issues. These assertions have been criticized for being over simplistic, but the main point is certain: government policies help determine how well, or how poorly, the business firms operate (Goldsmith, 2002). Though largely hidden from view, the cooperative aspect of the business–government relationship may be dominant. The relationship between business firms and government is reciprocal: companies play critical roles in the interaction with government. Among other inputs, they provide tax revenues and election funds. The two aspects of the business firm-government relationship are shown in Figure 2.1: government supports business in the shape of policies that increase firms’ profits. Supportive policies include direct and indirect subsidies (like tax expenditure and loan guarantees), regulatory relief and government sales and contracts including privatized activities.

The other side of the business-government relationship is government restraints on business. This type of government policy usually reduces profits, and is mainly in the shape of taxes and regulations (Boddewyn and Brewer, 1994; Dwyer, 1985 ; Hadjikhani, 1996; Hadjikhani and Sharma, 1999). However, regulations do not always mean problems
for business: they sometimes become a mechanism by which one group takes advantage of another, e.g., to block access to their markets. These two sets of policies – support and restraint – have an enormous impact on every firm’s earnings, to the extent that business managers are economically rational and want to maximize profits (Boddewyn and Brewer, 1994). Figure 2.1 is generic: it applies to all countries. The specifics will differ, with each country favouring a different mix of policies. Nevertheless, everywhere governments help and restrain business firms and, at the same time, the business firms (public and/or private) resist and support governments.

The government has taken on many roles, such as rule maker, umpire, producer, buyer, promoter, guarantor, broker, regulator and economic manager. The government makes the rules for the market and is the umpire that guarantees the business rules for producing goods and services, and buys many of the products from private firms. The government promotes local firms by way of various kinds of aid. It guarantees not only investors, lenders, bank depositors and other economic actors against the risk, but also brokers new investment. The government regulates business activities to make sure that firms conform to the rules prescribed, and the government tries to manage the economy to keep it running at full capacity (Goldsmith, 2002, p. 36).

There are studies in international marketing and political science that elaborate thoughts on mutual relationship between government and business firms (Goldsmith, 2002). According to their point of view, governments need firms as they create jobs and increase GNP, which strengthen the political position of government in society (Korbin, 1982; Van Winden, 1983; Moran, 1985; Ring et al., 1990; Boddewyn 1993; Makhija; 1993; Ballam, 1994; Boddewyn and Brewer, 1994; Dwyer, 1985; Hadjikhani, 1996; Hadjikhani and Sharma, 1999).

Figure 2.1: The Relationship between Business Firms and the Government

Source: Adapted from Goldsmith (Goldsmith, 1996, p. 13).
It is important to remember that the relationship between business and government is symbiotic: governments use the resources they receive from business firms. This partly entails spending money on projects to aid business: both parties need each other to survive. Figure 2.1 also does not show a closed system: there are other groups, namely, workers, consumers, community residents who give and receive resources. They too favour different government policies, exporters, importers, MNCs, local companies, well-established and emerging industries: each one has separate needs that can bring them into conflict with each other. Moreover, the relations between the LDC governments and MNCs have, at times, intervened in the political processes of the host LDCs. While most MNCs do not become actively involved in the politics of a host country, some researchers like Boddewyn (1988, 1993), Boddewyn and Brewer, (1994) study how MNCs act towards government. While some are concerned with MNCs’ legal actions towards political parties, lobbying local elites, carrying out public relationship campaigns, others like Hadjikhani (1996), Hadjikhani and Sharma (1999), and Latifi (2004) study illegal actions like refusal to comply with the host country’s laws and regulatory actions within the host LDC governments. These actions are in order to (a) favour friendly and oppose unfriendly governments, (b) obtain favourable treatment of their corporation and (c) block efforts to restrict corporate activity.

Literature reviews show that beside cooperative relationships, there is also conflict of interest between the LDC governments and MNCs. These conflicts, as already mentioned, are between the objectives and interests of the two parties. The LDC governments are interested in development and growth, employment and socio-economic stability (Rosenfeld and Wilson, 1999, p 449; Latifi, 2004, p. 29). The next section will discuss the relation between the local firms and MNCs in LDCs. But on the other hand, local governments need MNCs for their investment. As their investments contribute new technologies and management, there is an increase in employment and also in GNP in the country.

2.3. Local firms and MNCs.

Firstly, multinational corporations are defined as ‘enterprises that have a network of wholly or partially (jointly with foreign partners) owned firms producing, marketing or with R&D affiliates located in a number of countries’ (Phillips-Patrick, 1989). MNCs must function in more than one external environment and respond to a complex set of

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4 Others have defined MNCs, in general, as being business firms operating in at least two countries under centralized control, producing commodities and services in order to make a profit (Caves, 1996, p. 1; Latifi, 2004, p. 25)
factors, such as the diverse nationalities of employees. Some studies have characterized MNCs as a group of geographically dispersed organizations with contrasting goals (Ehrengren, 2002, 1999; Hadjikhani and Lee, 2006). Historically, the MNCs have grown as a result of the internationalization of markets (Buckley and Casson, 1998). MNCs have long been considered as the main agents for generating, controlling and commercializing technology (Yamin and Ghauri, 2004), and also the major means for the economic development of LDCs and the tools with which the widening gap between industrialized countries and LDCs could be bridged. Moreover, existing literature explains the distinctive properties of MNCs as a mode of economic organization (cf., Hymer, 1970, 1972; Buckley and Casson, 1998; Dunning, 1981; Hennart, 1982; Caves, 1996; Kindelberger, 1982; Teece, 1985; Yamin, 1988, 2001; Yamin and Ghauri, 2004) affecting economic and social activities as they interact with local firms.

Some studies of the international business relationships between MNCs and LDC firms are often described as ‘controversial’ (e.g., Aldrich, 1979; Forsgren, 1989; Håkansson and Snehota, 1989; Awuah, 1994; Abraha, 1994; Latifi, 2004; Ghauri, 2006). These studies have argued that MNCs, along with local firms, are engaged in specific exchange relationships with several other actors in LDCs. The only concern of these studies is the interaction between the two actors. Some other researches state that MNCs are not only defined in terms of marketing, production, joint venture, licensing and the financing of their environment, but also in their interactions with peoples in these countries (Al-Daeaj et al., 1999, pp. 78-79). Furthermore, MNCs are often described as key agents that bring about improvements in the LDCs. By using their information and technology networks, MNCs can satisfy the purchasing needs of LDC firms (Ali and Alshakhis, 1990; Cichock, 1983; Dittrich, 1982; Reifers, 1982; Walters and Blake, 1992; Yamin and Ghauri, 2004) and, thus, become major partners and agents that sell goods and services to local firms (Meleka, 1985).

Regarding business relationships between MNCs and local firms from LDCs, the level of uncertainty or risk factor regarding the return on their investments is high and the risk of conflict is always present. A number of studies in the literature on economics, politics, management and international business (Newman, 1979; UNCTAD, 1992, 2002; Latifi, 2004) found the causes of conflict between MNCs and local firms to be ownership, local unemployment, technology transfer, the exploitation of natural resources, corruption and bribery as well as the conflict with government policies. The conflicts of interest between LDC firms and MNCs are disparities that exist between the objectives and
interests of both parties. For MNCs, the aim is to sell to local firms and/or to set-up in a
particular country so as to allocate and utilize resources in order to maximize their
competitive position on a global scale. LDC firms have a different view, especially public
firms, which are tools for LDC governments to apply their policies. As governments, they
focus on such concerns as domestic growth, employment and social and economic
development. The objective of LDC firms is for business development, whereas for
MNCs, the aim is to maximize profit, market share, economies of scale and so forth
(Rosenfeld and Wilson, 1999, p. 449; Latifi, 2004, p. 29).

Thus, studying the environment of local firms in LDCs becomes a central integrating
function in MNCs. As the environment becomes more technological, communication in
all forms has become increasingly significant. Information management will become as
important as the information itself and the new information and data have a major impact
on business relationships. Some literature has focused on the strategies of MNCs present
or emerging in LDCs and on identifying the factors that have influenced the adaptation
and implementation of these strategies (Ehrengren, 1999, 2002; Welch, 1994; Ferner,
1994; Dowling et al., 1999; Baddar, 2000; Hadjikhani et and Lee, 2006; Yamin and
Ghauri, 2004).

Also, the characteristics of the environment serve as a background for the whole
process and influence the relationships between the MNCs and local firms. The business
environment in any country can be described by way of a number of characteristics:
government policies, cultural, technological, educational, political and legal factors,
natural resources, demographic, social and economic policies and so on (Lee, 1991, p. 55;
Latifi, 2004; Yamin, 2001). Some difficulties, which MNCs face when doing business
with local firms from LDCs, are those such as mismanagement, corruption, payment
problems, long-term planning, infrastructure problems, and bureaucratic hurdles.

On the other hand, the LDC governments have welcomed the presence of MNCs
(Owusu, 2003) and have helped to deal with local firms (Ozawa and Castello, 2003,
p.74). Some researchers explain that local firms have the belief that MNCs can serve as a
means by which modern technology is transferred. In this way, MNCs can develop and
contribute to the industrial development (UNCTAD, 2000). In fact, the relationships
between MNCs, local firms and LDC governments, the latter having the opportunity to
make deals and offer assistance to them, is an important factor for the LDCs and MNCs
too. Most of the literature explains a number of reasons for MNCs wanting to invest in
LDCs. The next section will discuss briefly some of the impacts that MNCs have on LDC firms.

### 2.3.1. The Impact of MNCs.

The impact of MNCs on LDCs has been a major issue of literature studies in many fields such as economic, management and international business and marketing. MNCs are widely recognized as institutions, which create and transfer technology knowledge across borders. Many studies have, however, shown that the projects carried out by MNCs are, in many cases, inappropriate regarding the economic conditions and the factors in environments of the LDCs. Some studies have discussed the issue that MNCs are capable of making contributions to the development of the LDCs (Johnson, 1970; Gany and Gangopadhyay, 1985; Lai, 2001; Moser, 2001; Yamin, 1988, 2001).

Nevertheless, the interactive process between LDCs and MNCs is, in fact, potentially capable of producing both conflict and benefits. For example, Biersteker (1981), Beladi and Choi (1995), Moser (2001) present the viewpoints of both supporters and critics of MNCs investing in LDCs. Both parties are agreed that MNCs create development, but much of the debate is about the kind of development (Latifi, 2004; Hadjikhani and Lee, 2006; Yamin, 2001). The degree of influence depends on the balance of power between the parties. LDC governments and local firms in some times have more influence on MNCs in order to obtain favourable conditions (Al-Daeaj et al., 1999). These relations lead to the host countries reaping several benefits from the proponents of these business relationships, with there being an emphasis on economic advantages (Barnet and Muller, 1974; Freeman, 1981; Gladwin and Walter, 1980; Harrison, 1994; Meleka, 1985; Parry, 1980; Patel, 1974; Travis and Crum, 1984).

It is commonly known that there are many ways in which MNCs have an effect on LDCs and their local firms. Proponents of MNCs claim that the local firms reap several benefits from these institutions. Usually the economic and management advantages are highlighted (Barnet and Muller, 1974; Freeman, 1981; Gladwin and Walter, 1980; Harrison, 1994; Meleka, 1985; Parry, 1980; Patel, 1974; Travis and Crum, 1984). For example, Harrison (1994) has in four studies examined the role of MNCs in four developing countries. She has concluded that MNCs pay much higher wages than domestic firms do and improve the skills of local employees (Harrison 1994). By way of a summary, in the body of literature available there have been many studies that have carried out comprehensive reviews of both the critical and supportive views of MNCs see, for example, the following studies: Contractor and Sagafi-Nejad, (1981),

2.4. Business and the Political Actors.

This study highlights the studies on two kinds of interactions: business to business and business to non-business relationships. During the last three decades, there have been numerous theoretical views that have studied business management and business activities with regard to these marketplaces. The firms have a number of relationships with the surrounding milieu in order to tackle the problems caused by the influence of the environmental factors.

In the marketing and management studies employing micro-economic theory, the basic unit for analysis is the firm, there being more focus on the environment and its business and political actors with reference to the external aspect and its link with the firm’s strategy. As a result of this externality, the government’s hierarchical power has been presented in many studies on business and the market (Doz, 1986; Poynter, 1985; Jacobson et al., 1993), leading to the unidirectional impact of the dominant political actor. Recently, some researchers have used a system theory by imposing a boundary around the firm. By studying the management of business environments, the considerable environmental factors have become the sources of uncertainty affecting the firm’s structure. This has led to the question being asked as to how business organizations can influence or adapt to their environment.

Managing the environment here relies on the ability to control the environmental sources. In the unidirectional view, researchers explain that any changes to the business organization are unable to control it. Thus, the political environment has an important role in reinforcing the firms for adaptive actions. According to the study by Albaum et al. (1989), there are those that promote the firm’s market activities, those that impede the firms and those that are competitive and aim, for instance, to substitute foreign products with local ones in order to benefit the community. While these researchers expose the dominant role of the governments, other researchers discuss views like relationship. All these three views are discussed in the following.

2.4.1. Unidirectional View.

In accordance with the increase of the role of government in business relationships, researchers, as explained above, have studied the effects of this role by employing the
view which reflects the government’s hierarchical power (Doz, 1986; Poynter, 1985; Jacobson et al., 1993; Hadjikhani and Thilenius, 2005). The studies were focused on the firm as a unit of analysis, in which the main assumption is based on the homogenous impact of the state’s role. Some previous studies have applied the same strategies to the management of the political environment. The basic work for these theories has been used in industrial organization economics (Caves, 1982) and in the transaction cost economy (Rugman et al., 1985; Teece, 1985). However, Egelhoff (1988), Porter (1986) and Jemison (1981) have studied the extra-organizational constraints as determinants of a firm’s success. Others have adopted work concerning the political risk by interrelating the political aspect with the risks and types of industries and firms. According to this view, the basic unit for the analysis is the firm. The assumption is based on the homogeneous impact of political rules, international marketing and business studies, adaptive strategies and risk evaluations (e.g., Porter, 1986; Ting, 1988; Kotler et al., 1996). Regarding the political issues, the focus was on the governance structure. Moreover, there is homogeneity in the influence on the types of industry (e.g., Maddison, 1991; Jacobson et al., 1993; Miller, 1992). Studies by Bradley (1977), Ting (1988), Korbin (1982), and Phillips-Patrick (1989) have paid little attention to the influence of MNCs on the government’s role (Hadjikhani and Thilenius, 2005, p. 14).

2.4.2. Institutional Theory.

The roots of institutional theory run richly through the formative years of the social sciences, enlisting and incorporating the creative insights of scholars ranging from Marx and Weber, Cooley and Mead, to Veblen and Commons (Scott; 1995; 2001). Much of this work carried out at the end of the nineteenth and beginning of the twentieth centuries, was submerged under the onslaught of neoclassical theory in economics, behaviouralism in political science, and positivism in sociology, but has experienced a remarkable renaissance recently (Scott, 2001). Also, institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms and routines, become established as authoritative guidelines for social behaviour. It inquires into how these elements are created, diffused, adopted and adapted over space and time; and how they fall into decline and disuse. Although the ostensible subject is stability and order in social life (Scott, 1995, 2001). For reviews of early institutional theory, see Bill and Hardgrave 1981; Hodgson 1994; Scott 2001, 2004.
Of concern to this study, much of the work in institutional theory involves attempts to apply theory and concepts from institutional studies to this study where several institutions’ units are involved. Here the focus of attention is on relationships between those institutions and the business actors and their influence on business relationships. Views in this area can be classified, based upon differences in the relation between the institutions and their environment. This line of thought within micro-economic theory is based on a criticism of certain aspects of traditional economic theory. Williamson (1975) discerns two alternative ways in which the exchange (transaction) may be handled between technologically separable units in a production or transformation process. Firstly, the transaction can take place within a market setting. On the other hand, it can be internalized in one organizational unit (a hierarchy), i.e. two successive stages in the production process are vertically integrated in a hierarchically built organization.

In addition, (Scott, 1995, 2001) indicates that, in order to survive, organizations must conform to the rules and belief systems prevailing in the environment (DiMaggio and Powell, 1983, 1991; Meyer and Rowan, 1977), because institutional isomorphism, both structural and procedural, will earn the organization legitimacy (Dacin et al., 2002; Suchman, 1995). MNCs operating in different countries within multiple institutional environments are typically under diverse pressures. Some of those pressures in host and home institutional environments are testified to exert fundamental influences on HRM practices. Moreover, there are certain deficiencies in markets that favour the internalization of transactions. Similarly, there are also deficiencies in the way organizations function that operate in favour of keeping the transactions in the market, i.e. keeping the successive production stages under separate control and reaching agreements on buying and selling, through, for example, negotiated contracts. Williamson (1975) argues that many transactions which are internalized in one organization could be carried out by separate organizations, from the point of view of technological separability. However, the co-ordination of these units by means of market relations involves disadvantages. Markets may be considered to operate inefficiently in certain instances, due to human and environmental factors. When their environment is characterized by complexity and uncertainty, then the bounded rationality of man makes it very costly to design and negotiate viable contracts. Therefore, the actors to such transaction may become very dependent on each other. This evolves into a small-numbers bargaining relation. Although the actors in a formal sense retain the option of selecting partners in the market, this is not a viable alternative due to transaction costs. Thus it will be very costly to design and negotiate contracts with new partners. This is because it is often
difficult for one party to achieve information parity with the other party, which is necessary for a ‘fair’ deal. Man is not just characterized by bounded rationality but also by opportunism (self-seeking interest with guile), and this makes markets operate inefficiently when there is an imbalanced dependence between the actors.

Concerning the uncertainty and institutions, uncertainty can be distinguished from risk and understood as the character of situations in which agents cannot anticipate the outcome of the decision and/or cannot assign probabilities to the outcome. Subjectivist economists and proponents of the rational expectations’ school treat uncertainty as probabilistic risk. It is claimed that economics cannot maintain either the maximization assumption or equilibrium models in the face of situational structures characterized by non-probabilistic uncertainty. However, there have been important contributions within economic theory to understanding the implications of such genuine uncertainty, in particular, in relation to the analysis of investment and innovation. In situations of uncertainty, the behaviour of economic agents is guided by mental models which, in turn, are dependent on the institutional framework of the economy (Scott, 2001, 2004).

As discussed, institutional theory has a long past and a promising future. It is broadly positioned to help us confront important and enduring questions, including the bases of organizational similarity and differentiation, the relation between structure and behaviour, the role of symbols in social life, the relation between ideas and interests, and the tensions between freedom and order. Of particular importance for the future health of organization studies, institutional theory encourages scholars to take a longer and a broader perspective in crafting testable arguments.

2.4.3. Dyadic View.

Against the unidirectional view, some studies like Stern and Reve (1979) developed the political economy approach by using behaviour models to analyze the interaction between economic and political systems. These researchers have a macro-economic perspective and social system, comprising sets of major economic and socio-political systems (Tunisini, 1997), which applied the dyadic approach, and the main actors were from the economic sphere.

Studies based on institutional theory have rejected the unidirectional view and have presented the dyadic view by way of analyzing the roles of the state and business actors. For instance, in the study by Yarborough and Yarborough (1987), the political and business actors are regarded as bilateral or influencing each other. However, in both
Boddewyn’s (1988) study and Dunning’s (1988) analysis of ownership, internalization and location advantages are designed in such a way as to examine the mutual influence of political and business actors (Hadjikhani and Thilenius, 2005, p. 16). Some in this course refer to studies such as those by Håkansson (1982) and Sheth and Parvatiyar (1993) which use a relationship approach for analyzing the business to business exchange. In other studies, Poynter (1985) and Doz (1986) have, unlike the aforementioned pieces of research, taken a different approach and have presented the government policies towards foreign firms, the cost of which must be taken into consideration. These studies, which have used the dyadic view, have been criticized by others (Ring et al., 1990; Jacobson et al., 1993), who have included the other actors and presented a network view. The explicit focus was on the interaction of the political and business actors. Some institutional theories have introduced the concept of political market (e.g., Boddewyn, 1988; Yarborough and Yarborough, 1987).

According to Håkansson (1982), the basic model of interaction approach includes four groups of the following variables: 1) the involved parties, 2) the exchange between the parties and the interaction process between them, 3) the environment in which the interaction takes place and 4) the atmosphere of the interaction (Håkansson, 1982). By using this approach, a company’s transactions with other parties are described in detail. The environment of the interaction process is, for example, looked upon as the degree of vertical or horizontal market structure, the authorities, and the social environment. Later studies integrate these dyadic relationships and emphasize the view of business network. The reason for this is that the business market contains relationships between firms and organizations (Bridger and Luoff, 1999; Murdoch, 2000; Gilchrist, 2004; Latifi, 2004, p. 49).

Some recent studies based on the institutional theory explicitly reject the hierarchical view of the relationship between political and business actors and identify a wider perspective in the interaction context. Yarborough and Yarborough’s (1987) suggestion is to employ a dyadic view for analysis of political and business actors. The main contribution of the concept is that both sides are seen as active in influencing each other. The model recognizes an interaction between the two sides. The interactions constitute a market functioning parallel to the business market (Boddewyn, 1988). Ring et al. (1990) also explain that the unidirectional influence suffers from an economic bias, a passive perspective. The dyadic approach presented by these authors is contrary to Doz (1986) and Poynter’s (1985) government policies toward foreign investors, which are largely presumed as given factors to which MNEs must respond by absorbing the cost of
government intervention, by avoiding it, and/or by circumventing it (Buckley and Ghauri, 2004; Ghauri and Buckley, 2006).

In the business network theory, (Håkansson and Johanson, 1988; Buckley and Ghauri, 1999), the actors are surrounded and their behaviour becomes an inevitable part of the activities in the dyadic relationship. In the interaction model, and in some studies on institutional models, the environment becomes interrelated to the dyadic relationship. It influences the dyadic relation and is influenced by it. However, even later studies on the network theory (Håkansson and Snehota, 1995), when operationalizing the network, are mainly concerned with the business actors and their activity links or resource ties and do not look at the behaviour of the political actors. Embeddedness in the network is treated as diversity in the business actors’ resources’ ties and activity links and the influence of political actors is implicitly presumed. Some studies based on network theories do look at the influence of MNEs on political actors (Hadjikhani and Sharma, 1999; Hadjikhani and Ghauri, 2001).

2.4.4. Network View.

In the studies on the business and industrial network, such as those by Ford (1990) and Håkansson and Snehota (1995), the dominant approach has been the business in the network. Whilst the political actors are in the background, however, they have an implicit impact, for example in studies by Jacobson et al. (1993). Studies in the field of political and social science, such as those by Maddison (1991), Esping-Anderson (1985) and Nowotny et al. (1989) attempted to integrate business actors into the whole system. The main body of literature includes the business aspect, but still at a macro level (seeing it as categories of industry etc.). More recent business studies have recognized the need for research at the company level. The present triadic model involves the interaction of two business actors and a political actor (e.g., Ring et al., 1990; Hadjikhani, 2000; Hadjikhani and Ghauri, 2001). However, while a group of researchers study business network by just focusing on business firms, other researchers extend the business network boundary and integrate other actors like political and media people. Deeper investigations on these issues are elaborated in Chapter 3.

Our theoretical framework is closely related to the institutional theory, at the same time it is directly related to evolutions in the literature of marketing, and particularly to the emphasis on inter-company relationships. This has emerged from those studies having a distribution system perspective and more recently from those empirically based studies which have emphasized the importance of inter-company relations. To summarize the
earlier views, Table 2.1 demonstrates the views of the relationship between two business actors and the relationship between business and non-business actors.

Table 2.1 - Summary of the views.

<table>
<thead>
<tr>
<th></th>
<th>Business to Business</th>
<th>Business to Non-Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unidirectional View</strong></td>
<td>-Firm is a unit of analysis</td>
<td>-Political issues</td>
</tr>
<tr>
<td></td>
<td>-Homogenous impact of political actors</td>
<td>-Government structure</td>
</tr>
<tr>
<td></td>
<td>-Risk evaluation</td>
<td>-Homogeneous influence of business activities</td>
</tr>
<tr>
<td><strong>Institutional Theory</strong></td>
<td>- focus on business intuitions.</td>
<td>- Exchange between firms and political institutions.</td>
</tr>
<tr>
<td></td>
<td>- focus on risk management</td>
<td>- Exchange between institution and its environment</td>
</tr>
<tr>
<td><strong>Dyadic View</strong></td>
<td>-Relationship approach</td>
<td>- Interaction between the business and political actors</td>
</tr>
<tr>
<td></td>
<td>-Vague role of the political actors</td>
<td>- Institutional economic theory</td>
</tr>
<tr>
<td><strong>Network View</strong></td>
<td>-Focus on the business actor in the network</td>
<td>-Integration between political and socio-economic actors</td>
</tr>
<tr>
<td></td>
<td>- Implicit impact of the political actors</td>
<td>- Triadic model between two business actors and the political actors</td>
</tr>
</tbody>
</table>

*Source: Adapted from Hadjikhani and Thilenius, 2005, pp. 12-18*

2.5. Summary

This chapter has highlighted some issues regarding local firms and LDCs’ governments and their relations with MNCs. It must be said that the study cannot cover all aspects, but, in this chapter, an attempt has been made to focus on the local firms and the role of government in the LDCs. In sum, however, the link between business and political actors has to be pointed out. It can be argued that because of the local firms and the LDC economies, they are now more heavily reliant upon MNCs.

Firms in LDCs cannot isolate economic activities from the political and legal systems. But not all economic entities are state owned and hence the influence of the governments on firms in these countries is both direct by the government *per se* and/or indirect by other organizations who are responsible for implementing the economic policy of the government.

The development of business relationships between MNCs and the local firms from LDCs is not evaluated by the transfer of new technology or the export or import of raw materials, but by the assessment of the impact on the economic and social spheres and the improvement of people’s lives. This issue is important not only for the LDCs, but also for MNCs, as the impacts determine the future market operations of the MNCs in the LDCs. The development of all perspectives or sides in the LDCs is important.

Regarding LDC firms, one conclusion that can be drawn concerning the literature on business relationships is that the role of the political actor can largely determine how
the business relationships are structured and regulated: some firms have a monopolistic position in certain sectors of the market. Furthermore, it can be concluded that the government is the strongest actor in the LDC markets, both as a regulator of the economy and as an actor in various branches of the markets. For instance, it plays the role of several producers and customers. Thus, it can be claimed that the government as political actor is powerful, which means there is a strong correlation between the nature of the business relationships and the existing political policies. Furthermore, it indicates that there is a strong link between governments and the performance of local firms.
Chapter Three: Theoretical Framework.

3.1. Introduction.

In Chapter 2, a short review was introduced about the local firms in LDCs and their relationship with MNCs and government. The chapter also presented some theoretical views on relationships between business and political actors.

This chapter will concentrate on elaborating a theoretical framework. The attempt is to integrate several main streams of thoughts from network theory. The theoretical view might provide a perspective on the business relationships of local firms in LDCs with MNCs. This different view employs the business network approach to study purchasing and integrates themes such as the network approach of LDC firms’ business relationships with MNCs. This is done by discussing the existing literature on international marketing and purchasing from a theoretical point of view and an attempt is made to relate previous research to this study.

This chapter is divided into three main parts. The first part addresses the business network theory in general, and its applicability to this study. The second part addresses relations between the business and the political actor, with reference to some studies which have applied the network approach. The focus will be on the interaction between the political actors and business actors, following the views in the two above sections. In the third part of this chapter, the study aims to build a theoretical framework, which can explain the business relationships of local firms in LDCs in general. The aim of this chapter is to introduce a framework on the behaviour of local firms when interacting with MNCs and local political actors. This framework will be used to analyze the empirical facts in the next chapters.

3.2. Business Network.

Business network theory, which has been borrowed from social network theory (cf., Cook and Emerson, 1984; Burt, 1982; Granovetter, 1985), has its own distinct focus on inter-organizational exchange relationships. The concept “inter-organizational networks” was initially developed in the field of sociology (Park, 1996). The theory was extensively developed at Uppsala University (Hägg and Johanson, 1982; Johanson and Mattsson, 1988; Håkansson, 1989), and it is generally called “the business network approach”. Numerous researchers during the 1980s and 1990s have shown the existence and importance of the relationships between suppliers and customers in business markets (cf., Anderson et al, 1994). According to the definition of these researchers, a business
network is a “set of two or more connected business relationships, in which exchange relationships between companies interconnect actors to each other” (Anderson, Håkansson and Johanson, 1994, p. 2; Anderson et al., 2001). Two relationships are connected if the exchange in one of them is contingent on the exchange in the other.

During recent decades, several studies have confirmed that business relationships among companies are, in the long-term, both stable and changeable (Anderson and Narus, 1990; Ford, 1990; Håkansson, 1982). For an individual company, business relationships have commercial, technological and strategic significance (Håkansson, 1989). These studies suggest that a network perspective is useful as a framework for analysis of indirect business effects (Hägg and Johanson, 1982), business strategy and international business. Kotler (1991) has argued that the network view implies a paradigmatic revolution of marketing (Johanson and Mattsson, 1994). Business networks can correspondingly be defined as sets of connected exchange relationships among business units (Holm, 1996).

Studies like those of Håkansson and Johanson, 1988; Hägg and Johanson, 1982; Johanson and Mattsson, 1987; Laage-Hellman, 1989, have developed the network approach by focusing on industrial networks. They defined this as “sets of connected exchange relationships between actors controlling industrial activities” (Engwall and Johanson, 1990; Lee, 1991). The network approach has been employed for research in international business. No matter which topic, they have emphasized the significance of lasting business relationships (cf., contribution in Engwall, 1985; Håkansson, 1982).

In the last decades, the network approach has received much interest regarding business relationships in LDCs (Hadjikhani and Thilenius, 2005). In addition, the reason for its increased importance is that the networks of relationships between various actors within international markets are becoming more and more complex. The need for a complex and relevant analytical view is rising; views are required to have the ability to analyze extensive relationships between foreign suppliers and local companies within a complex environment. As mentioned above, the network approach has been widely researched over the last two decades. The network model considers the relationships between different actors to have a long-term and relatively stable character. This does not mean that relationships are static. They can change either through the unit, e.g., the supplier, stopping the existing ones or through the development of new relationships. The network approach discusses what takes place between different companies, how they are related, how these relationships are started and developed, and the ways their interaction with the companies is concentrated and structured (Håkansson and Snehota, 1989; Latifi, 2004).
The model’s key classes of variables are: actors, activities and resources. Figure 3.1 demonstrates a business network which consists of different actors, constructing a network map with the focal buyer-seller. In this illustration, these two are the focal actors and others, like the supplier’s suppliers and the customer’s customers, are connected to the focal relationships. These actors have a business nature; this construction, beside business actors, contains others like governments which are non-business actors. Moreover, the model states that there is a reciprocal relationship between these elements. This model can also be seen as a replication and specification of the earlier claim made by the industrial network approach that business relationships have a complex character.

Two main actors that comprise the focal relationships, which are connected to the other members of the environment and the industrial firms through relationships, can vary in importance, strength, age, stability and intensity. However, in this figure, the network model considers situations in which the environment of the organizations exerts an influence upon and interacts with companies (Håkansson and Snehota, 1989).

In this basic model, the interaction process is conceptualized in terms of the products or services which are exchanged, and the financial flows, information and social exchange, which accrue in relationships and have a long-term adaptation and institutionalization impact. Coordination becomes a necessary requirement for each company’s effective performance, and this coordination takes place by means of an interaction between companies in a network. Johanson (1989) explains that a relationship is conditioned by relationships with certain third parties, such as the supplier’s suppliers, the customer’s customers, the complementary suppliers, the competing suppliers and the consultants. Correspondingly, the supplier and customer companies may have entered into relationships with their suppliers and with other customers, all of whom may influence the business in the focal relationship (Holm, 1996; Johanson, 1989).
The network structure has been developed by Håkansson and Johanson (1987). All points may be co-ordinated and the unexpected links between the actors may develop into stable exchange relationships. The network approach offers opportunities, reduces uncertainty, allows specialization and provides co-ordination (see, e.g., Hägg and Johanson, 1982; Johanson and Mattsson, 1988; Axelsson and Easton, 1992). This explanation refers mainly to industrial markets, but there are other aspects that are very important, such as personal relationships between the actors. The network approach deals with two separate but closely related types of interactions: a) Exchange process (the actors test to see how well they match) and b) Adaptation process (it is not only a learning process, but also an adaptation process that is a vital characteristic of the relationships in the industrial market) (Johanson and Mattsson, 1985; Latifi, 2004, p. 50).

### 3.3. Business Network Elements.

In the overall structure of the network model, there are three types of elements: actors, activities and resources (Low, 1997; Halinen and Törnroos, 1998; Chelariu et al., 2002; Ojasalo, 2004, Latifi, 2004). The relationship between these variables is as follows: those who perform activities and/or control resources are actors (Håkansson and Johanson,

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**Figure 3.1: the model of the network approach**

*Source: Johanson (1989)*

CC customer’s customer     Co Consultant     CoS Competing Supplier
FI Financial Institution   CS Complementary Supplier   SS Supplier’s supplier

---

**Figure 3.1: the model of the network approach**

*Source: Johanson (1989)*

The network structure has been developed by Håkansson and Johanson (1987). All points may be co-ordinated and the unexpected links between the actors may develop into stable exchange relationships. The network approach offers opportunities, reduces uncertainty, allows specialization and provides co-ordination (see, e.g., Hägg and Johanson, 1982; Johanson and Mattsson, 1988; Axelsson and Easton, 1992). This explanation refers mainly to industrial markets, but there are other aspects that are very important, such as personal relationships between the actors. The network approach deals with two separate but closely related types of interactions: a) Exchange process (the actors test to see how well they match) and b) Adaptation process (it is not only a learning process, but also an adaptation process that is a vital characteristic of the relationships in the industrial market) (Johanson and Mattsson, 1985; Latifi, 2004, p. 50).
In the following, the intention is to give a short description for each element.

### 3.3.1. Actors.

Actors can be individuals, companies or organizations, and are defined as those who perform activities and/or control resources with counterparts, who also have identities (Håkansson and Johanson, 1992). Therefore, the relationships between these actors are presented as continuous and complex rather than discreet and simple transactions. They also specify various sub-entities within the concept “actor”, such as people, or a company. Actors also possess particular identities, and the concept “identity” is further developed in Håkansson and Snehota (1995).

Actors are linked through specific relationships (Johanson and Matteson, 1987), and can choose to exchange or pool together their resources and decide to work together towards some common and mutually agreed goal (Alter and Hage, 1993; Ford et al., 2003; Ritter and Gemunden, 2003). Actors pursue not only economic aims, but also non-economic ones, like prestige and status. As a result, the company cannot be seen as a separate decision centre or unit, which can take measures in isolation from other actors. The network approach challenges the concept of the company as a closed functional organization and concentrates on the structural changes taking place (Latifi, 2004). Thus, the actors are based within the wider web of business activities conducted by other companies and organizations, which are the foundation stones of any business network.

Different bonds develop between the actors, who are in long-term relationship with each other (Hallen and Johanson, 1989; Johanson, 1989 p. 19).

*Actors* perform the activities and control the resources. Bonds between two actors appear as they begin to become aware of what the other party has to offer. A commitment can be made, as priority is given to a specific counterpart in terms of investments, time and developmental efforts, which become more significant. Bonds with other actors also have an impact on a company’s identity, as third parties will perceive the company differently because of their own links and constraints (Wedin, 2001, p. 20).

The concept “actor” is categorized by three dimensions, which is also the case for the concepts “resources” and “activity”, which are discussed later on in the chapter. At a company level, the actors organize the company with its different functions and divisions. At the relationship level, actors form bonds with important counterparts. These bonds have an organizing effect on the actors’ network. (Johanson and Mattson, 1987; Håkansson and Johanson, 1992, pp. 28-30)
3.3.2. Activities.

Activities are defined as a sequence of acts with a purpose (Håkansson and Snehota, 1995, p. 52). An activity occurs when actors combine, develop, exchange and create resources (Håkansson and Johanson, 1992, p. 30). In general, the networks are linked by the business activities of other actors. Each business activity in the business network is more or less dependent on the performance of a number of other activities and each activity is a link in one or several more or less extensive and closely linked activities. Also, activities in business networks are necessary in order to create an output. There are a huge number of various activities that firms carry out (Håkansson and Snehota, 1995, p. 58), and many types of activities can exist between two companies. Research within the industrial network approach has confirmed that activity interdependencies are common in business markets (Håkansson and Snehota, 1995, pp. 52-54).

Activities, which are based on the resources, are linked to each other and form “different sequences” or “chains of activities” (Håkansson, 1992, p. 133). Håkansson also examines the concept of “activity cycle” (ibid), which means that there are two types of activities: transformation activities and transfer activities (Håkansson and Johanson, 1992, p. 30). Resources are swapped through transfer activities that are regulated by one actor. Transfer activities link transformation activities of different actors to each other, and are influenced by the relationships between the actors involved (ibid.; Latifi, 2004, p. 51).

Activities can be described in terms of quantity, volume or by way of a temporal dimension. Håkansson and Snehota (1995) divide the concept “activity” into three levels: the company level, the relationship level, and the network level. At the individual company level, activity structures are used as a concept within a relationship. The activity of two companies is linked by technical or administrative adaptations. At a network level, there are the activity structures of an individual company, and the activity links between companies in relationships constitute activity patterns or chains of activities. As the activities are linked to each other, there is naturally dependence between them. A single activity is related to activities that are conducted before and after it, creating a sequential dependency, and there are also parallel dependencies between activities (Wedin, 2001, p. 19).

The activities are seen as technical, administrative, commercial and other activities of an actor that can be linked to those of other actors as the relationship develops (Medlin, 2004). The activity link leads to activities that are synchronized and matched (Håkansson and Snehota, 1995, p. 52). When actors establish relationships, certain parts of their different activities can become linked to each other. Linking
activities could be regarded as a way of creating a unique performance. As the activity structure of actors changes over time, the activity links will also be reworked and adjusted.

### 3.3.3. Resources.

Resources are required for performing activities and they are related to the activities performed (Håkansson and Johanson, 1992, p. 33; Håkansson, 1992, p. 134). In a network, actors may choose to exchange or pool their resources and decide to work together towards some common and mutually agreed upon objectives (Alter and Hage, 1993, p. 2).

The resources are heterogeneous and can be used in various ways or in different settings (Chung et al., 2004). A mixture of heterogeneous resources leads to new knowledge (Johanson and Mattson, 1987) and resources are contingent on each other and made up of human and physical resources (Axellson, 1992, pp. 214-215). Resources are needed by companies to perform activities. Thus, they use resources – their own and those of others – to produce resources (products or services) for other companies. Resources can be either physical or human, such as knowledge or experience, or organizational, e.g., routines. Resource heterogeneity is a basic assumption in the network approach, by which is meant that a resource’s value is always determined in relation to the resources it is combined with and by the activities in which it is used (Wedin, 2001). Håkansson and Snehota (1995) make a distinction between resources at a company level, a relationship level and a network level. The company’s resources are known as the resource collection, and they are combined with the adaptation of other companies’ resources when relationships are established, and resource ties are also formed. Through co-operation between a provider and a user, the knowledge about how to use the resource will increase. At a network level, the resource ties are linked to large groups of resources (Wedin, 2001, p. 19). To summarize, at the centre of the relationships between the variables there must exist a clear understanding of the special and essential resources that each has to offer, combined with those of each actor.

In the next section, the concepts “exchange business relationships”, which involve an economic and social aspect, will be discussed in more detail, and the following theoretical section comprises three dimensions: business, social and information exchanges.
3.4. Relationships between Business actors.

According to the literature, business relationships between the parties are at the heart of the network (Chetty and Eriksson, 2002; Medlin, 2004; Latifi, 2004). The network cannot be understood without studying the relationships (Easton, 1992, p. 3). The reason why the relationships within the networks need to be examined is due to the fact that there might be a link between the performances of the parties. Relationships between parties contain the elements of continuity and stability. These, in one hand can result in an increase in the strength of the relationships and, on the other hand, reduce the costs and increase the efficiency for each party. Another reason why companies always look to develop relationships with other companies is related to the resource ties, i.e., the actors work together or adapt to each other and a relationship offers access to third parties who may have valuable resources, such as information (Easton, 1992, p. 9; Latifi, 2004, pp. 54-55).

In the network, there are direct and indirect relationships. Relationships can directly have an impact on the two main parties, but can also indirectly affect the other actors through the exchange relationships between all three parties (Easton, 1992). Business, social and information relationships between two actors can be influenced by the third actor in the network (Håkansson and Snehota, 1995, p. 28; Latifi, 2004, pp. 54-55). The basic approach comes about through the following specific relationships:

- The relationships contain more than just transactions.
- Every single relationship is to be seen as a part of a broader context - a network of interdependent relationships.

For a deeper understanding of relationships, it is necessary to raise the aspect of relationships’ content. Relationships’ content refers to the type of exchange which is discussed in the subsections which are devoted to business, social and information exchange.

Exchange has been studied by many researchers in a number of disciplines, including economics, sociology, business administration and marketing. Exchange has been, for example, defined by several marketing researchers over the years, one of whom is Kotler (1976). He has suggested that exchange is the basis of marketing, which is defined as “human activity directed at satisfying needs and wants through exchange processes” (Kotler, 1976).

There are many various aspects of exchange regardless of whether it concerns innovations, strategic, technological or product change. The exchange relationship is the basic unit in business network theories. It is assumed that the exchange involves several actors and that the relationships are characterized by mutuality and continuity. The notion
has preoccupied research in different disciplines and in explaining the types of exchange relationships (Johanson and Mattsson, 1988). Laage-Hellman (1989) calls the various components “dimensions” of exchange. He identifies four such dimensions: commercial, technological, financial and social. Johanson and Mattsson (1987) refer to relationships that arise through the exchange as “components of interaction”: social, business and information exchange.

In the network approach, the nature of exchange is viewed as one taking place through interaction, where both seller and buyer are equally active and have adapted to cope with exchange activities. Also, the role of exchange is to co-ordinate activities and resources controlled by one actor with another actor’s activities and resources. This also creates the possibility of co-coordinating the activities and the resources of several actors. The strength of the relationships is an outcome of how extensive the exchange relationships are. However, if each of the resource types flows in just one direction and, in the short-term, the flow is from one actor to other actors, the exchange is, in this case, of a weak economic nature. The weakness of the parties is that they aim to achieve a short-term benefit and a limited bond, and limited degree of cooperation and adaptation. The company’s knowledge and resources are exchanged with only a few actors.

In fact, there are many elements of exchange between interacting parties. However, an in-depth study of the problems envisaged in this study calls for isolation and the definition of some elements of exchange. An attempt is made to conceptualize the link between the actors involved and the way in which the elements relate to each other. The next subsection will discuss in brief the aspects of business, social and information exchange. In an effort to sort out the various exchanges, this is necessary, as various kinds of exchanges will play a major role in both the theoretical and empirical discussion that follows the business, social and information exchange.


Business exchange, which is the core element in exchange relationships, has a significant effect on the relationships in general (Hadjikhani and Thilenius, 2005). This relationship is used for the flow of resources such as products, services, technology and finance. Studying the flow, from an interdependency perspective, however, shows that actors, by using a business exchange by whatever means, are functioning in a network structure. Through a business exchange, these relationships contain a number of sub-components. The type, development, amount and continuity in a business exchange are among the indicators specifying the strength in the exchange relationships. A constant business
interaction, which proceeds with a large flow of resources, cooperation and adaptation, creates an interface between the actors and a structure of high interdependency and strong relationships. The interaction between actors is constructed on the basis of the resource flow between actors, who are somehow interconnected with and dependent upon each other. A large number of studies show that cooperation and adaptation are needed for technological development. In such cases, the strength of relationships is reinforced through the processes of adaptation and orientation, which are both of a mutual nature.

The business exchange between a supplier and a customer company is important to both parties (Axelsson and Easton, 1992). On the other hand, interaction comprises complex patterns of the companies’ needs, capabilities and strategies with regard to production, logistics, development, quality, etc. Familiarity with, and also a good relationship with, the trade partner, may facilitate solving problems such as product specifications, delivery time, price and quality of product and services. Business exchange with an important partner, for example, has its own unique history (cf., Håkansson, 1982; Johanson and Mattsson, 1987; Hägg and Johanson, 1982). The accumulated knowledge and experience of the trade partner becomes, more or less, a guide for its dealings with actors.

The parties will take part in a mutual exchange as they jointly deal with company-specific or environmentally induced conditions, which will alter their exchange. In a number of cases, the actors are able to adapt to each other (cf., Johanson and Mattsson, 1992; Håkansson, 1989) in order to adjust policies, technological changes, economic activities and the behaviour of competitors. It tends to be the case that interacting parties invest in both human and physical resources in order to control their interdependence (Awuah, 1994).

3.4.2. Social Exchange.

The social exchange relationship has a leading function, in that it reduces uncertainties between parties. Social exchange assumes that people interact in a way which results in a profit. The social exchange model has been of interest to marketing people, as it tries to represent both the economy and social aspects in a single framework (Sjöberg, 1996). The primary focus of social structures is on such networks as corporate groups (Cooke and Emerson, 1984; Sjöberg, 1996).

One specific component in studying social exchange is the factor of trust. This factor of social exchange is particularly important when there are spatial or cultural differences between the actors, or the experience is limited. In business relationships, the interaction between two actors with different value systems can develop in such a way
that it leads to uncertainty. This is specifically relevant when actors belonging to both DCs and LDCs are interacting.

The most important function of social exchange is the long-term process through which successive social exchanges gradually interconnect the companies with each other. This functions as the glue that binds actors to each other and, at the same time, facilitates the business relationship. It makes the actors see the potential mutual benefit and reduces the mobility of the actors. In social interaction, trust is the major component of the social exchange, as it lays the foundation for other elements, such as conflict, cooperation and influencing the business atmosphere.

Trust is described as the willingness to depend on an exchange partner in whom one has confidence, particularly when relationships are based in trust and the mutual interest of the partners. But in contrast, when relationships are legalized and formalized, there may be a lack of trust and confidence (Hadjikhani and Thilenius 2005, p. 24). Lack of experience and knowledge among firms belonging to different developed and less developed nations are among the reasons for development of mistrust. Trust is founded on mutuality whereas mistrust is founded on uncertainty and opportunistic behaviour or the exercise of power in the exchange relationship (Hadjikhani and Thilenius, 2005, pp. 24-25; Sinkovics, et al 2007).

Trust functions as the main regulator to the social exchange. The opportunistic behaviour of one actor is decisive for the opportunistic behaviour of another. This behaviour influences the conditions of weak relationships in terms of price and short-term mechanisms that bind weakened actors. Actors can switch from one to another on the basis of economic advantages. The aspects of trust in terms of a network involve the characteristics that are explained in the form of dyadic relationships. The explanation entails aspects such as diffusion of trust or mistrust of other relationships. This means that, because of embeddedness, trust and mistrust in dyadic relationships increase or are transferred to other exchange relationships. Trust and mistrust in relationships are the result of the willingness of several partners to cooperate.

Moreover Larson (1992) studied trust in terms of willingness and showed it is related to dyadic interactions and the ability to connect relationships. Others have extended this further and have explained that trust and mistrust in the dyadic relationships are outcomes of an accumulation of expectations and events of various types and at different levels or parts of the network (Hadjikhani and Håkansson, 1996). Trust and mistrust are at different levels, from the personal and dyadic level to those of the company and non-business actors. This means that trust at one level of the
relationship affects the trust at other levels as well as other relationships. The explanation assumes that trust in a dyadic relationship is an outcome of the accumulation of trust in dyadic and other connected relationships.

Regarding the cultural differences, there are a number of studies in international marketing which emphasize how the cultural aspect influences the interaction; see, for example, Hofstede (1991) and Peters and Waterman (1982). While researchers such as Levitt (1983), Nordström (1990) and Porter (1986) point to the business world as being made up of homogeneous cultural interactions, others stress heterogeneity and differences in cultural behaviour. From this perspective, the cultural difference is presented as a major factor causing friction, conflict and a communication gap. Hofstede’s (1991) study stressed cultural differences as a source of individual conflicts (Hadjikhani and Thilenius, 2005).

The evolution of interaction can be described as a social exchange process between two companies conceptualized as collective actors. One of the companies is usually the supplier, but also the customer takes the initiative in order to conduct business with the counterpart.

### 3.4.3. Information Exchange.

Interdependence between actors makes the information exchange a major factor, which may strengthen the interaction. The constant flow of information allows the interacting parties to be alert to, and respond to, changes inside and outside their network. All mutual orientation presupposes that the actors, through information exchange, co-ordinate and develop the interdependent resources that they each control (cf., Johansson and Mattson, 1992). Due to the countless interrelated connections, an actor has the sources of information, which can give a comprehensive basis for mutuality. These also mean that the necessary information between actors must arrive at the right time (Auwah, 1994; Sinkovics, et al 2007).

Information exchange is related to mutual co-ordination, adaptation and interdependency. Experts in production, design, research and development, quality control and finance are involved and take part in the information exchange between companies and trade partners (cf., Johanson and Mattssson, 1988, p. 289).

From the information perspective, the process of exchange relationships between actors entails access to and the use of data. The social and business exchange is processed by an exchange of information between the actors. Thus, the customer and supplier
relationships are considered as vehicles through which each actor can gain access to and make use of a counterpart’s knowledge.

The information exchanged and combined entails a change in the partner’s knowledge base. This suggests processes of interactive learning of the capabilities and skills of the user-customer (Lundvall, 1988). This knowledge can then be passed on through formal and informal means with their bases in technical, commercial and social areas. Linking this element with the social dimension and organizational nature, the aspect of formality in the information exchange becomes important. An interaction that places greater stress on the social relationships and on trust will elevate both formal and informal interactions to a higher degree. At one level, information exchange between actors contains simple and standardized technical-social knowledge, and has a low rate of adaptation and interdependency. At another level, a relationship may be strong and have a complex nature requiring adaptation.

3.4.4. Adaptation.

The concept of adaptation refers to the ways in which a fit is achieved between interacting units (Hadjikhani and Thilenius, 2005, p.65). As Håkansson (1989, p.669) posits, a crucial dimension in all customer relations is the amount of individual adaptation which occurs. Through their mutual orientation, actors in a network adapt to each other. According to Rogers (1986, p.17), relationships between interacting actors are constantly re-negotiated and changed.

International marketing strategies consider local adaptation as a way of fitting the firm and product to its environment (Cateora, 1996). Standardization is seen as a tool to supply the need of the customers (Ansoff, 1979). As mentioned above in Section 3.3, a network perspective sees the business market as consisting of interactions dominated by few partners with long term relationships. Furthermore, the adaptation is one of the major components of relationships (Hallen, et al., 1991), and it takes place between individual, units and organizations that are dependent on each other(Hadjikhani and Thilenius, 2005, p.65).

The adaptation is important for several reasons, according to Johanson and Mattsson (1987) who identified four reasons. First, they are a measure of the strength of the bonds between interacting actors. Adaptations make the actors increasingly dependent on each other.

The second dimension considers the durability of the relationships. Mutuality and the unique adaptation consist of balance in interdependency and long-term interactions. The
third reason is related to the above. A situation with high adaptation and low mobility requires flexibility from the actors. Finally adaptation brings changes in the attitudes and knowledge of the actors, which, in turn, enrich the relationship through a mutual orientation. These dimensions amplify the degree of adaptation in relation to the strength of the relationship. Adaptation reflects a range of operationalization aspects varying within the administrative areas. By contrast, a low administrative adaptation makes the relationships similar to economic exchange. The partners have the flexibility to change their partners; a relationship with low interdependency is accommodated with an absence of high adaptation in the resource exchange.

On the other hand, partners have made an extensive technological adaptation and become strongly interrelated when their marketing, purchasing, or management and administrative units become consistent. When the process of production or other units of one firm become interrelated with the internal structure of the other, the high level of interdependency reduces the mobility and forces the firms to live together even if other market opportunities exist.

In this study will discuss two aspects, technological and administrative adaptations. It will also consider administrative adaptation and adaptation of service, specifically in staff training.

3.4.5. Relationships’ Strength.

After a brief discussion on the business network, the effort was to introduce the three fundamental grounds of relationship that interconnect actors and construct the business network. When discussing the three core elements of relationships, business, social and information exchange, the effort was to open the relationship’s content and thus discuss the crucial aspect of strength. Strength in relationship is the fundamental decisive factor that exposes how the relationships are interrelated. Eventually, it is the strength of the relationships between actors that determines how the business network is structured. It is the levels of aspects like organizational adaptation, social interactions, technological adaptations and information exchange that are vital for the survival of each relationship and also the network. The strength and weakness in the relationships are the outcome of the content of the three types of the relationships. Content of the relationships determines the degree of the strength/weakness in the relationships. No matter if the interactions are business to business or business to political actor (this part will be discussed in the next section), the understanding of the content of relationship is important in order to
understand the past, present and the future of the relationships (Hadjikhani and Thilenius, 2005). The effort in the following is to provide a simple view of the characteristics of the relationship strength. These are the determinant factors which then will be used for analysis of the empirical facts.

In summary, the three elements - business, social and information - in exchange relationships themselves provide ground for construction of networks. The outcome can be explained by the strength and weakness of relationships, which is illustrated in Table 3.1. These characteristics encompass the basis of exchange relationships in the market in this study, namely, that the actors are functioning in a business market constructed of both business and political actors.

<table>
<thead>
<tr>
<th>Table: 3.1. Some Characteristics of Weak and Strong of Business Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weak Relationships</strong></td>
</tr>
<tr>
<td>Simple exchange</td>
</tr>
<tr>
<td>Few exchanges</td>
</tr>
<tr>
<td>Low adaptation</td>
</tr>
<tr>
<td>Few actors engage</td>
</tr>
<tr>
<td>Economic bases and low social exchange</td>
</tr>
<tr>
<td>Small and simple information exchange</td>
</tr>
</tbody>
</table>

*Source: Hadjikhani and Thilenius, 2005, p. 27.*

### 3.5. Relationships between Business and Non-Business Actors.

One crucial aspect in the theoretical view of this study on the expansion of the business network is the fundamental assumption that the business firm’s activities cannot be isolated from the other actors. Specifically, this arises when the question concerns the interaction of MNCs and firms from LDCs. These firms either want or do not want their business actions to affect or become affected and influenced by the actions from the non-business actor. In the previous sections, there was a general description of the network approach and the main elements of the network model and how the interaction between business actors takes place. Their focuses have been on the interaction between business actors without mentioning the non-business actors in the business context. For example, the study by Håkansson and Snehota (1995) focuses on the business actors’ bonds, ties, resources and their activity links. The main consideration of this study is that the influence of the non-business actors in the business context is vital and therefore these actors are to be integrated into the business network. The aim of this study is to further develop industrial network theory and to extend the boundary by including
political actors and the influence of the change in the price of the economy’s major resource.

Non-business actors may or may not have the same goals as the business actors. Thus, studying the role of non-business actors and their influence on the focal relationships, strengths and weakness in the business context, is useful for a deeper understanding of the nature of business relationships. This part of this chapter attempts to discuss the relationships between business actors and non-business actors within business networks. Also a view of the types of actors and the relationships between business and political actors is presented. Political exchange relationships are assumed to have an essential role for the business exchange in the focal relationship.

3.5.1. The Non-Business Actor.

The term “non-business actor” is used for those actors who cannot be classified as business actors. Included in this definition are actors such as government, local authorities, the media, opinion leaders, political and interest organizations etc. (Sjöberg, 1996, p. 29), which directly or indirectly influence the activities of business firms. Their importance seems also to be growing, and increasingly the activities of bodies such as environment protection organizations, local, national and supranational political organizations or unions, and other political or interest organizations are clearly indicative of such a development.

Non-business actors are defined in different ways depending on the needs of the study. While the studies of Ring et al. (1990), Boddewyn (1988, 1993) and Johanson (2001) explore the role of political actors, others like Waluszewski (1990) consider the relationship between environmental organizations and business actors (Latifi, 2004, p. 61). The studies by Ring et al. (1990), Boddewyn, (1988, 1993), Hadjikhani (1996), Waluszewski (1990), Sjöberg (1996), Latifi (2004), and Hadjikhani and Thilenius, (2005) have shown that the business network is also composed of non-business actors that affect and become affected by business actors within the business context. Some of these studies observe the interaction between the business and non-business actors as being the focal relationships, and others regard non-business actors in the business context as being important actors in the relationship between the business actors (Latifi, 2004, p. 60).

The term “non-business actors” is used in this dissertation to discuss and illustrate the exchange, the interaction and the relationships between business actors and actors who are not involved in direct value-creating business exchanges. Relationships between business actors and non-business actors are consequently called “non-business
relationships”. It is suggested that the difference between non-business actors and business actors is that the former do not take part in business exchange activities that directly create tangible values (Sjöberg, 1996, p. 29). The non-business actors like political elements can thus be described as follows:

Non business actors are connected actors, with whom communication is carried out through, for instance, trade unions, environmental organizations or the authorities that give support to political parties and business firms.

The government and local authorities are actors with whom relationships can be established over a wide range of topics. The result of such relationships is of importance to the life and activities of business firms. The tax and exchange rate policies or, in general, the trade policy effects of a certain transaction can be discussed with fiscal authorities. This matter may be directly negotiated and an outcome can be reached in advance.

Trade unions are actors who have both a direct relationship through local business actors and indirect relationships through their trade association and national trade union. This kind of relationship is one of the elements that supports or decreases the conflict in the relationships between them. Furthermore, the character of this type of relationship also varies over the business cycle, which affects the profits of the business firms. In this study, the term “political actors” refers to the government, and the influence its policy has on both the customers and the suppliers.

3.5.2 The Government as a Political Actor.

The government as a political actor within the context of a business relationship has a vital role in the relationship between foreign suppliers and local customers. Also this actor has the opportunity to become an actor who is able to play a part within the business relationships (Latifi, 2004, p. 71). Consequently, the political actors are able to influence the relationship between two parties who are dependent on the government’s role.

In this study, the main role of the political actors is, within the business context, to control the activities and the resources of actors. However, the political actor in this study not only acted as a link between the foreign suppliers and local customers, but also as an actor responsible for the mobilization and the realization of the heterogeneous resources of local and foreign actors and also for helping them to reach goals. Different political tools were used for the business actors interacting with the foreign firms (Korbin, 1982; Van Winden, 1983; Moran, 1985; Boddewyn, 1988, 1993; Ring et al., 1990; Makhija; 1993; Ballam, 1994; Boddewyn and Brewer, 1994; Dwyer, 1985; Hadjikhani, 1996;
Hadjikhani and Sharma, 1999; Welch and Wilkinson, 2004; Latifi, 2004). Business actors realize the supportive or coercive actions of political actors through the government rules, which govern tariff and non-tariff decisions (Hadjikhani, 1996; Hadjikhani and Sharma, 1999; Hadjikhani and Thilenius, 2005; Lee et al, 2007). Government as political actors uses these rules, to different degrees, to regulate the behaviour of business actors who interact with foreign partners. The role of governments in the relationships between the foreign supplier and the local firms is crucial because it is based on their political legitimacy. They have the power to decide the rules with regard to contributing to economic development and trying to formulate such goals in relationships with other business actors, when applying their policies concerning economic growth, and social and economic stability (Rosenfeld and Wilson, 1999, p. 449; McPhail, 2000, p. 46; Latifi, 2004, p. 69). The role of government as a political actor has its roots in the political gains and activities, which are based on political ideologies. Thus, the governments are, in the business context, important actors that mobilize resources. The government as a political actor differs from country to country and from situation to situation. In the case of this research, the government is an important actor as the study concerns an LDC. This actor has, in the local business context, the power to control the activities of both foreign and local business actors. Thus, to know how the business actors are influenced by this actor is important for healthy relationships between the actors in the network. Following the above discussions, the next section is devoted to describing the relationships between political actors and business actors within business networks.

3.6. The Interaction between Political Actors and Business Actors.

The relationship between business and political actors may be difficult to envisage initially. This is probably due to the fact that the line of communication is often experienced as one-way, going from the political actor to the business actor. There is no basis for a relationship, but there may be numerous types of relationships between political and business actors with many purposes. This may be seen as the result of restricted, complex or generalized exchanges (Welch and Wilkinson, 2004, Hadjikhani and Lee, 2006).

In this study, a business network is considered as a set of business and political actors, who affect each other. In Figure 3.2, the relationship between the different actors is illustrated. They have some characteristics that are generalized and there is a simple exchange, in which the reciprocity is not direct, but can be indirect (Lazega and Pattison,
Each actor has a relationship that is a result of its ability to relate its actions to the values and norms of the political actors as well as the other actors. Both the integration of the social dimension and a network perspective enrich the concept of the political behaviour of business actors and introduce issues such as interference, influence and power, weakness/strength and trust/distrust. Within this line of thought, researchers have used different approaches to study how business actors behave in order to analyze the outcome of their political relationships (Latifi, 2004; Hadjikhani and Thilenius, 2005; Lee et al, 2007).

In this study, the perspective constructed includes the hypothesis that political actors have institutional legitimacy based on values and norms from actors such as political ideology, voters, media, etc., and they subsequently undertake coercive and supportive actions in their relationships with business actors. However, the relationship view highlights the fact that both business and political actors are dependent on each other. Hadjikhani and Thilenius (2005) point out that the political actors have the legitimate power and business actors are politically dependent on what is decided. The content of the trade policy, and whether it is coercive or supportive, affects the confidence of business actors in their business context. On the other hand, the political actors are also dependent on business actors, as illustrated in Figure 3.3.

Figure 3.2: The relationships between business and political actors

Business actors are driven by business legitimacy based on profit and growth (Hadjikhani and Sharma, 1999; Jacobson et al., 1993). Their purpose in this interaction is to convert
the dependency on political actors into mutual interference, the measure for the outcome of weak relationships and the option left in such a case is adaptation between business and non-business actors (Hadjikhani and Thilenius, 2005 Hadjikhani and Lee, 2006).

**Figure: 3.3: Business-Political Interaction.**

In this study, the context of business networks is governed by the activities of business and political actors. The foreign suppliers depend on political actors as they have the power - the legitimate position to control the resources in the market. On the other hand, political actors also depend on both foreign firms and local firms to achieve economic goals (Jacobson et al., 1993; Hadjikhani, 1996). Thus, in the business context, the political actors and their behaviour are part of the business context, and their influence on the relationship affects the focal relationship (Latifi, 2004, p. 61).

The relationships between business and political actors, who are in the business context, are both direct and indirect. This study also puts the business and political actors together within the context of the network. They have different characteristics, perform activities and control resources in order to reach their goals.

To give a more detailed description of the relationship between these actors, the studies by Hadjikhani and Sharma (1999) and Latifi (2004) distinguish between the two different types of actors within the context of business networks, (namely, business actors and non-business actors). Table 3.2 shows the types of actors and activities of business and non-business actors and summarizes the relationships between them in different situations.
Table 3.2: The Relation between Non-Business and Business Actors.

<table>
<thead>
<tr>
<th>The situations</th>
<th>The characteristics of the relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Business to business</td>
<td>Both have a business background and goals; the exchange is less complicated and there are minor conflicts.</td>
</tr>
<tr>
<td>2 Business and non-business actors</td>
<td>It is a complicated situation. While the non-business actors depend on the political values, the business actions are based on economic gains. But both are dependent on each other.</td>
</tr>
<tr>
<td>3 Non-business to non-business</td>
<td>The relationship between government and other non-business actors is regulated by the government’s ideology.</td>
</tr>
</tbody>
</table>


Hadjikhani and Sharma (1999) in their study point out that, when business actors operate in foreign markets, they adhere to the national laws and values and reflect a willingness to listen to and take an interest in the demands raised by local interests. This depends on how well the business actors are incorporated into the norms of legitimacy (Håkansson and Johanson, 1992)

The relationship’s view of the interaction between political and business actors is proposed by researchers such as Ring et al. (1990) who argued that the view of the authority’s power is based on the unidirectional influence of political actors and suffers from an economic bias and passive perspective. The interaction between the business and political actors is related in the way that both local and foreign parties have access to resources and knowledge, and can influence each other and those to whom they are connected. Thus, this interaction can be cooperative or conflicting. Local firms in these interactions with MNCs need support and infrastructure, good management etc., from other actors like government. The political actors have the power to affect the changes in the relationships between these actors.

In the other area, there is the influence of the relationship between the actors. The political actors also resolve conflicts and misunderstandings and develop trust and cooperation. However, the political actors sometimes start out as the negative influence on the relationship between business actors. Contacts between business and political actors can be carried out either by the business firms themselves, or with the assistance of those like trade associations. With these organizations, firms can work both directly or indirectly through lobbying or pressure groups. Exchanges can also be carried out through
the intermediary of local authorities. The interaction between the two requires not only an adjunct of conflicting interests, but also an arena for exploring options and sharing common values (Hult and Walcott, 1990; Hadjikhani and Thilenius, 2005).

This leads us to suggest a model which is useful to explain the business relationships of local firms in LDCs with foreign MNCs.


As discussed in previous sections, the network approach was applied to the description and analysis of business relationships of firms from LDCs as well as developing countries.

However, until now there have been very few empirical studies which have examined the business relationships of local firms from LDCs and the role of political actors in the business context. Thus, this study tries to investigate the relationships between business and political actors within the context of local firms in LDCs. The aim is to position the empirical material as well as to adapt the industrial network approach by putting political actors in a business context. This is in order to acquire a deeper understanding of the nature of the relationship between the actors in such a situation. However, in this context three types of actors are identified: foreign suppliers, customers or local firms as business actors and the government as a political actor.

3.7.1. Development of the Synthesis.

The synthesis of the theoretical framework is to describe and analyze the relationships between business actors and political actors in the business network. This model is created during the course of both theoretical and empirical research and will in the later chapters be applied to the Libyan firm’s network with the foreign MNCs.

The construction of the model in this study is based on the theoretical view employed by Hadjikhani and Thilenius (2005) which has been developed for studying the business relationships in Iran and MNCs from DCs. The model comprises key variables, namely, business relationships’ development, adaptation, social exchange, government policies, and the influence of oil price changes. Different elements will be identified as well as their impact on the focal relationships between business actors. The assumption is also that the relationships cannot be observed in isolation because they are influenced and conditioned by the other contextual factors.

In brief, the view contains three criteria that encompass the objects of this study: a), the relationship between the business firms, b), the relationship between firms and
governments, specifically the role of the government trade policy in this relationship (Hadjikhani and Thilenius, 2005, p. 12; Lee et al, 2007) c), the influence of the contextual environment on the relationships between all parties. Accordingly, the model is to explore: 1) the historical development of business relationships, 2) the relationship between the different actors involved, 3) the characteristics of the contextual environment, in which the business relationships take place, 4) the availability of the various resources in the market, 5) the influence of the political actors on the relationships, which will be identified and analyzed.

3.7.2. The Main Consideration.

The basis of scientific research into any phenomenon is the conditions of the study, which help to analyze and understand the research problem in question. To simplify this study, the model of this study depends on some particular conditions. One of the basic conditions is that the companies have business relationships with political actors, and the governments as political actors are active in the business network. In addition, the model assumes all actors are influenced by the characteristics of the contextual environment for this network. The other basic conditions of this study’s model are as follows:

First, in any national environment there are features different from those in others. The characteristics of the actors in the network include other influences such the government policy, economic framework and the industrial system.

Second, the business context in any country, especially LDCs, which depends heavily on sales of raw materials, is sensitive to any change (like prices) in the international markets.

Third, business actors, local and foreign, which are seeking to establish or develop business relationships, must interact with the government as political actor. Accordingly, the view extends the boundary of business network, and points to a deeper understanding of the content of the context, including business and non-business actors, their relationships and also the changes in the contextual environment.

The main components of the model of the business relationships are illustrated in Figure 3.1, which contains foreign suppliers and local firms and government as political actor and describe the relationship between the actors in the business context. The activities are carried out by both business and political actors. There are different directions and changes at the same time, and the relationship is developed through short-term interaction and long-term relationships between both business and political actors. However, the view also includes variables in the contextual environment and their impact on the business and non-business relationships. When foreign firms enter and seek to establish
business relationships with local actors in LDCs, they aim to gain profits and downplay the cost and the risk. This consequently forces them to establish and develop the relationships with local business actors as well as political actors. The problem in these relationships is the involvement of actors who come from different systems. This increases the risk of the appearance of conflicts and distrust that emanate from the actors’ different aims and the inconsistency between the pronounced aims and the real actions (Latifi, 2004, p. 66). Further, the aspect of the environment in the model considers the influence of change on the prices of the economy’s major resources (ibid., 2004, p. 66), particularly the oil prices in this study that affect the business network. In this study, the Libyan firms and their MNC partners are business actors and the Libyan government is considered as a political actor and their influence on business relationships is pointed out in Chapters 5, 6, 7, 8 and 9.

In summary, the influences of the contextual environment are an important feature of the business network perspective, in which business and non-business actors are not regarded as isolated units (Holm, 1996, p. 5). However, in this study, some aspects of the relationships between political and business actors are distinguished. In addition, the study will evaluate the relation between the oil price changes and the business and the political parties’ relationships.

### 3.7.3. The Influence of Context on Relationships.

In order to understand a specific business relationship and its features, it is, therefore, not sufficient to view it as an isolated unit. Rather, it must be analyzed on the basis of the impact from the greater context, which comprises links with a surrounding network (Anderson et al., 1994; Holm, 1996). Some studies show that business relationships are influenced by other relationships. The study of influence of the context is related to the theoretical hypothesis that they employ for definition (Holm, 1996, p. 4).
Analogous to the above chapters, it can be argued that the influences on other relationships cannot only be seen directly, but also indirectly by other factors in the environment such as government polices as changes in the contextual environment (Hadjikhani and Lee, 2006). In light of the fact that business relationships are affected by other relationships such as a political actor and the contextual environment, this means that the characteristics of a business relationship are influenced and can be modified by characteristics and events in other relationships and environment.

The word “influence” is the power that has an effect or changes something or develops new behaviours. These “influences” can be considered to be an essential condition for the existence of a business network (Holm, 1996, p. 4). The basic hypothesis of the model is that the influence of the contextual environment will have a positive or negative effect on focal business relationships. Thus, the links of the business...
network are embedded and have an influence on both business and non-business actors. According to this view, two actions can be connected or be influenced by other relationships. The view presented in business is that a focal business relationship is an affair shared by the relationships with the political actor. These relationships are influenced by the contextual environment, in which international business relationships are embedded and they are not separate national business networks.

The theoretical discussion suggests that the political actor and the influences of the contextual environment are able to increase or reduce the strength of the business relationships (Holm et al., 1996, pp. 7-9). As illustrated in Figure 3.4, the model contains two aspects. The first aspect defines a number of potential influences and makes a classification based upon the actors in the context: political actors in this study that have relationships with both suppliers and local firms. In accordance with this classification, the impact of the political actors on the two other parties’ relationships is studied. The second aspect is the identification of how these relationships are influenced by a change in the resources in the contextual environment.

In this way, the study incorporates into the model the business and non-business actors as well as factors in the network horizon. The main reason for doing this and developing this context into the business is because of the complexity in the local environment and the dependency of actors on specific resources. LDCs which depend on one source of income (like oil) are strongly affected by factors like prices in the international market. Therefore, the view developed in this study treats these aspects as factors in the contextual environment and not as actors. In LDCs, the business actors are rapidly influenced by economic factors.

### 3.8. A Summary.

In general, the business network models do not include the business relationships between businesses and non-business actors, but, for the study of business relationships, they elevate views for social exchanges. However, the social dimension is characterized by patterns of social contacts consisting of a web of interactive relations between individuals in the organizations. In addition, networks are contacts between internal and external actors in which these contacts are subject to the mobilization of external resources from the other parties.

Business network is not a world of individual and isolated transactions. It is instead the result of complex interactions within and between firms in relationships. This means that no single interaction can be understood without reference to the relationship of
which it is a part and to which it has contributed. Also, no single relationship can be understood without the network itself, due to the fact that every actor is embedded in a network of other actors and the identity of an actor is created by the interaction with its various counterparts.

In this chapter, the network approach has been considered as a number of actors that are linked together. The business relationships are characterized by mutual orientation and various kinds of investments. Moreover, this chapter has expanded the conceptual boundary of the business network to include non-business actors such as governments as political actors and as the main actors in the interaction that control the resources and organize the business environment for both MNCs and local firms. Actors in the network perform activities by using their resources, and they are linked together by means of various bonds. Also, their activities and resources bind the organizations together. Therefore, the interaction between business actors and non-business actors leads to the different nature of relationships between them in a network. Some light was shed on the studies which used the network approach in LDCs. Also, the discussion in this chapter has shown the basic framework of this study, which focuses on the exchange relationship between business and government as political actors, and also the resources in LDCs. Since the study concerns one LDC, Libya, this discussion leads to Chapter 4 of this thesis that will describe the methodology of the study, the data collection and the method employed in the analysis.
Chapter Four: The Methodology of the Study

4.1. Introduction.

Any measures regarding the collection of new data about local firms in a country from an LDC are an important and challenging task, both for avid supporters and critics of the various processes of international business.

In social science research, several different research strategies are available to the researcher, and, thus, the researcher can choose between using a case study, an experiment, a survey, a history, or archival information (Yin, 1989, p.13; Awuah, 1994). Moreover, as Yin (1989, pp. 16-17) contends, any research strategy in the field of social science is subject to three important conditions; namely; (a) the kinds of research questions and how they are posed, (b) the control expended by somebody investigating the behavioural event in question, and (c) the spotlight is on the contemporary as opposed to the historical phenomena (Awuah, 1994, p. 6). The impact of these conditions on this study is further discussed in the next pages. The method used in this research contains both secondary and primary information sources. This coincides with the view discussed in earlier chapters. For the aspect of contextual environment, the study, first of all, is concerned with the secondary information on Libya and its general socio-political environment. The effect has been to identify and describe briefly those specific factors in the Libyan economy that affect the businesses. Regarding the primary information, some is from the interviews with 60 Libyan firms describing how business relationships with foreign firms are developed.

The first part of this chapter includes the research strategy and method used in this study, and identifies how the data were collected from the Libyan firms as well as the problems the author faced when carrying out this study. The final section will demonstrate the way in which the facts are presented.

4.2. Research Strategy.

As stated by Yin (1989), the choice of the research strategy depends on the research problem. The research strategies used for the empirical and theoretical framework of this study depend on two aspects, which are illustrated in Table 4:1, the theoretical view of earlier theories, which are associated with the business relationships, and politics in international business. The network theory is the focal point of all the subjects. For this reason, a survey was carried out, which included the substantive theory, as well as the
empirical work. Table 4.1 shows how the research strategy is implemented in association with the different constituent parts. In this study, the theoretical and empirical aspects of the methods used influence the research process and help to assemble the knowledge created in order to facilitate its dissemination.

### Table 4.1: The steps and components for the methods’ study.

<table>
<thead>
<tr>
<th>A-Theoretical aspects</th>
<th>B- Empirical aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Theoretical Background:</td>
<td>1- Empirical background</td>
</tr>
<tr>
<td>a) Studies about business relationships of LDC firms and MNCs.</td>
<td>a) Empirical studies about local firms from LDCs and MNCs.</td>
</tr>
<tr>
<td>b) The role of government.</td>
<td>b) Study on business relationships (IMP2).</td>
</tr>
<tr>
<td>c) Network theory.</td>
<td>c) Studies apply network theory on LDCs (IMP studies).</td>
</tr>
<tr>
<td>d) Relationships between business actors.</td>
<td></td>
</tr>
<tr>
<td>e) Relationships between business and political actors.</td>
<td></td>
</tr>
<tr>
<td>2- Analytical model:</td>
<td>2- Empirical work</td>
</tr>
<tr>
<td>a) Building the general framework.</td>
<td>a) Background on Libyan economy.</td>
</tr>
<tr>
<td>b) The framework to empirical work</td>
<td>b) Questionnaires on 60 Libyan firms</td>
</tr>
<tr>
<td>3- The analysis</td>
<td></td>
</tr>
<tr>
<td>a) Theoretical and empirical impact.</td>
<td></td>
</tr>
<tr>
<td>b) Research implications.</td>
<td></td>
</tr>
<tr>
<td>c) Impact of government polices on business.</td>
<td></td>
</tr>
<tr>
<td>d) Relationships of local firms.</td>
<td></td>
</tr>
<tr>
<td>e) General model of business relationships of Libyan firms.</td>
<td></td>
</tr>
</tbody>
</table>

For the empirical study, Table 4.2 includes a description of the types of approach, the data used, and the techniques used for the analysis. The data were obtained from a survey questionnaire covering more than 60 local firms in Libya which have established business relationships with foreign suppliers. Bringing together the empirical data and the theoretical framework can be expected to provide us with an overall picture of business relationships in the Libyan market.

This study tried to find a method that could be applied to the LDC firms, in particular Libya. The IMP2 model, which was applied in industrial countries, for the study of business firms, has hitherto been extremely difficult to apply to a study like this. Section 4.4 illustrates the problems with collecting data for this study.
Table 4.2: Characteristics of the Study.

<table>
<thead>
<tr>
<th>Study</th>
<th>Firms</th>
</tr>
</thead>
</table>
| Method: | -Study and analysis of the business relationships of Libyan firms  
-Effect of the political actors when local firms interact with foreign suppliers.  
-The influence of the change in oil prices and oil revenue |
| Type of approach | -Survey approach |
| Data sources | -Questionnaire (about 38 public firms and about 22 private firms)  
-Secondary data  
-Documents |
| Techniques used in analysis | -Selective method  
-Comparative |

The reason why the network approach was selected is because the model is regarded as a useful tool in different situations and environments. For example, in the developed countries, it was used by Hammarkvist et al. (1982), Johanson and Mattsson (1988), Nazeem (1990), Bolton (1991), Kinch (1992) and in newly industrial countries by Lee (1991). There are also other researches using this approach with regard to LDCs, such as Abraha (1994), Awuha (1994), Latifi (2004), and Hadjikhani and Thilenius (2005) as seen in section 2.4.4.

4.3. Survey Approach.

The IMP2 survey method employed in this study has already been tested by several other researchers. There are a large number dissertations and hundreds of scientific articles constructed on this survey. The main consideration used in IMP2 is first to understand the firms’ characteristics and then to examine the characteristics of relationships between buyers and sellers. The consideration is to examine the interdependency in this focal relationship which is further examined by studying the connections. The view is to understand how other related relationships affect the focal buyer-seller relationship.

More specifically, the IMP group used this method because it is less time-consuming as well as more cost-effective than a case study, and also allows statistical generalization (Johansson and Mattsson, 1994; Ford et al., 1998). On the other hand, a survey can adversely affect the quality and provide insufficient information in order to understand complex processes, such as international business relationships or subjects about internationalization. Moreover, the study may have a low response rate and there is a possibility that instead of the desired respondent, another person may fill in the questionnaire. To overcome such a crucial problem, the survey in this study contained, for example, several questions examining the same issue.
Researchers have used the survey approach that supports a particular line of general ideas as well as tests some theories, and, given the breath and complexity of international business in the world, that is the reason why it is used. Thus, it is not difficult to find examples to support any preconceived point of view, and that is why researchers look for systematic evidence within large amounts of data and employ statistical techniques to identify underlying regularities. They deliberately look for outlines to emphasize, whilst statistical methods are used for all the available data (Carr and Garcia, 2003). It can be argued that the survey study method has both advantages as well as disadvantages (Vissak, 2003), and Table 5.3 highlights some of these.

The type of approach which is applied in this study is the survey approach. Moreover, the original study was done by the IMP2 and the Iran study, (see Hadjikhani and Thilenius, 2005), which applied to purchasers from LDCs. Lessons learnt from these studies demonstrate that the survey changed some questions that were not understood and others which were not answered. These questions were omitted from discussion and analysis, and so are not present in the design of this study’s questionnaire. The questions in the Iran study include those that examine the local firms’ links with such actors as the government, unions, bureaucrats and the contextual environment. The aim of this study is to further develop industrial network theory and to extend the boundary by including political actors and the influence of the change in the price of the economy’s major resource.

4.3.1. Questionnaire.
The questions used in this study are generally similar to those of the IMP2 and the Iran projects. In the case of Libya, the major issues included in the questionnaire are the link between political and business actors as well as the influences of the general environment in this study, the oil price changes. Generally, the questions are new as well as sensitive with regard to local firms in a country like Libya. Further, the political subject is just as difficult in the case of Libya. Of course, comparable studies in industrialized countries have encountered similar problems (Boddewyn and Brewer, 1994; Hadjikhani, 2000; Hadjikhani and Thilenius, 2005).
Table 4.3: The Survey Method - A Comparison.

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has made a contribution to many fields of research</td>
<td>Increases the likelihood of misunderstandings and unanswered questions.</td>
</tr>
<tr>
<td>More cost-effective and quicker than the case study approach. Allows</td>
<td>Low response rate, which restricts the generalization of the findings</td>
</tr>
<tr>
<td>the selection of a relatively large sample, making it possible for</td>
<td></td>
</tr>
<tr>
<td>comparisons with the case study sample and refining questions for</td>
<td></td>
</tr>
<tr>
<td>further interviews</td>
<td></td>
</tr>
<tr>
<td>No “interviewer effects”.</td>
<td>A self-selection bias: the (early) respondents may show more interest,</td>
</tr>
<tr>
<td></td>
<td>be more involved and/or more experienced than the non-respondents are.</td>
</tr>
<tr>
<td>Allows making statistical generalizations as well as empirically</td>
<td>It does not enable the researcher to accrue additional advantages, such</td>
</tr>
<tr>
<td>verifying theoretical relationships in larger samples from actual</td>
<td>as annual reports or brochures</td>
</tr>
<tr>
<td>businesses</td>
<td></td>
</tr>
<tr>
<td>Suitable for the co-relational hypotheses (e.g. proposes that whilst</td>
<td>May produce results that mask the real differences in internationalization</td>
</tr>
<tr>
<td>variable $X$ increases, variable $Y$ will also increase)</td>
<td>behaviour</td>
</tr>
</tbody>
</table>

Sources: Adapted from Vissak, 2003, p.74

The questionnaire is 26 pages long, and contains over 300 questions. It was first distributed to a number of firms, and especially targeted the firms’ general managers and purchasing directors. Arabic versions of the questionnaire were used to collect data from the Libyan firms. In this questionnaire, the first questions aim to measure the functions of business activities in general; the second part is devoted to questions for measuring the content of focal relationships. The third part is divided into sections which a) measure the nature of impact from the local business firms and b) also measure the influence of non-business actors and also oil price changes on the focal relationships.

4.3.2. Selection and Identification of the Firms.

Generally, regarding LDCs and, in particular, Libya, there was a lack of empirical knowledge and information about local firms (IMF Report, 2000). In this study, the following reasons led to the selection of Libya; namely, the country’s position in the global economy, especially after the lifting of UN sanctions, as well as the aftermath of the new policies the government introduced to reform the economy in order to encourage foreign investment. So far, the business relationships with foreign suppliers with regard to the Libyan market have still not been studied. There were no secondary detailed data about the MNCs operating in Libya. It seemed that the appropriate information for this case study was primary data collected by way of a questionnaire. The aim was to select different kinds of industry activities in the hope of covering all of those in the Libyan market.
Many MNCs have been operating in Libya since the 1960s, and some of them still have a presence in the Libyan market. Unfortunately, some of them have left the Libyan market due to a number of reasons, such as the drop in the oil price during the 1980s and Libya’s political problems with the Reagan Administration. Libya shares some characteristics with LDCs, such as a dependency on only one resource; oil revenue, which, thus, presents an enormous opportunity for building a sub-theoretical framework for these countries.

For the selection of the firms, as is shown in Section 4.4.1, the study encountered some problems regarding how the questionnaire was to be conducted. For the purpose of selecting the specific firms in Libya, the study chose those firms which have business relationships with MNCs. Indeed, firms with long-term relationships with MNCs were required. Hence, for this study, a number of institutions, such as the Centre for Science and Economic Research in Benghazi (second city) and the Industrial Research Centre in Tripoli (Capital city), which have links with the necessary major firms, were consulted in order to help as well as to run this project in Libya. There was a positive response from the Head of the Centre for Economic Research, with whom the author, as an assistant researcher, had previously worked. The author also contacted a number of former colleagues, who work in the Department of Prosecution at the Ministry of Finance, and they helped to draw up a list of Libyan firms, and, subsequently, contacted them. These firms were selected on the basis of the following criteria:

1) They operate in the industry sector;
2) They have long-term relationships with foreign suppliers;
3) They are not in the industrial sector, but have purchased industrial goods - such as electricity companies;
4) The private firms, that work in the industry sector and have purchased from foreign suppliers.

4.3.3. Characteristics of the Firms.

As already mentioned above, the characteristics of the Libyan firms chosen are as follows: they purchase from a foreign supplier, they are in the manufacturing and active industries, and they have relationships with MNCs. Those firms that met these requirements were included in the study. The specific requirement before the questionnaire was started was that the managers were heavily involved with only one of their most important foreign partners. The Libyan firm’s customers had to select a key relationship that was ranked according to its importance to the Libyan firm’s end product.
The IMP2 and the Iran study had used a similar principle (Hadjikhani and Thilenius, 2005, p. 9). Thirty eight of the firms that took part in this study’s questionnaire came from the public sector, and are, therefore, state-owned. The remaining firms came from the private sector. The reason these firms were selected was because of the new policy, which the Libyan Government had adopted in order to privatize the market.

4.4. Data Collection.

The study relied upon an extensive use of both primary and secondary data. The intention was, therefore, to make use of such major sources of data. First, the secondary data about the Libyan economy and the environment, in which these firms operate, consists, for example, of books, articles, reports, and statistical data about industrial activities, government policies, as well as the Libyan economy, which affects the growth rate of the business activities.

Second, the questionnaire data has been a major source that has been collected for this present study. The data were duly collected from Libyan firms between January 2002 and September 2004. At the beginning of the study, the first version of this questionnaire was sent to Libyan firms in order to see how they would answer the questions and whether they would understand the questions. For the questionnaire to be a success, it was essential they understood both the survey’s foundation as well as the questions. The work was divided up according to the firm’s characteristics, the kind of activity, the geographic location, and the contact person selected by the firms. The major problem was the difficulty of most firms in understanding and answering all the questions. To solve these problems, three papers were attached to the questionnaire in order to explain the project. Moreover, a general guide regarding the questions was also included.

During one month in Libya (December 19, 2001 to January 20, 2002), the author met with those people who were helping with the project and were aware of the types of answers the questionnaire had thrown up as well as the questions that were difficult to understand. Afterwards, it was again tested on a number of firms. Initially, five firms were accepted as the test sample for answering the questionnaire. The author had the opportunity to discuss the questions with the respondents. Subsequently, some questions were modified to make them more understandable in the Arabic language. At the same time, the author very much welcomed the suggestions made by the participating firms. The way in which the data collection was carried out began in early 2002, with the translation of the questionnaire into Arabic. Then, as already mentioned, the Centre for Economic Research and the Centre for Industrial Research, which usually handle firms in
Libya, were contacted and asked to help with the data collection. Initially, the aim was to collect information on 60 Libyan firms (the number of firms involved in the IMP2 and the Iran study customer surveys totalled 58 and 60 respectively). Conducting survey research using a random sampling approach as in the developed countries, it was impossible in Libya to obtain an acceptable response rate (by for example way of mail surveys). Therefore, similar to other approaches taken, personal contacts and a quasi-theoretical sampling approach were used to conduct the questionnaires, which were distributed to managers. In a few cases, the top managers of the participating organizations helped with the distribution and collection of the questionnaires. This was done by way of sealed envelopes. The confidentiality of the responses was emphasized at all times.

In LDCs, and particularly in Libya, collecting data by way of a questionnaire proved to be very difficult. It was impossible to obtain an acceptable response rate via the mail service because it is not regarded as an acceptable norm or a common practice in Libya. Therefore, similar to other approaches taken, personal contacts and government institutions in Libya were used in this study. The questionnaires were distributed to managers, including those responsible for purchasing, and once completed they were collected by the person who had initially received them.

Initially, more than 60 copies of the questionnaire were sent to Libyan firms that had agreed to participate in the study. The aim was to receive replies from approximately 60 firms in Libya; the characteristics of the sample are presented in Chapter 5, Table 5.4.

4.4.1. Problems with the Data Collection

First of all, the translation of the questionnaire into Arabic was a long and complicated task. Second, such a process was new to some of the Libyan firms, which had not previously answered such a questionnaire. In addition, the people were unfamiliar with it, and did not have the information on when the business in question was established, or whether such data any longer existed. Further, the people involved in matters concerning business relationships could not provide answers to the questions about the historical development of the business relationships. Moreover, a number of questions could not be answered. Also, an attempt was made to find more Libyan firms that were willing to answer the questionnaire.

In a country like Libya, many problems were encountered whilst trying to realize the project. As already mentioned, after having initially sent a first draft of the questionnaire to some firms in Libya to see how they would answer the questions and what the problems would be, and who would be contributing to the data collection, the
author then visited the country. Whilst there, some comments on the questionnaire were received. Many critical problems had been encountered, such as:

a) There was a different research tradition in Libya, and this proved to be less of a problem in Iran;

b) There was a large number of questions, and almost all the questions had several options;

c) Almost all the firms needed to be given an explanation about some questions and how to answer the questionnaire;

d) The difficulty in distributing the questionnaire in a country like Libya with such a large land mass (two million km² which is about twice the size of France and Germany combined);

e) The trouble finding 60 Libyan firms willing to answer the questionnaire, which had specific conditions. It ended up taking two and a half years;

f) Organizing and structuring the answers in a software program;

g) How to select the answers and the presentation of the facts.

4.5. Presentation of the Facts

The presentation of facts follows the theoretical elements introduced in the theoretical section. The chapters are structured to describe: 1) the characteristics of relationship and content of relationship and 2) the connection and impact of the contextual environment’s oil price (Table 4.4). Chapters 6-9 provide empirical facts but structured on the base of relationship and connection elements. The aim in each chapter is to introduce and describe the facts about how firms are interrelated. Tables and descriptive discussions are just to manifest the context and strength/weakness for each of the elements. These facts aim to illustrate general understandings which then will be discussed in chapter 10. Chapter 5 is devoted to present the general environment of businesses in Libya which directly and indirectly affect the local firms’ behaviour. These can give a general understanding of how this environment is been changed. As illustrated in Table 4.4., chapters 6-8 are devoted to the presentation of local firms’-MNCs’ relationship strength and chapter 9 introduces facts about the impact of the embedded actors on this focal relationship.

When structuring the facts and analyzing, we did several trials to compare, for example, state and privately owned firms. The comparison did not show any differences.
Whatever the type of ownership, the impact levels were valued similarly. We also tried to study the differences between industries. Since the number of firms in the service sector was low (this is the case for the whole Libya), we realized the problem of validity in the conclusions. Therefore, we avoid classifications of results and put the emphasis on the collective behaviour of the firms.

Table 4.4: The Survey Presentation

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>Presented</th>
<th>Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationships</td>
<td>57</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Adaptation</td>
<td>38</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Social relationship</td>
<td>56</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>Embeddedness</td>
<td>77</td>
<td>31</td>
<td>9</td>
</tr>
<tr>
<td>Influence of the oil price changes</td>
<td>57</td>
<td>16</td>
<td>9</td>
</tr>
</tbody>
</table>

In this study, a number of difficulties were experienced regarding the use of the statistical analysis for the correlation analysis. In fact, this method proved, at least, to be quite successful to some extent with regard to measuring some relationships. For this study, as indicated in Table 4.2 in Section 4.2, the technique used in the analysis of this study was the selective method. This was because the survey contained several questions that measured a specific factor from different perspectives. Moreover, the measurements obtained from the questionnaire were able to analyze the relationships between all actors. This was important for the verification of the results and is depicted in Table 4.4. The empirical facts introduced in this study do not cover all the questions. In order to increase validity, the selected questions presented in chapters 6-9 have a similar nature and also manifest similar results as compared with other questions which are not introduced.


This chapter described the methodology and the approach which is illustrated with regard to the process of theory generation. The strategy in data collection with both primary and secondary resources was also described. By this study, we attempt to integrate several main research streams which used the network approach to examine the impact of network relationships and the network actors’ characteristics in the Libyan market. Nevertheless, the author is aware that this might be a limitation as some important aspects of this approach might be left out, for one reason or another. On the other hand, the approach to study business relationships in LDCs in general and Libya in particular, is
still relatively under-researched, as the study mostly focused on the local firms and sought in depth the economic, political, and society issues.

In the end, efforts were made to discover background and knowledge throughout the research process with collection of data about any kind of markets, its facilitation of interpreting and understanding, as well as presenting and analyzing the business relationships in these markets.
Part II

Empirical study

In the previous chapters, the literature review, the theoretical framework of business relationships and studies dealing with the political actors were presented. The study tries, by extending the boundaries of the industrial network and integrating the political actors and also factors in the context of environment, to increase the understanding of the business firm’s behaviour, especially in LDCs, namely Libya. Chapter 5 will give some background information about the Libyan economy. This information, which is from secondary sources, is used to put forward facts on what conditions the business firms are acting in. The next chapters, as stated earlier, have a descriptive nature. They describe the results from the empirical study which are structured on the basis of theoretical elements introduced in the theoretical chapter. The descriptive natures of presentations in Chapters 6-9 are to manifest the values on relationships and connections which will then be used for analysis in Chapter 10.

The theoretical frame in Chapter 3 contained the two elements of business network and contextual environment, i.e., the main resource in the country which is oil in this case. The empirical section in the following chapters will present facts about the context and about how the focal relationships are affected by others because of the use of non-business actors. One empirical aspect in contextual environment is related to business environment in Libya and this background information facilitates understanding of the empirical studies in the next chapters.
Chapter Five: Background on the Libyan Economy.

5.1. Introduction.

This chapter will provide some background information about the Libyan economy. The role of oil, culture and also the role of the state in the Libyan market will be examined. The information about the Libyan government’s policies from the revolution until recent times may help to better realize the indirect impact of background factors on local firms’ behaviour. This may also guide the understanding of if and how this development has influenced the Libyan firms’ behaviour at present. The facts may not have a direct impact, but instead have an indirect impact on the situation for Libyan firms’ relationships with MNCs.

Firstly, the study will present government and trade policies, and focus on the composition of the commodities and a breakdown of their geographic distribution. The second part of this background information will examine Libya’s industrial development and the policies applied. The third section is devoted to discussions about the role of Libyan government within the Libyan context, and in the final section, the aspects of Libyan culture will be discussed. The main reason for describing the general background is to give the reader an idea of the contextual environment for the business relationships in Libya.

5.2. Government Policies

During the 1960s, there were annual plans, which, to some extent, depended on both the public and private sector. Moreover, the government also applied a free market policy. After discovering the oil leading to export sales in 1960s, the Libyan Government’s policies have largely depended on oil revenue (Alhasyah, 1979). These revenues have become the main factor to finance all the projects established for future wealth and channelling this wealth into different sectors. This was especially the case with regard to establishing light and heavy industries in order to attain the diversification of production, and self-sufficiency. The Ministry for Planning was the basic unit that served as the semi-official body, which, in co-operation with a number of institutes, drafted reports on the national development process based on the government’s policy decisions (Menesi et al.,

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3 Libya is in North Africa and is situated on the Mediterranean coast. Libya’s geographical landmass is about 1,775,000 km², and the country’s population was, in 2004, 5,882 million. The country is the fifth largest on the African continent, with the Sahara desert covering a vast part (95%) of the country. Only 2 per cent of the land is arable.
The method and the form of the Libyan Government’s policies in the 1970s have been characterized as pragmatic, centralized and open to MNCs. The Libyan Government introduced economic and social development plans to build up the Libyan economy and overcome the problems that afflicted the country’s economic and social life (Agnaia, 1996; Alqadhafi, 2002).

During the 1970s, after the revolution, the government introduced a new policy, which was based on state intervention and, as a consequence, the government began to dominate the economic activity. Therefore, the economic policy began to cover all the activities and came under an umbrella of socialist transformation, which was achieved through several programs and within the framework of overall economic planning that adhered to the notion by centralization and the required administrative and bureaucratic procedures. Within these strategies, the government had employed three goals for the development of the country. First, the domination by one sector (the oil industry) of the national economy was to be rapidly eliminated. Second, the Libyan economy was to be stabilized, and, third, self-sufficiency was to be achieved. All of the sectors enjoyed a large share of investment contained in the different plans that were executed. Beside the importance of these sectors, the government stressed the shortage of water resources and its effect upon life and the economy (Alshaibi, 1999; Menesi, 1994; Abusnaina, 1992; Planning, Libyan. Ministry, Annual Reports, 1998-2002). For example, the Libyan Government carried out the biggest development project in the world, namely, the Great Man-Made River project.

These policies had been introduced through the government’s development and economic plans, starting with the three-year plan (1973-1975) and after that the five-year plans (1976-1980 and 1981-1985). With these plans, the government’s policies had aimed to achieve a number of strategic objectives, including the diversification of production and exports, whilst, at the same time, reducing the dependency on oil revenue and acquiring self-sufficiency (Alshaibi, 1999; Al-Zonie, 1994; Gannous et al., 1990). These strategic objectives were translated into policies for all the sectors, which were executed over the course of the last thirty years. Table 5.1 shows how the Libyan Government has been implementing the economic development policy, starting with the three-year plan and then the five-year plans, which are explained in detail in the next section.

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6 In the early development stages, the Libyan Government focused during the 1970s on the Ministry for Planning, which oversaw the establishment of the Centre of Industry Research.
### Table 5-1: The Economic Plans for the Libyan Economy during the Period 1970-1985.

<table>
<thead>
<tr>
<th>Period of Plans</th>
<th>Policies</th>
<th>Major Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-74</td>
<td>Self-sufficiency and small</td>
<td>Import replacements, sufficiency in food, small industries,</td>
</tr>
<tr>
<td></td>
<td>industry</td>
<td>creation of a basic infrastructure, Social welfare</td>
</tr>
<tr>
<td>1975-80</td>
<td>Self-sufficiency, small</td>
<td>Centralization, limiting imports, encouraging exports, heavy</td>
</tr>
<tr>
<td></td>
<td>and heavy industries</td>
<td>industry,</td>
</tr>
<tr>
<td>1981-85</td>
<td>Heavy industry and high</td>
<td>Heavy industry, information-based industries</td>
</tr>
<tr>
<td></td>
<td>technology</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Gannous et al., 1990. p. 225-235)*

5.3. Trade Policies.

This section discusses the foreign trade of Libya, which reflects, on the one hand, the relationships between Libya as a country and the international market, and the relationships between the Libyan firms and their foreign partners on the other hand. The data and the studies shown in the next section present and analyze in-depth the Libyan economy’s exports and imports between 1970 and 2002.

At the beginning of the 1970s, the Libyan economy’s foreign trade was organized in accordance with a number of standards and strategies, which encouraged a substantial amount of importing within the agricultural and industrial sectors. This was to be done by making use of the available economic sources employed in the different industrial sectors (Gannous et al., 1990; Shamiha, 1996). Moreover, it was in accordance with the needs of the Libyan economy and industrial sector that different companies were formed (Gannous et al., 1990) and the following were established:

- Industrial companies;
- General import-export companies and the setting-up of those firms specializing in this field;
- Distribution channels, which worked at the domestic trade level.7

These channels were all created by a number of pieces of legislation, resolutions and certain procedures, which had been issued between 1970 and 1989. These channels

7 During this period the state was responsible for the distribution of all the commodities by way of the following channels; people, consumers, co-operative societies and, later on, individual distributors.
provided commodities and services to all sectors. Furthermore, the major exports and imports for the Libyan economy came via these channels (Gannous et al., 1990).

During the 1980s, the Libyan Government by way of the third plan clearly aimed to establish various production features within the economy. It is on the basis of these outlines that the foreign trade strategy was set. This strategy was based on directing and organizing imports to make sure that capital commodities and raw material needed for the project were imported on the most favourable terms possible. The trade policy began to look for new markets since its objective was to minimize Libya’s reliance on the markets of some countries, with which Tripoli did not have good relations, e.g., the US. As a result, trade relations were established with other markets, e.g., South East Asia and South America. In general, the policy focused on establishing relations with companies from LDCs.

By the mid-1980s, the government conducted virtually all foreign trade either directly or through public corporations. Import licences were no longer issued to Libyan firms. The foreign exchange, which was needed to purchase imports, had been allocated by the commodity budget since its inception in 1982 (Alshaibi, 1999). Libya was one of the countries which conducted a policy of import substitutions during the 1970s and 1980s. Shielded behind high tariff barriers, the government made resolute efforts to build a domestic industry. This strategy was less successful in that it resulted in a monopolistic situation. Another consequence of this policy was that it created a need for an import licence system. This policy had a negative impact upon industrial firms, and the effect of the restrictions designed to protect the local firms resulted in finances being apportioned inefficiently and the goods were not competitive on the foreign markets (Alshaibi, 1999). After 1999, the government started to change these policies by way of decreasing the foreign trade restrictions, no longer working with a commodity budget and changing the tariff level on some goods.

The major imports for the Libyan economy applied particularly to the public firms. The industrial imports (see section 5.3.2.1) show that industrial firms did virtually all the foreign purchasing. It is useful to discuss the Libyan imports in order to understand the relative importance of the industrial purchasing. The reason as to why this way is used is because there were no statistics on the purchasing habits of Libyan firms. Therefore, the study uses the data about Libyan imports and public firms, thus making it possible to explain the purchases by Libyan firms. The following sections illustrate the development of the Libyan economy’s exports and imports between 1970 and 2002.
5.3.1. Exports

Ever since the oil sector started to sell to foreign countries, Libya’s exports have mainly come from oil exportation. On average, more than 90 per cent of the exports between 1965 and 2006 came from crude oil and petrochemical production (See Table 2 in appendix). Therefore, the Libyan economy depends on oil export and, at the same time, needs to use the oil revenues for supplying the items required to finance imports for other sectors, such as industry, agriculture, education etc. During the period in question, the oil exports assumed a main role in the Libyan export industry, and the oil exports, as a percentage of total exports, were, on average, 95 per cent. It is evident that the Libyan economy still depends on oil as the main source of its wealth. Examining Table 2 in the appendix clearly shows the development of the commodity exports during the period 1970- 2002 (Libya Central Bank Report, 1975-2002).

The export value increased from LD 841.8 million in 1970 to LD 2.0232 billion in 1975, and amounted to LD 6.4864 billion in 1980. The rate of this huge increase in the export value was 68.81 percent. This was, on the one hand, the result of the export rate of oil production, and the oil price increases, on the other, at the time of the increase in oil prices during the 1970s, the export value rose at an average rate of 63.6 per cent during the same period (See Table 2 in appendix). The export value during the 1980s decreased as a result of the oil prices on the international market, which influenced the total value of the exports for this period. The export value dropped to LYD 3.6456 billion in 1985, which corresponded to a decrease of 77.9 per cent. This decrease in the total value of oil exports was due to events that affected the world oil market. The OPEC organization set the policy and stipulated the maximum amount of crude-oil production its member countries were allowed (Libya Central Bank Report, 1975-2002).

During the 1990s, the export value decreased between 1990 and 1999, but after the UN sanctions were lifted, the exports grew by 40.26 per cent in 2000. However, in terms of exports, crude oil and refined petroleum accounted for more than 90 per cent. Throughout these years, any oil price change on the international market influenced Libya's trading position, such as in 1981, 1986 and 1998. This was largely the result of decreasing volumes of oil exports. The oil price decline was a result of external factors, such as OPEC’s production quotas as well as the demand for and supply of oil on the international markets.
5.3.2. Imports

The Libyan economy is heavily dependent on MNCs in the international market and needs many imports, ranging from food and consumer goods to industries’ and technology equipment and raw materials. The general state of the Libyan imports fluctuated throughout the period of 1970 to 2002. However, they have some characteristics that correlate with other features of the overall economy.

During the 1990s, Libyan imports slowly increased between 1990 and 1998. The UN sanctions that were imposed in 1992 and then suspended in 1999 prohibited imports of arms, aircraft and oil-refining equipment. In addition, they reduced access to the country and further complicated trade. However, after the sanctions were lifted, the imports increased significantly between 1999 and 2002, as illustrated by the import value, which rose from LD 2.3741 billion in 1998 to LD 5.857 billion in 2002. Most of this increase was because the government expenditure regarding its development plans had risen.

Table 3 in the appendix illustrates the Libyan imports according to the classification of the commodities and their relative importance during the period 1970 – 2000. The Table shows for the years being studied that the main imports were machinery and transport engines; second were manufactured items according to the materials they manufactured. Next, in third place, came foodstuffs and livestock in relation to the total number of imports as illustrated in Table 3 in the appendix. The average of the relative importance of machinery and transport was 36.6 per cent. The value of this section increased from LD 42.4 million in 1970 to LD 784.2 million in 2000. Thus, the relative importance of this section was the largest of the total imports.

Throughout the period in question, the second relative importance was the imports of manufactured commodities (classified on the basis of the materials used to manufacture them). The average of the relative importance amounted to 22.6 per cent of the total imports. It is therefore clear that the value had increased during this period, and there was a rise in the percentage of the imports for the period 1970-1980. For the other sections of the commodities, Table 3 in the appendix shows the changes in terms of relative importance.

The change in imports in the Libyan economy during the period being researched reflects the economic policies, which the government was employing. It also mirrors the increase in Libya’s import capacity. Moreover, the changes in the Libyan economy’s imports reflect the fact that Libyan firms had focused on purchasing various industrial material from foreign firms. To some extent, this means that industrial purchases represented the
biggest percentage of the Libyan economy. The accompanying table shows the composition of commodity imports for the period 1970-2000. The Libyan imports were very sensitive to the oil revenues and their fluctuations. These changes influenced the size of the imports, rather than the purchasing by industrial firms in Libya (Shamiha, 1996).

5.4. Industrial Policy.

In Libyan economy before 1970, the policies for the industrial sector were unclear; the role of industrial activity in the Libyan economy was peripheral. For its development, the economy relied on the initiatives of individuals, whose priority for their investments was on other activities that gave an immediate return and afforded minimum investment risks. This affected the framework of industrial activities in the form of small industrial companies with limited capacities and a general shortage of labour (Gannous et al., 1990; Shamha, 1994).

The construction industry has played a prominent role in the economic development, as one would expect in a country largely devoid of an infrastructure before the mid-1960s. The construction industry was given its start as a result of investments by foreign oil companies during the 1960s, but since 1969 it has grown in accordance with the government’s construction projects, which were stipulated in the successive five-year plans.

After 1970, through the development plans, the main goal of industrial planning was to transform the national economy into a productive one. To fulfil this goal, the decision was taken to carry out both large and strategically industrial projects; the reasons given when these strategies were applied were that either huge investments were required or a long time was needed for it to yield its return. Through following and analyzing the economic plans and investments in the industrial sector, the strategies applied by the authorities between 1970 and 2000 can be discussed in terms of industrial polices. Table 5.2 shows the following policies that applied during those periods:

During the 1970s, the government started to introduce new policies in the shape of the trilateral development plan of 1973-1975 and the social and economic transition plan for the period 1976-1980. These plans complemented each other and focused on expanding some of the industries. Both the planning process and the technical procedures improved, and they are regarded as the foundation pillar of the industrial plan. For the first time, this plan included a number of objectives in terms of major economic variables, such as production, income, investment and employment. The aims of this industrial plan were to achieve a higher rate of production in all projects as well as better utilize the
capacity of the existing industrial production by means of providing raw materials and creating the incentives and means of industrial advancement. As the first stage of the Libyan economy’s industrial development, the strategy of the industrial planning was established on the basis of ranking the industrial branches in terms of their importance as shown in Table 5.2 (Gannous et al., 1990). The government opted for a restricted industrial policy, which resembled the policies of many LDCs. In the late 1970s, the industrial sector, including manufacturing, was planned by the government, which had assumed control over these industrial aspects. The government concentrated on developing the light processing and petrochemical industries. The processing of foodstuffs continued to remain a high priority and the largest number of plants built during the 1970s were in this area.

During the 1980s, encouraging the development of heavy industry became a high priority for the government. The fifth (1981-85) development plan called for the allocation of LD 2.725 billion to heavy industry. This was 15 per cent of the total development plan and second only to agriculture, which totalled 17 per cent. However, as indicated earlier, because expenditure under the development budget was highly dependent on oil revenues, actual expenditures often failed to reach planned levels. Therefore, there was a growing petrochemical industry with large-scale industrial complexes located at Mersa Brega and Ras Lanouf. Nevertheless, during the 1980s, the fall in oil prices reduced Libya's advantage in terms of energy costs and greatly curtailed its supply of foreign exchanges. Still, this kind of industry remained at the top of the government’s policy. The government used numerous facilities to import industrial and raw materials, machinery and tools for manufacturing. Moreover, all the industrial firms enjoyed a monopoly and were greatly supported by the government.

Throughout the 1990s and up until recent years, the Libyan Government’s industrial strategies have undergone a change, which was a result of the problems and difficulties that the industrial firms faced, such as the mismanagement of the public sector. Afterwards the government started to apply new polices and some kind of limited economic openness took place during this period, which saw private activity allowed to become involved in light industry. However, these policies disrupted the existence of the monopolistic institutions, which had the support of the law and the state. Hence, during the 1990s, the government attempted to correct the status of the factories as well as the drop in their productivity. This saw the state interfere and try to rectify cases of liquidation, nationalization and the transfer of subsidiaries (Alqadahfi, 2002, p. 30). As a
result of this policy, many factories were transferred to the private sector. The main goal for all the policies was to attempt to develop the industry’s non-oil sector. However, there are still many obstacles to be overcome, such as the lack of natural resources (apart from oil), the dearth of expertise and skilled labour. Libyan industrial development is heavily dependent on importing the necessary materials and expertise. In general, the results of these strategies saw a lack of integrated planning for the Libyan economy, such as the factories in light industries or the construction of new factories. In addition to this, there was the arbitrary selection of locations for certain factories and the lack of both coordination between them in terms of specialization and the environmental compatibility of such projects (Alqadahfi, 2002, p. 31).

This section attempts to analyze the Libyan industrial firms involved with regard to the structure of the economy’s oil companies and non-oil firms, which went (from the 1960s until recently) from public firms to partnership firms and private firms that were part of an industrial network of relationships.

<table>
<thead>
<tr>
<th>Period</th>
<th>Importance of the industries</th>
<th>Administration</th>
<th>Policy applied</th>
<th>Size of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-1980</td>
<td>Small industry</td>
<td>Public sector</td>
<td>Substitutions</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Heavy industry</td>
<td></td>
<td>Self-sufficiency</td>
<td></td>
</tr>
<tr>
<td>1981-1990</td>
<td>Heavy industry</td>
<td>Public sector and limited role played by the private sector</td>
<td>Substitutions</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Small industry</td>
<td></td>
<td>Self-sufficiency</td>
<td></td>
</tr>
<tr>
<td>1991-2000</td>
<td>Both</td>
<td>Public sector and a major role played by the private sector</td>
<td>Encouraging exportation</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Joint ventures</td>
<td></td>
</tr>
</tbody>
</table>

5.5. The Role of Libyan Government and Business

Describing a market like the Libyan market is controversial. This is mainly because of the influence of the relationship between the oil revenues and the government's polices, which have a huge impact on all the Libyan firms. As mentioned above, until 2004, all industrial firms needed a licence from the authorities, so they could purchase their own imports. These firms are not able to sell at the cost price; the government controls all the production prices of the industrial firms in the economy. Therefore, there is a distortion in the Libyan market due to a lack of marketing facilities at the disposal of the monopolistic firms, which influences the low productivity. Some studies have noticed this phenomenon.
For instance, Agnaia (1996) has pointed out that managers ranked laws and government policies as the major influences on their business activity, which can be directly affected by a change in national legislation, e.g., the laws concerning wages, the organizational structure and the management system. After the 1980s, the activities of companies experienced many changes. Moreover, these studies have found that oil-firms were influenced by the changes which the non-oil firms had undergone. This was because they were used to working as multinational companies.

**Table: 5.3. The Pattern of Industrial Firms in Libya**

<table>
<thead>
<tr>
<th></th>
<th>Oil and Gas Firms</th>
<th>Non oil Public Firms</th>
<th>Private Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production System</strong></td>
<td>Large capacity, high productivity &amp; joint partnerships with global industries</td>
<td>Large capacity, low productivity, limited links with global industries</td>
<td>Small capacity, medium productivity, limited links with global industries</td>
</tr>
<tr>
<td><strong>Source of Technology</strong></td>
<td>A specific technology &amp; specialized technologies</td>
<td>A specific technology &amp; specialized technologies</td>
<td>Mass-production technology</td>
</tr>
<tr>
<td><strong>Information Exchange</strong></td>
<td>High with an exogenous organization</td>
<td>Low</td>
<td>Intermediate</td>
</tr>
<tr>
<td><strong>Inter Business relationships</strong></td>
<td>Co-operation is high</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Boundary</strong></td>
<td>Large industry boundary</td>
<td>Medium intra-industry boundary</td>
<td>Small, personal relationships</td>
</tr>
<tr>
<td><strong>Position Management</strong></td>
<td>Leadership &amp; rules resources and dependence control</td>
<td>Authority, financial and management control</td>
<td>Owner, financial</td>
</tr>
<tr>
<td><strong>Influenced by</strong></td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Managers interviewed have pointed out that the circumstances in which the country found itself during the 1990s, had been characterized by an unstable environment, with new laws, rules and regulations. Moreover, the organizational structure, along with many regulations and Ministries, had changed many times. For example, there were two Ministries of Industry, one for light industries and another for heavy industries. A few years ago, the government decided to merge them together into one Ministry, which is known as the Ministry for Industry. Moreover, at the beginning of 1999, the government abolished the Ministry for Industry and this saw all firms come under the Production Section. In this instance, the policy was not clear.

Furthermore, results from interviews conducted by Agnaia (1996) also showed that interference by the central authority influenced day-to-day operations in terms of changes to the government’s organizational budget, employment conditions, as well as personal and managerial appointments. This was in line with the report prepared by the UN mission in 1994. However, the instability of the system for the firms was one of the
obstacles that were continually being modified. This usually led to a change in the laws, rules and regulations and resulted in many unclear issues.

In general, the Libyan market is small in comparison with other markets in the world and firms are faced with many changes due to the political attitude of the country, political influences and laws and the activities of firms. Furthermore, most firms are small and suffer from many financial problems as well as mismanagement. This fact still holds true for non-oil firms and small industrial firms and these companies are sensitive to government policy. Moreover, the instability of Libya’s relations with several countries (US) makes it difficult for foreign industrial purchasing, which, in turn, influences the relationships between Libyan firms and their foreign suppliers.

In recent years, the new policy aims to raise standards by opening up the market through a number of government programs, like JV and tourism investments. This policy started after the UN economic sanctions were lifted in 1999, and it was generally expected that there would be a significant increase in the amount of international investment in Libya’s mineral industry. With the laws that regulate foreign investment in Libya, there are signs that the country is now moving towards a variety of economic reforms and a reduction in the state’s direct role in managing the economy. In 2002, the Libyan Central Bank devalued the official exchange rate of the Libyan currency and unified the multi-tier foreign exchange system. The devaluation also aims to increase the competitiveness of Libyan firms and help attract foreign investment into the country.

However, since 2002, the business environment has been changing as a result of the information revolution and the lifting of sanctions against Libya, whose economy is now showing good growth. This is due to several compelling factors, such as natural, human, and financial resources as well as the country’s geographic location (its proximity to the main international markets).

The changes announced in 2002 at the Libyan People’s Congress signalled the empowerment of the private sector, the reduction of the roles of the state and public sector, the abolishment of a number of controls on the financial transfers of foreign trade, and the flotation of the exchange rate. These measures will certainly contribute to rectifying the economic path along which Libya has been heading, and raising the productivity levels. Additionally, the new laws passed to encourage foreign investments will help to increase the economic growth levels. In spite of these efforts to improve the quality of life for the Libyan people and as well as their scientific knowledge and skills, Libya is still not self-sufficient in this respect, and it is having to rely heavily upon foreign experts, such as engineers, to carry out the industrialization process.
5.6. Culture.

The fundamental cultural characteristics of a country can be exhibited in a number of ways: language, beliefs, social relations, attitudes, working conditions, sexual roles to subordinates and parents etc. (Lee, 1991). These factors and cultural differences may influence the behavioural patterns of business relationships between foreign suppliers and Libyan firms, including individuals and organizations as they execute their interaction process. Therefore, this section will describe Libya’s cultural traits, which are characterized by the extended family, both socially and culturally. The Libyan family represents Libyan values, standards and behaviour, and these include the existence of strong community ties with clans, tribes, villages as well as the Islamic religion, which plays a major role not only in community life, but also on interpersonal behaviour.

The Libyan culture has been greatly influenced by religions. Historically, Islam has been the main religion in Libya. It has particularly influenced societal, economic and political life. Furthermore, Libya allows the practicing of other religions, e.g., Christianity.

The class system regarding the Libyan population can be classified into three groups: Arabs, Barbers and Tuaregs. The Arabs, whose language is Arabic, are the largest group and they mostly live in northern Libya. Despite the fact that the Libyan family constitutes a homogeneous and coherent social unit, it has characteristics and a nature that are evident throughout the entire Arab world. The Libyan family can be characterized as belonging to one of the five following groups: the Bedouin family, the rural family, the urban family, the transitional family, and the Libyan family with its international background. All of these groups have some attributes which exert an influence upon practical life, e.g., the cultural traits of Libyan people and their work (Al-Teer et al., 1992; Agnaia, 1996).

The Libyan family’s status was changed under the influence of development and modernization, which are transforming the entire Libyan society from its rural nature into a new social status. For instance, the Bedouin along with other families are now participating in paid work, as well as performing administrative, nursing, industrial and educational jobs (Gannous et al., 1990). Some studies show that the employees have more loyalty to their family and tribe than to their organizations. Furthermore, Libyan managers are more concerned about social relationships being formed in the work place, rather than the jobs (Agnaia, 1996). Another researcher has stated that management procedures in Arab societies are frequently influenced by personal connections, nepotism, sectarian and ideological affiliation (Al-Teer et al., 1992; Agnaia, 1996).
Moreover, the cultural traits in Libyan society have influenced how work is conducted in a number of different ways. For example, administrative relations have also become dependent upon personal, rather than objective, evaluations. Thus, spending a lot of time meeting their visitors during working hours was considered a form of socialization. Moreover, they also do not observe the official working hours. Therefore, the government has set up education programs, which are responsible for preparing a large number of people for administrative posts within public firms. Some researchers have found that difficulties have arisen as a result of these programs, such as the lack of purposeful co-ordination between this kind of planning and the country’s culture. This has, in turn, influenced the degree of success of educational development (Farley, 1971, p. 35). Another difficulty was related to the fact that the education system paid more attention to the theoretical aspects of education rather than practical ones (Adwebi, 1992).

Even though there are some organizations trying to improve these skills, e.g., the National Institute for Administration, other universities have helped to develop management staff in different sectors by means of an annual policy that aims to develop Libya’s employees at different managerial levels (Gannous et al., 1990, p. 679; the Economic and Social Transformation Plan, 1981-1985, p. 38, 123; Agnaia, 1996, p. 35).

Some other studies have shown (Agnaia, 1997, p. 121) that the majority of people working in government departments do not follow the rules and regulations of their departments, and, instead, satisfy the requirements of others or conduct their own procedures. Their administrative mistakes have consequently increased. An attempt to understand the dynamics of Libyan culture should also include a consideration of the political culture since the 1969 revolution. Since then Libya has been governed by Colonel Muammar Gadhafi, and Libya’s political system is largely based on the Green Book ideology, which has been described as a kind of social philosophy, the 'Third Universal Theory', with strong criticism of foreign inventions, such as parliamentary democracy, capitalism and communism.

5.7. Summary

This chapter has illustrated that the oil revenue is the main resource of the Libyan economy and it makes the largest contribution to the GDP and is the main source of exports. This is a classic example of a dual economy. The industrial sector was developed during the 1970s and 1980s, but, after the crises regarding the oil prices on the international market, there were several important industrial resources that were not available for local firms on the Libyan market. Such resources have to be improved in
order to increase the industrial firms’ low productivity and technology skills, as well as reduce cases of misadministration etc.

In general, the size of the Libyan market is small and there is a weak infrastructure and a lack of information and financial resources in some years. Moreover, the Libyan government plays a basic role in economic life, therefore the Libyan market is influenced by government policies. The main actor in the Libyan market was the government, which assisted key parties, such as the customer and the seller, who operated within a monopolistic market, through financial support, protecting the competitiveness of other actors, setting high tariffs and restricting the entry of competitive commodities. The government, whose role in terms of marketing is vital, has been restricted to having to adapt commercial rules and regulations, and implement them. Furthermore, it is an important actor in various economic activities.

Concerning the oil sector and its prices, it can be argued that because the government has adopted all these policies, the economy can be improved depending on the oil revenues. Thus, the economy has become correlated with oil prices. By way of concluding, it can be argued that the culture in Libya consists of Islam as the religion, an eastern culture, which is a strong influence on the individual and societal behaviour. This is reflected in the law and characteristics of the Libyan market. In Libyan society, these factors vary in importance and foreign actors should seriously take them into consideration. In general, the Libyan economy has been described as a developing economy of a relatively small size. It has the same characteristics as other developing countries, which depend upon one commodity for their resources. In Libya, oil is still the main source of income and foreign currency. Thus, any oil price changes in international markets directly or indirectly influence the Libyan market, which, in turn, affects all actors within the Libyan context.
Chapter Six: The Focal Business Relationships

6.1. Introduction

In this chapter, the empirical facts about focal relationships between the business actors, namely, Libyan firms and their foreign partners will be presented. The first section of this chapter will look at the facts and findings about the history of the relationships as well as present and future expectations. The second section will present the results obtained for the exchange links between Libyan firms and their foreign suppliers. This covers aspects like product exchanges and technological cooperation between both parties. The third section contains the results about the focal exchange, like the production and technology exchanges, and to what extent both parties are important to each other. The final section is a discussion on the issues concerning the product performance.

6.2. Historical Development

In this section, the aim is to measure some aspects like the development of the relationship and its substance. Some of the questions discuss the process, aspects like history and the start of the relationship. The first question was about "the start year" presented in Figure 6.1. A few relationships began before 1970, and the figure below shows rapid increases and decreases during the period 1965-2002.

![Figure 6.1: Historical Development.](image)

However, the significant aspect of Figure 6.1 is the percentages given for when the relationship started.

The explanation is related to the political and economical changes that took place in Libya. As presented in Chapter 5, after the revolution the political and economic
system of Libya as a country changed, and after 1973, the year of the oil price rise and the subsequent increase in the Libyan Government’s oil revenue, the government then started to make huge investments in different industrial sectors. It then established many new industrial companies in all sectors. During that period, new Libyan firms intensified their exchange relationships with foreign suppliers in order to meet the rapid local demand, for example, the number of import industries increased (See Table 3 in appendix). The result was a rapid demand for industrial imports, and the links between Libyan firms and foreign firms grew. Figure 6.1 shows the expansion period and the decrease in the number of relationships. This can be explained due to the change in the periods (discussed in Chapter 5); after the drop in the oil price and the subsequent decrease in the Libyan Government’s revenues, the economic situation became more unstable. As Figure 6.1 shows, there is a dramatic decrease in the number of new relationships during this period, and we can see that this is a result of Libyan imports during this period (see Subsection 5.3.2.). A similar developmental trend can be observed in the increase in the number of exchange relationships after the UN sanctions were lifted. This can be verified by the rapid increase in the import value of Libyan firms. Figure 6.1 shows the first aspect of the historical development of the focal exchange relationships that lasted on average for 18.5 years; however, it should be noted that the study covers a few cases in the 1960s.

6.3. Development of the Relationship

This section focuses on the answers to the questions that examine the relationships between the focal actors, the importance of the business relationships with the foreign suppliers, and other questions that explore the specific links and measure the product exchange as well as the technological cooperation between the focal parties.

In general, the questions relating to the development pattern in the focal exchange relationships of the Libyan firms’ purchasing over the past five years examined the stability, regularity and quantity. Figure 6.2 shows the answers to the first question that examines the purchasing trend during the last five years. Figure 6.2 shows that together the percentage of the alternatives ‘rapid’ and ‘slow increase’ came to 48.3%. The alternative ‘unchanged’ was selected by 10%, and, in total, 41% chose ‘slow decrease’ and ‘rapid decrease’, which means that nearly half of the Libyan firms had noted a positive trend in the development of their relationships with their foreign suppliers. Perhaps these optimistic answers were influenced by some factors concerning the general resources after the UN sanctions were lifted, the increase in government expenditure and the new policies that encouraged the transformation into a market economy.
What has been the purchase trend over the last five years?

![Graph showing the purchase trend over the last five years](image)

**Figure 6.2: Trend of the Purchase Development over the Last 5 Years.**

Other questions examine the profitability of the relationship for the supplier and for the customer (percentile). The main question was as follows: ‘Considering all costs and revenues associated with this relationship, how would you asses its profitability over the last five years: (a) for your company, and (b) for the supplier’s company?’ Figure 6.3 illustrates the anticipated profitability for the last five years via a response scale ranging from ‘very bad’ to ‘very good’. As shown, 46.7% of the Libyan firms answered ‘break even’, and for the supplier firms, 44.8% said ‘rather good’. However, for the other options, ‘very bad’ and ‘rather bad’, the figures were 3.3% for local firms and 1.7% for the supplier firms, respectively. These figures signify the anticipated high level of economic gains over the last five years, and there would be a mutual benefit in the interaction between them. This implies that both the Libyan firms and the foreign suppliers expected a high economic benefit in their exchange. Moreover, the Libyan firms anticipated the country’s economic situation would improve. These relationships are important because of the mutual economic gains.
The next question examines the expectations of Libyan firms: ‘What are your expectations regarding purchasing from this supplier for the next five years?’ The answers are shown in Figure 6.4: 36.7% said ‘does not apply’ and 23.3% went for the option ‘slow increase’. Comparing the results of the previous question with the future expectation reveals that the low degree of future expectation can be linked to the higher degree of uncertainty regarding the future development. The low level of expectation can be described by firms’ uncertainty for the future. As discussed in Chapters 2 and 5, the rapid change in the political and trade policy of the government means that firms cannot speculate about the future or guess what may happen.
What are Your expectations regarding purchases from this supplier for the next five years?

![Bar chart showing expectations regarding purchases for the next five years.]

Figure 6.4: Expectations regarding Purchases for the Next Five Years

Another question that examined the relationship content, as discussed in the theoretical part, was the level of stability that is illustrated in Figure 6.5. The Libyan firms were presented with a response scale ranging from ‘very stable’ to ‘very volatile’. The answers demonstrate that the figures for the options ‘neither nor’ and ‘rather stable’ were not high (31.7% and 30% respectively). This means there has been some instability for the Libyan purchasing trend over the last five years. This instability has caused a degree of uncertainty, as 16.7% of the Libyan firms chose the alternative ‘does not apply’ and 12.3% said either ‘rather volatile’ or ‘very volatile’. This also applies to the degree of relationship. The measures are indicators that relationship strength among the firms is not very high and, at the same time, there is a higher degree of uncertainty among the Libyan firms.
6.4. The Focal Exchange Relationships

As discussed in the theoretical framework in chapter 3, this section of the chapter focuses on several of the aspects in the exchange relationships between business actors. Firstly, the product and technological exchanges will be considered and, secondly, the importance of the focal actors and their activities in the product specification will be examined. Finally, the product performance and areas like product delivery will be discussed.

6.4.1. The Production and Technological Exchange

In this study, the survey includes six different questions covering aspects like product classification and the newness of the product. The first question seeks to determine the type of products being purchased from foreign suppliers. In fact, in answering this question, almost all the Libyan firms chose the option ‘raw material’ along with another option ‘mining equipment’, and some of them chose three responses, which means the answers contain more than one option, but when the firms were asked to choose the important ones, the answers were different. Table 6.1 shows the answers to this question. 28.3% of the Libyan firms selected the alternative ‘mining equipment’, which produces a high figure compared with the other options. However, Table 6.1 also contains the percentages for others and the results show that there are not big differences between the answers.

**Figure 6.5: Stability in the Purchasing Pattern over the Past 5 Years.**
Table 6.1: Product Classification

<table>
<thead>
<tr>
<th>Options</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>11</td>
<td>18.3</td>
</tr>
<tr>
<td>Semi-finished</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Component</td>
<td>11</td>
<td>18.3</td>
</tr>
<tr>
<td>Mining equipment</td>
<td>17</td>
<td>28.3</td>
</tr>
<tr>
<td>Heavy equipment</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The second question examines the knowledge of the Libyan firms about the specificity and newness of the product; the question was as follows: ‘How much does the product differ from other products now available on the market?’ Table 6.2 shows the results: 37.9% answered ‘new in several respects’ and in second place was the option ‘somewhat modified’ (22.4%). The percentage for the alternative ‘a totally new problem solution’ was 10.3%.

Table 6.2: Newness of the Product.

<table>
<thead>
<tr>
<th>Options</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Virtually similar to existing products</td>
<td>12</td>
<td>20.7</td>
</tr>
<tr>
<td>2. Somewhat modified</td>
<td>13</td>
<td>22.4</td>
</tr>
<tr>
<td>3. Greatly modified</td>
<td>5</td>
<td>8.6</td>
</tr>
<tr>
<td>4. New in several respects</td>
<td>22</td>
<td>37.9</td>
</tr>
<tr>
<td>5. A totally new problem solution</td>
<td>6</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>58</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Furthermore, the second question in this part of the study was: ‘How much does the product differ from the products you have used previously?’ The answers in Table 6.3 show that for the Libyan firms the most popular alternative was ‘virtually similar to existing products’ (31.6%), and 21.1% selected the alternative ‘greatly modified’. The accumulated total for the two least popular options was 28.1%. The type of product is one of the factors that determines the substance of the relationships. The results above, for example, show that a high technological competency among actors in the network is required.

Table 6.3: Difference from the product used previously.

<table>
<thead>
<tr>
<th>Options</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Virtually similar to existing products</td>
<td>18</td>
<td>31.6</td>
</tr>
<tr>
<td>2. Somewhat modified</td>
<td>11</td>
<td>19.3</td>
</tr>
<tr>
<td>3. Greatly modified</td>
<td>12</td>
<td>21.1</td>
</tr>
<tr>
<td>4. New in several respects</td>
<td>9</td>
<td>15.8</td>
</tr>
<tr>
<td>5. A totally new problem solution</td>
<td>7</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The next question was about the difficulty of using a product. The Libyan firms’ scores are illustrated in Figure 6.6. 40.4% selected the alternative ‘rather difficult’ and 24.6% said ‘rather easy’. The total for the first options came to 49.2% and for the second ones
45.8%. The answers show the Libyan firms faced some difficulty when they used a product. This question is connected to the competency of actors in the exchange relationship.

**How difficult is it for your firm to use it?**

![Bar chart showing difficulty levels]

**Figure 6.6.: Difficulty in Using the Product**

In terms of cooperation for the specification of product exchange, Figure 6.7 contains the answers to the following question: ‘who specifies the product: the customer or the supplier?’ As Figure 6.7 shows, 20% answered that it was only the foreign supplier who specified the product. 21.7% said ‘both parties’ and, in total, 56.7% chose the options ‘mostly the customer’ and ‘only the customer’. These answers can perhaps be explained by the high level of cooperation between the Libyan firms and foreign suppliers regarding the agreements that are in force, but did not reflect the cooperation regarding technological issues. Further, the answers for the technological aspects of cooperation will confirm/reject this finding. The other possibility is that the Libyan firms know what they want to buy and specify the product because the major part is the raw material. This answer does not correspond with the above answers about classifying products and how difficult it is for the Libyan firms to use the products.
6.4.2. The Importance of the Customers and the Suppliers.

In this section, the emphasis is on the importance of both the customer and the supplier. The questions measure the interdependency, and the focus is on the importance of the customer to the supplier, and vice versa. Figure 6.8 shows the answers to the first question. Measured in terms of the purchasing amount, 41.7% of the Libyan firms selected the alternative ‘partly agree’, 30% opted for ‘strongly agree’, 11.7% chose the alternative ‘uncertain’, and 13.3%, the third highest figure, said ‘do not know’. The next question was about the range of the products being bought as a reason for the importance to the supplier. More than 47.5% of the Libyan firms selected the alternative ‘partly agree’ with this statement. Moreover, 16.9% strongly agreed with this statement. This means that the majority of Libyan firms purchase specific products from their suppliers and over a long period of time.
In what respects is your firm important to this supplier?

![Bar chart showing the importance of Libyan firms to foreign suppliers](chart)

**Figure 6.8: The Importance of the Libyan Firms to Foreign Suppliers according to the Amount Bought and the Range of Products**

In order to further our understanding of the interdependency and mutuality in the theoretical view, the next questions focus on the technological aspect of the substance of the relationship. The following two questions in the first group measure this degree of technological interdependence. The results obtained for this question which studies the ‘importance of the partner to the degree of technological development’ are presented in Figure 6.9. Regarding the statement: ‘Suppliers are of importance for technological development’, 37.3% of the Libyan firms selected the alternative ‘partly agree’, and 20.3% said ‘strongly agree’. The developmental trend in the totals is digressive for those alternatives ‘uncertain’ (15.3%) and ‘do not know’ (18.6%). Consequently, this shows that there is not a high level of cooperation between the Libyan firms and their foreign suppliers. However, the basis for the cooperation is revealed by way of other variables, for example, quantity and prices. This also means that for a relationship with only a low level of technological aspects, price plays an important role.
In what respects is your firm important to this supplier?

Figure 6.9: Importance to the Technical Development and Ideas.

The next answer supports the conclusion related to the following statement: ‘The firm is important for this supplier because it is a source of technological ideas’. As indicated in Figure 6.9, 35.6% of the firms selected the alternative ‘partly agree’ and 22% gave ‘strongly agree’ as their option. Also in the answers to this question, 15.3% of the Libyan firms selected the alternative ‘uncertain’ and 18.6% said ‘do not know’.

The comparison of the above figures with those for technological development shows that the combined score for the options ‘partly agree’ and ‘strongly agree’ is higher for the Libyan firms and the figures for the options ‘strongly disagree’ and ‘partly disagree’ are lower. The results are an important aspect regarding the substance of the relationship. Figure 6.9 shows the comparison between them. The relationships are not complicated and, in this study, the technological cooperation is not very extensive between the Libyan firms and their foreign partners.

In further understanding the relationship strength, the other set of questions analyzed the reason for the ‘supplier’s importance to the customer firm’. Here, the study examines the importance from the supplier’s perspective. The study presents two of the eight questions concerning this issue. The first two questions show that the supplier is important because it is a major supplier and a parallel supplier. According to Figure 6.10, for the Libyan firms, the most popular option was ‘strongly agree’ (43.3 %), and in second place was the option ‘partly agree’ (40%). The total percentage for these two came to 83.3%. Moreover, 10% selected the option ‘partly disagree’ and 5% said ‘uncertain’. This point of view held by the Libyan firms, namely, that the foreign partner is seen as a major supplier, is supported by the answers given in the second question. Figure 6.10 shows the difference between the answers.
Figure 6.10: Importance of the Foreign Suppliers to the Libyan Firms.

For the next question, the answers were different. More than 27% of the Libyan firms did not see the foreign partners as parallel suppliers and 15.3% selected the option ‘strongly disagree’. Moreover, the degree of uncertainty concerning this question was high; 25.4% of Libyan firms were uncertain about parallel suppliers.

The following questions examine the substance of the relationships regarding the interaction between the parties. These questions were about ‘the importance of a partner in technological development’, and the ‘source of the product technology ideas’. Figure 6.11 shows the answers, and there is not a big difference between them. 42.4% of the Libyan firms selected the option ‘partly agree’ about technological development and 37.3% concerning the technology ideas. The combined total for the aforementioned two options shows that the Libyan firms’ interaction with foreign suppliers is not founded on strong business relationships. Figure 6.11 shows that because of a low level of interdependency, the level of certainty regarding the relationships is high, and the Libyan firms seriously evaluate the business offers from the cooperation view.
6.4.3. Product Performance

Concerning the level of technological cooperation between Libyan firms and their foreign suppliers, the following questions concern whether they discuss and specify their needs and together try to find technological solutions. The situation may also arise whereby the partners do not have strong technological cooperation, and one has to specify to the other its particular needs. The questions are combined with other ones in order to promote a deeper understanding of the substance of the technological ties between the two partners. As discussed in the theoretical model in Chapter 3, technological interdependency is one of the main ties binding actors. A higher level of cooperation will lead to a higher level of interdependency.

In this section, there are two questions, one of which was: ‘To what degree can the performance requirements for the products be specified by you?’ As shown in Figure 6.12, the following percentages were given for the various options: ‘very low’ (1.7%), ‘low’ (8.3%), ‘neither nor’ (23.3%), ‘high’ (50%), and ‘very high’ (16.7%). This means that the Libyan firms have some degree of power to specify the products: 66.7% of them specify what their needs are.
Another question with regards studying the business relationship, specifically the product exchange in a deeper context, is the effect of delivery problems on the production system. In industrialized countries, the method involves the time used in order to increase efficiency and to reduce the production costs, for example, not storing the imported products in the warehouse for a long period of time. To see the result of the impact of delays on the Libyan firms, the delivery times, starting with one week and going up to one year, were looked at. The results from the question: ‘What are the consequences for your firm if there are delivery delays’, are shown in Figure 6.13.

By comparing the answers to the questions about a one-month, three-month and a one-year delay, we find the answers regarding a one-month delay showed that it did not have much effect, only 3.3% selected the option ‘marginal effect’, 40% said ‘minor effect’ and 30% chose the option ‘major effect’. However, the answers for the three-month and one-year delay showed that they have a much greater impact. The total percentages for the two alternatives, ‘major effect’ and ‘very serious effect’, were 73.3% and 96.7%, respectively. This means that the delivery times for the Libyan firms were long, and the level of interdependence was low if the product was purchased in bulk. The percentages for answers given for the deliveries and the delays suggest that the Libyan firms have some problems with planning for the production processes and reflect financial problems with the transactions, meaning the level of uncertainty in the network is high.
What are the consequences to your firm of delivery delay?

![Bar chart showing percentage of responses to the consequences of delivery delay.]

**Figure 6.13: Delivery Delays.**

### 6.5. Summary

One important issue in the theoretical view for deeper understanding of buyer-seller relationship strength considered aspects like cooperation and content of technological development in the exchange of products. Following this view, the aim was to understand the content of the business exchange between Libyan firms and their foreign suppliers. The figures show the general and specific ties in the exchange of products and technology. In this chapter, a number of business relationship concepts were presented. In the first section, the history and future of the Libyan firms’ relationships with their foreign partners were studied. Accordingly, the answers to the questions cover the historical development. The interesting finding was the apparent link between the intensity of the relationship and the economic-political development, corresponding with the period of economic and political stability/instability.

In the second part of the chapter, the results on the importance of the focal actors are presented, and the product exchange and the technological cooperation between focal parties are measured. The main results revealed the positive view of the Libyan firms, that this relationship is important, that there is a high level of economic benefit in the exchange with their foreign suppliers and there is also some dependency. Nevertheless, there is a low level of future expectation and a high degree of uncertainty.

In the third part of this chapter, the results concerning the product and technological exchange show that there is a high level of cooperation between the Libyan firms and their foreign suppliers regarding the valid agreements; but for technological issues, the
level of cooperation was very low. However, foreign suppliers are seen as important and, finally, the answers about delivery times show the low level of interdependency and the high level of uncertainty in the network.
Chapter Seven: Adaptations

7.1. Introduction

This chapter focuses specifically on the adaptation behaviour of Libyan firms towards their foreign suppliers. The concept ‘adaptation’ refers to the ways in which a match is achieved between interacting actors. As mentioned in Chapter 3, international marketing strategies generally consider standardization versus local adaptation as a way of fitting the firm (and product) into a relationship (see, e.g., Hadjikhani and Thilenius, 2005). Here, adaptation is the study of an activity that requires the willingness of the partners to invest in a relationship. High levels of adaptation require a large investment and generate a strong relationship. In contrast, in a situation with a low level of adaptation, a weak relationship is produced.

Following the theoretical view in Chapter 3, this chapter discusses two aspects, technological and administrative adaptations. In the technological part, the aim has been to measure: (1) the effort of one partner to make unique changes in order to adapt to the other one’s request, (2) the modifications that partners have made to the products to fulfil their partners’ needs, and, finally, (3) the suppliers’ efforts to provide technological advice to the customer. Thus, the next part of this chapter considers administrative adaptation and adaptation of the service, specifically in staff training. The final section is devoted to a discussion of relationship investment and management.

7.2. Specifics of Adaptation.

In this section, the degree of originality of the adaptation undertaken by the Libyan firms and their foreign partners is examined by way of two questions: the first question evaluates the supplier’s adaptation and the second the customer’s. The aim of these questions is to understand the specific adaptation that the firms have made to each other. The results are presented in Figure 7.1. In the question ‘unique to this supplier’, the accumulated amount for the alternatives ‘unique’ and ‘rather uncommon’ was 37.9%. The accumulated total for the same alternatives in the questions related to the adaptation by the Libyan firms was 27.6%, and for the question ‘unique to this supplier’, the accumulated amount for the alternatives ‘rather common’ and ‘standard’ was 36.2%. The total figure for the same alternatives in the questions related to the suppliers’ adaptation was 43.1%. This number becomes much higher if the figure from the alternative ‘neither
nor’ is included, although the Libyan firms explained that adaptations made by two focal actors were of a general nature.

A: Changes unique to this supplier.
B: Changes unique to this customer.

![Bar chart](image)

**Figure 7.1: The Degree of Adaptation**

As discussed in the theoretical view, the degree of relationship adaptation is one crucial aspect for measuring the degree of strength. The figures for the alternative ‘unique’, as illustrated in Figure 7.1, were 6.9% and 12.1% for the foreign suppliers and the Libyan firms, respectively. Even these percentages do not necessarily mean that this group of firms had made a sophisticated technological adaptation. It could be that these so-called ‘unique activities’ were actually standardized, but were considered by the firm to be specific (although regular) activities. The generality of the adaptation leads to the following conclusion: as long as these firms have not made specific major changes, they have a high degree of mobility in their relationships and the ability to change their partners and break up relationships, the latter being an outcome of a weak relationship. This can be a result of two major factors: (1) there exist a large number of alternative choices, and (2) it is a result of constraints from other dependent actors. In this case, the weakness can only be depicted in terms of the specificity of the change. The study needs to develop the other facts in order to have a deeper understanding of the content and the suggested forces involved in the adaptation. (This is discussed in the next section.)

### 7.3. Product Modification

To examine the validity of the answers to the above two questions and to find clues to understanding the specificity of the adaptation, this section contains some questions that
examine the adaptation of Libyan firms and their foreign partners in the field of product modification and new product development. The results can either confirm or reject the above conclusion regarding the weakness of the relationship.

In Figure 7.2, two of these questions are presented: one is about product modification, and the other about new product development. The question was as follows: ‘What changes have been made by your supplier to adapt to you, your products, or procedures?’

Figure 7.2: The Suppliers’ Adaptation.
As shown in Figure 7.2, the highest figure, 30%, in relation to product modification, and was for the alternative ‘neither small nor large’. For the alternatives ‘none’, ‘do not know’ and ‘very large’, the figures were 20%, 18.3% and 1.7% respectively, meaning that the foreign suppliers had not made large product modifications. In general, it is possible that the answers meant that product modification was seen as technological adaptation, and, therefore, there was a low figure for the alternative ‘very large’. Moreover, the total for new technological development was very low, as was the case for the answers for product modification. The percentage total for the alternative ‘very large’ was 3.3%, and for ‘large’ it came to 1.7%. The figures for the alternatives ‘none’ and ‘small’ totalled 50.7%. Such a figure can only lead to one conclusion: that half of the Libyan firms and their foreign suppliers do not have an established technological relationship. Cooperation between both parties, other than in a few cases, did not have a deep technological context. The interaction did not contain new product development designed for the Libyan firms. The answers to the above questions provide evidence which makes it possible for the
following conclusion to be drawn: a very low level of technological cooperation between Libyan firms and their foreign suppliers has affected the weakness of the technological ties.

7.4. Technological Advice

The technological relationships among business actors also contain aspects like advice that can examine how dependent business actors are on each other. To examine the technological cooperation at the service and advice level, the survey contained some questions designed to further study the technological ties. The questions measured the strength of the ties among individuals and organizations for areas like technological assistance. The questionnaire contained 10 questions, but the study will only present three of them to demonstrate the trend shown by the answers concerning these issues. The topic for several of the questions was formulated as follows: ‘Do the suppliers provide any of the following services for you, and, if so, to what extent, compared with what you consider normal practice?’ In this group, one of the questions was about the technological advice and cooperation between Libyan customers and foreign suppliers. As illustrated in Figure 7.3, both the technological advice and the cooperation between Libyan firms and foreign suppliers were considered, and, as shown in Figure 7.3, the percentages for the alternatives ‘average’ and ‘above average’ were 34.5% and 12.1%, respectively. The accumulated percentage for the alternatives ‘no, not at all’ and ‘less than average’ was 43.1%.

Does the supplier directly provide any of the following services to you, and if so to what extent as compared to what you consider normal practice?

![Figure 7.3: Technological Advice.](image-url)
Despite the fact that 34.5% is not very low, the accumulated figure for the alternatives ‘average’ and ‘above average’ is not very high, only 46.6%. This means that the foreign suppliers do not provide a high level of technological services to the Libyan firms.

The analysis of the figures above indicates that the majority of the firms have low degree of technological cooperation at both the service and assistance level. The first review gives an idea that, despite all the previously discussed facts, there is a technological relationship between the partners (i.e., the majority of the foreign firms provide technological assistance). This question, compared with the earlier question (see Figure 7.2), shows the different levels of strength in the technological ties. Technological advice, for example, which refers to the simple transfer of technological information, contains some degree of interdependency, and bonds which are weaker than the technological ones created in developing new products.

One specific aspect of the suppliers’ adaptation in the theoretical view concerns the provision of certain services and whether any extra efforts have been made by the actors. In this study, technical advice, cooperation and development were examined in this respect. The analysis revealed a significant difference between how the Libyan firms and the firms in the other group looked upon these aspects of technological advice. The Libyan firms noted that the suppliers did provide this, but not a higher degree of technological advice in their relationship.

7.5. Service and Delivery Adaptation

The answers to the above questions provide to some extent a deeper understanding of technological links. In one area, that of new product development, the level of interdependence and strength was low. This section refers to technological links in another area, such as service and delivery. The question is how the relationship is organized in those areas that require a lower level of intensity with regards interaction. A set of questions was used to measure these factors. In the following section, three questions will be presented which measure the adaptation behaviour of the suppliers in relation to: (1) the delivery procedure, (2) the technical advisory service, and (3) technological information. These questions aim to provide knowledge about the strength found in the other ties, with the findings illustrated in Figure 7.4.

Both Questions 2 and 3 examine the suppliers’ adaptation to Libyan customers. However, these two questions analyze two factors with different levels of intensity of cooperation. Question 2 studies a factor that requires deeper or more intensity in the
interaction than the factor studied in Question 3. Technical advisory services are accommodated through personal interaction beyond the standardized information flow. Such services are concerned with more specific technical problems and solutions.

Comparing the answers to Questions 2 and 3 shows that the adaptation of technical information is, as a percentage, not much different than that of the technical advisory service; the accumulated totals for the alternatives ‘none’ and ‘small’ for the question on the advisory service was 25%, compared with 28.3% for the technical information question. Further, for the question on the advisory service, the percentages for the alternatives ‘large’ and ‘very large’ were 23.3% and 0% respectively, compared with 13.3% for the technical information question.

What changes have been made by your supplier to adapt to yourselves or your products or procedures, regarding:

![Bar chart showing the adaptation behavior of suppliers.](image)

**Figure 7.4: The Suppliers’ Adaptation Behaviour.**

These totals show that the technical link regarding technical advisory services is stronger than that concerning the technical information. However, the figures for standardized relationships were higher than those requiring a stronger bond for a long-term interaction (although ties with a low intensity of personal interaction were stronger than ties with a high intensity when only information exchanges were included).

For Question 1, which was about the delivery procedure, the alternatives ‘none’ and ‘small’ with regard to the adaptation change came to 40%. However, the percentage for the option ‘large’ was 25%, which is more than the percentage for the questions requiring a higher degree of technological cooperation. The figure for the alternative ‘very large’ was only 1.7%. A possible explanation for this low figure could be that a delivery change does not necessitate a large commitment to adapt. In circumstances where there is a high level of mutual technological interdependency in terms of
technological cooperation, a high percentage figure for the delivery would have been necessary.

As the mutual technological cooperation in this study is low, as shown earlier, so the need for delivery adaptation is also low. In the delivery question, the figures for delivery adaptation were lower than those for the information service question. The percentage for the delivery question was 40%, for the question on advisory assistance it was 31.7%, and for the information service 56.6%. However, the values for the first two alternatives ‘none’ and ‘small’ in relation to the delivery question were high.

This explains that in delivery adaptation, the majority of the Libyan customers were not highly dependent on the foreign suppliers. In general, the answers show that the rate of adaptation for the delivery procedure was higher in relation to the other ties. This finding confirms the earlier conclusion about the purchasing behaviour of the Libyan firms. As discussed, Libyan firms, because of the high uncertainty generated by the connected actors, are obliged: (1) to buy large quantities and (2) to make only a few purchases per year.

Comparing the results from Question 3 with those from Questions 1 and 2 shows a weakening trend for the adaptations. Ranking these three questions sees adaptation for the technical advisory service requiring more interactions than the delivery procedure, which, in turn, requires more interactions than exchanging just information. This means that the degree of adaptation by foreign suppliers has been greater for alternatives containing standardized changes. The suppliers did not specifically adapt their activities to the Libyan firms, whose own adaptations were of a more general nature, but there were specific adaptations in areas such as information needs, which require a more standardized and lower commitment. Generally, there can be a low or high degree of adaptation. In the case of Libya, the low degree of technological adaptation demonstrates a low level of strength in the technological bonds.

### 7.6. Administrative Adaptation

The theoretical view in chapter 3 contains relationship elements which concern aspects like administrative adaptation. Despite the fact that such aspects do not have the strength of elements like technological relationship, such aspects are vital for relationship longevity. This survey study contained some questions that examined aspects of administrative adaptation; the main question was as follows: ‘What changes has your firm made in order to adapt to the supplier or his products or procedures?’ In total, there were 8 questions related to this topic, examining administrative, product, and production
routines. Two questions represent the general trend found in the answers. Of these, one looked at adaptations to the administrative routines, namely, “To what extent have Libyan firms changed their administrative routines for this specific supplier?” For this question, as Figure 7.5 shows, only 6.7% picked the alternative ‘very large change’, and for the ‘large’ adaptations, the figure was 16.7%.

![Bar chart showing administrative adaptation by the focal actors.](chart.png)

**Figure 7.5: Administrative Adaptation by the Focal Actors.**

This means that the rest, more than 63%, had, for the changes, selected the alternatives ‘none’, ‘small’, and ‘neither small nor large’. For the first two alternatives, the figure came to 51.7%. This further reveals some facts about how the Libyan firms have only half-heartedly adapted their administrations to their counterparts. A similar answer was obtained in relation to the suppliers’ administration. The figures in the alternatives for the question concerning ‘its administrative routines’ were lower, with more than 11.7% selecting the alternative ‘don’t know’, although both firms had carried out a low degree of administrative adaptation. This result is natural as in technological cooperation there is a low degree of interdependency. The conclusion is that, in this study, the very low level of administrative adaptation is not an outcome of a mismatch; rather, it is because of the strength of the ties that do not require a high degree of administrative adaptation. From the answers above, it can be concluded that the Libyan firms make significantly more changes to adapt themselves to the foreign suppliers’ administrative routines than vice versa.
7.7. Personal Training.

The discussion above raises some points concerning the level of technological links as demonstrated by the answers to the questions. What had the respondents really been rating? In connection with this, there were three questions that had two objectives: first, to gain more knowledge about the respondents’ perception of the questions, and, second, to gain a deeper knowledge about adaptation in the personal interactions. One of these questions referred to the personal training and instruction given to the Libyan firms by their foreign suppliers. As shown in Figure 7.6, the totals awarded by the Libyan firms are hardly any different to those given in response to the earlier question.

The questions looked at the personal training and cooperation between Libyan customers and foreign suppliers. As illustrated in Figure 7.6, the figures for the options ‘no, not at all’ and ‘yes, but less than average’ were 37.9% and 19%, respectively. The percentage for the accumulated alternatives ‘average’ and ‘above average’ was 31.3%. The fact that the accumulated total for the first two alternatives is very high, more than 56%, means that the supplier does not provide a high degree of personal training to the Libyan firms.

The results show that 37.9% received no personal training. This is quite a high percentage for partners who claim to have technical advice and some information services (see Figure 7.4). Furthermore, the accumulated percentage for the alternatives ‘average’ and ‘above average’ was less than 29%. This reveals three facts: (1) the product exchange and technological advice referred to in Question 3 (shown in Figure 7.4) are of a standardized and general nature, (2) exchanging technological information is below the customers’ acceptance level and (3) in Libyan firms, there are weaknesses in the planning of personal training. Also, for the majority of firms, exchanging technological knowledge was comprised of advice provided by simple instructions rather than through personal involvement.
Does the supplier directly provide any of the personal training and instruction?

Figure 7.6: Personal Training and Instruction.

Concerning three questions, the personal meetings and the number of staff involved in the meetings need to be considered. One of the questions (how frequently do personal meetings take place?) shows that the majority of Libyan firms did not give answers to this question and some of them had given the number of meetings in terms of a percentage figure. This was also the case for the question on the number of people involved in the relationship (How many people are directly involved in the relationship?). One question was about the Libyan customer firms, and the other was about the foreign supplier firms. The result shows the same trend as the previous question. Finally, and a more conclusive result, as the relationships have a general nature and are not specific, the level of interdependency between the partners is low and the relationships are weak.

7.8. Investment in Adaptation

The investment in adaptation is another key that measures interdependency and the strength of the relationship between two business firms. When only one firm invests in the relationship, a condition of dependency arises, as the firm investing in the relationship becomes dependent on the other.

Following this discussion, another question examines the investment of the Libyan firms in the relationships that they have introduced as the most important in their business network. The following question was asked: ‘In all, how large is the investment made by your firm in your relationship with the supplier?’ As Figure 7.7 shows, there were five
alternative responses, ranging from ‘none’ to ‘very large’. The accumulated percentage for the alternatives ‘none’, ‘small’, and ‘neither small nor large’ came to 35%. In general, the answers illustrate the fact that a large majority of the firms have not made a financial investment in their partners. For the first two choices, the percentage was 11.7%, and for the last two, ‘large’ and ‘very large’, the figure was 31.7%. The financial investment in a relationship is one of the indicators of the partnership’s importance. The higher the importance of a partner, in terms of technological or other relationships, the higher the need is to invest in and change the technology and organization. In the case of Libya, the situation is the opposite. As discussed above, the majority of the firms do not see any reason to make a big investment in the foreign supplier.

How large (percent) are the investment made by the actors in the relationships?

![Investment in the Relationship](image)

**Figure 7.7: Investment in the Relationship.**

Figure 7.7 compares the two questions regarding the investment in the relationship: one is about the Libyan firms, and the other about the foreign suppliers. As shown, the trend that emerges in the answers is almost the same as for the first question. The totals figure for the two alternatives ‘none’ and ‘small’ in the question concerning Libyan firms’ investment was 11.7%, with 31.6% responding in this way to the question on the foreign suppliers’ investment. If the alternative ‘neither small nor large’ is added to these totals, 80% is obtained for the customer and 66.6% for the supplier. These figures show that the Libyan firms believe the foreign suppliers to be more dependent on the Libyan firms, as the suppliers have made a greater investment in the relationship.
In summary, for the alternatives ‘large’ and ‘very large’, 35% of the Libyan firms believed that the suppliers have made a large investment in the relationship. The percentages also show that the suppliers act similarly to the customers. Also, by comparing these results, it appears that the Libyan firms believe that they have made a larger investment in the relationships than the foreign suppliers do, as the total for the option ‘very large’ was for the first question 21.7%, and, for the second question, 10%. Despite the fact that for the first question the accumulative total for the alternatives ‘large’ and ‘very large’ was 35%, and 30.5% for the next question, it can be concluded that the majority of the firms have not made big investments in the relationships.

The conclusion is that the modest level of investment has generated a high degree of mobility. This naturally is embedded with a high level of uncertainty. But, despite a high degree of mobility, as the questions in Chapter 6 have shown, the focal relationships are not so short-lived. There must be a reason why the Libyan firms continue exchanges with their foreign suppliers. With reference to this finding, it can be concluded that Libyan firms have become more dependent on their foreign suppliers because of their links with other actors (i.e. the dependency has gained strength from the connected relationships).

As mentioned in the previous discussion, investments made in the relationship between the focal firms are central. A comparison of the answers given to the two questions used to analyze the investments reveals that the investments made by Libyan firms in the relationship with their foreign suppliers are at a similar level to those made by the customers.

7.9. Organizational Adaptation

One aspect in understanding the strength in the relationship between two actors is how the partners have adapted their organizations to each other. This section looks at aspects of how Libyan firms maintain exchange relationships with their foreign partners. The term ‘management’ here refers to the departments or individuals that are responsible for handling the relationship with a focal partner. The main question was as follows: ‘How important were the following different departments within your own company for this relationship?’ One question measures the role of the headquarters, and the other examines the involvement of other groups within the firm. The first question was designed to measure the degree of importance of the headquarters. An interesting result can be observed in the answers on the importance of the different departments. The five alternatives ranged from ‘no importance’ to ‘very strong importance’. In the case of the
headquarters, more than 78.3% of the Libyan firms selected the option ‘very strong importance’. This explains the high dependency of the purchasing departments on the strategic apex for the final decisions. Generally, headquarters delegate responsibility for decisions to purchasing departments, because they do not have specific knowledge about the purchasing market, product technology, or the substance of each specific relationship.

![Graph showing importance of purchasing department and headquarters]

**Figure 7.8: Importance of the Purchasing Department and the Headquarters (Local Firms).**

The involvement of the headquarters in a specific relationship can only occur for reasons such as production technology. However, the results in the questions generate another factor, namely, management style – this factor can be verified when we compare the percentages from the questions in the Libyan survey with those obtained from the corresponding alternatives.

Regarding the questions measuring the importance of different departments within the firms and the third parties for initiating the business relationships, Figure 7.8 shows the answers regarding the departments that were important in the Libyan firms. The answers reveal that 75% of the Libyan firms selected the alternative ‘very strong importance’, 16.7% said ‘rather strong importance’, and only 3.3% saw the purchasing department as not important.

Regarding the importance of the headquarters, the same figures show that the headquarters of Libyan firms play a major role in starting the business relationships with foreign suppliers. The combined total for the alternatives ‘rather strong importance’ and ‘very strong importance’ was 95% and, if it is compared with the answers to the first
question, there is not a big difference, meaning that the people in the purchasing department were very important in helping the headquarters of Libyan firms to deal with their foreign partners through collecting information and communicating with them. This means that the management in Libyan firms is structured by a hierarchical system (i.e. the purchasing department’s activity is controlled from ‘above’ by the headquarters). A speculative conclusion would be the degree of importance of the exchange. The headquarters of Libyan firms have a large degree of involvement because of such reasons as acknowledging this specific exchange as an important part of their business activities.

The development of a centralized management system is also confirmed by the answers given to the next question that measures the importance of other groups in the relationship. The accumulated total for the two alternatives ‘rather strong importance’ and ‘very strong importance’ came to more than 91%, but the total for the alternative ‘no importance’ totalled only 3.3%. Marketing or production departments play, for example, a minor role. It seems that the purchasing departments have the same position of power, and their major tasks are centralized and handled mostly by headquarters. The answers also lead to the conclusion that, despite the importance of these relationships with foreign companies, the exchange is weakly related to other departments within the Libyan firms. The headquarters control the purchasing departments, and, functionally, the headquarters delegate the essential part of the exchange to the purchasing departments because of their competence. These departments have knowledge about the production system and have specific information about the local needs.

The last aspect of adaptation examined here concerns changes within the organization. It is obvious from the previous discussion that the Libyan firms consider other departments, including the group headquarters, to be of great importance for managing the relationship with the foreign supplier. This conclusion is supported by the highly significant difference between the opinions of the Libyan firms.

The answers regarding the importance of the headquarters and the sales or marketing department in foreign firms for starting business relationships, as illustrated in Figure 7.9, show that 65% of Libyan firms see the headquarters as being of ‘very strong importance’ for starting business relationships. At the same time, Libyan firms do not regard the sales or marketing departments within foreign supplier companies as being very important; only 14.5% selected the alternative ‘very strong importance’ and more than 13% said ‘do not know’.
How important were the following different units within your company, for initiating the relationship?

![Chart showing importance levels](chart.png)

**Figure 7.9: Importance of the Marketing Department and the Headquarters (Foreign Firms).**

### 7.10. Summary

The factors behind the adaptation between the Libyan and foreign firms have been examined in this chapter with respect to several areas. The first attempt was to understand the degree of the partners’ adaptation in general, and thereafter to gain a deeper knowledge by examining the adaptation in different exchange areas. In general, when examining their particular adaptation, the research arrived at the conclusion that none of these actors has made a specific unique change to adapt their activities to those of their counterparts. The study further presented the evaluation of the Libyan firms concerning product adaptations. Areas such as product modification and new product development have been studied to measure the foreign suppliers’ investments in these areas. The results again show there is not a high degree of adaptation between Libyan firms and their foreign suppliers. Also, the study has examined the administrative areas. The aim here was to understand the extent to which the partners changed their administration, service, information exchange and personal training. Concerning the administrative routines, the majority of the Libyan and foreign firms have made small changes, thus meaning a low degree of administrative adaptation.

In further examining the degree of adaptation, the study contained questions about the links surrounding the core products and the technological ties. Service, delivery, and information adaptation are examples of these. Similar to the results above, there has been a low degree of adaptation in all these three areas. The results show a reverse link...
between the administrative commitment and the types of administration. For the adaptation type ‘information exchange’, the figures are higher than for other types of adaptations, such as delivery procedures. The degree of commitment in the information exchange was low and also contained a weak bond. The degree of adaptation was not higher in the area of personal training; in fact, the Libyan firms received no or very little personal training. In one of the questions, the study aimed to discover the level of investment for adaptation by each of the firms. The response indicated a low degree of investment from both sides. Almost all the firms made no or very little investment to keep the relationship alive. Another area that was examined was associated with organizational adaptations. The answers were clear: the main adaptation sees the headquarters undertaking the tasks. This means that in the Libyan firms the role of other departments is considered as of secondary importance. This excludes consideration of the technological aspects as the most important part of the interaction.
Chapter Eight: Social Interaction

8.1. Introduction

One crucial element in a relationship as discussed in Chapter 3, is social interaction. This element is vital as it augments the other ties in the relationship. In this study, to examine the strength of the social relationship, some questions were set to measure the social interaction in general and others to measure specific social bonds. The survey contained 56 questions measuring different aspects of social interaction between the Libyan firms and their foreign partners.

This chapter, which focuses on social interaction, is presented in three sections. The first two sections are related to interdependency and measure general aspects of mutuality and mobility. The third section is devoted to the aspect of trust in the relationship. As mentioned in Chapter 3, every business firm is deeply rooted in a specific social context. It is the specific conditions and circumstances, in the form of economic and social interdependencies, that make a business firm possible, and, at the same time, constrain its opportunities. Every company connects various people and activities with varying degrees of mutual benefit.

8.2. Social Interdependency and Mutuality

This section examines mutuality in the relationships between Libyan firms and foreign suppliers. The survey questions were concerned with the aspects of dependency in the relationships. The more dependent the actors are on their partners, the more power the partners have in a relationship. According to the network approach, mutuality is a cumulative process that takes into account gains and contributions (Hadjikhani and Thilenius, 2005). To examine the aspect of mutuality in the survey, five questions were asked. Results from only three of the questions are discussed here. The questions examine how Libyan firms realize the mutuality in their relationships with their foreign partners.

The first question as presented in Figure 8.1 considered the sense of dependence that Libyan firms have. They were asked to answer the following statement: ‘We feel dependent on this supplier’. 55% of the firms either partly or strongly agreed with this claim. This figure is high, and the percentage for the alternatives ‘strongly disagree’ and ‘partly disagree’ is 39.4%. One reason for such results is that Libyan managers feel that the foreign firms are greatly dependent on Libyan firms because the former have shortcomings in the Libyan market and lack social knowledge.
We feel dependent on this supplier.

Figure 8.1: Feeling of Dependency.

The next statement was: ‘We have a feeling of mutual dependence in our relationships with our supplier’ (see Figure 8.2). In their response, the majority of the Libyan firms selected the alternatives ‘partly agree’ (61.7%) and ‘strongly agree’ (16.7%). It seems that the Libyan firms recognized mutuality as the basis for interaction. Combining these categories, it can be seen that 78.4% of the managers were positive about the interaction. For this question, the accumulated score for the alternatives ‘partly disagree’ and ‘strongly disagree’ came to 11%. This amount corresponds with the accumulated percentage in the next question that examines the degree of frequency in the adaptation. Here, adaptation refers to the appropriateness of the partners’ input into the technological and organizational bonds of the relationships.
Figure 8.2: Mutuality and Adaptation.

Figure 8.2 shows that the accumulated total for the options ‘partly agree’ and ‘strongly agree’ regarding adaptation came to 63.3%. On the other hand, the accumulated values for alternatives ‘strongly disagree’ and ‘partly disagree’ was 20%. The values show the adaptation had much less than the accumulated total values for the alternatives ‘partly agree’ and ‘strongly agree’. Therefore, the majority of the Libyan firms that answered these questions had a feeling of equilibrium in the interaction, but the figures reveal that the rate of the imbalance in the relationships is not low.

8.2.1. Interdependence and Mobility

The following questions aim to measure the factor of firms’ perception of mobility and interdependency. The firms were asked to explain their willingness to change a partnership. The questions were of a general character and were designed to measure how Libyan firms recognize their own and their partner’s position in the network. These aspects may increase our understanding in two areas: one is the positioning of the Libyan and foreign firms after the interaction and the other considers the strength of the dyadic relationship between the Libyan firms.

Regarding the factor of mobility, three questions are presented in the following discussion. They examine the mobility of the Libyan firms and the foreign suppliers. The alternatives consider the degree of probability in changing partners. Two of the questions
are related to the behaviour of the Libyan buyers, and one is about the Libyan buyers’ perceptions of their foreign partners’ behaviour. In the first question, the study examined the Libyan firms’ alternatives if they wanted to change or replace their foreign partners. Figure 8.3 illustrates the respondents’ reactions to three statements: (1) ‘Considering everything, we actually have no alternative to these relationships’, (2) ‘We would not buy from another supplier at the expense of our current supplier’, and (3) ‘It would be very difficult for us to replace our suppliers’.

For Statement 1, almost all the firms indicated a high level of potential mobility; in other words, these firms explained that they would change their suppliers if other ones appeared. However, the figures given for the last two alternatives ‘partly agree’ and ‘strongly agree’ were high (53.3% and 13.3%, respectively). The accumulated percentage (66.6%) is rather high if the figure is compared with results obtained from the questions previously presented concerning business exchanges. It may be that the selected alternatives in Question 1 are based on financial ties.

![Figure 8.3: Mutuality and Understanding.](image)

The next question is about the view of customers in finding a replacement for their partners. As Question 3 indicates, it seems that only 3.3% of the Libyan firms are uncertain of their position in the market, although this group does not have a clear view of its own. A large number of the Libyan firms selected the alternatives ‘partly disagree’ and ‘strongly disagree’ (43.3% and 30%, respectively). These firms explained that it would be very easy to find other alternatives as substitutes for their foreign suppliers. The high potential of these firms reveals the weakness in the strength of the relationships. Statement 2 was: ‘We would not buy from another supplier at the expense of our current supplier’. The accumulated score for the alternatives ‘partly agree’ and ‘strongly agree’
was 36.7%. In Question 3, the score for the alternatives ‘partly agree’ and ‘strongly agree’ is higher than the 23.4% in Question 2. The reason for such a difference could be due to the types of interdependences.

8.3. Trust

One relationship element discussed, not only in the theoretical section of this study, but also by a large number of other studies, is trust. This element is a necessity for relationship longevity and complements other elements. In this study, more than 30 questions examined the factor of trust and its multidimensionality. In terms of trust, the questions were related to the fields of functional and personal trust. In relation to personal trust, the questions covered such areas as cooperation and personal relationships. In terms of functionality, the questions were on aspects such as the exchange of technical information.

The first four questions looked at cooperation in general. The emphasis was not on the relationship at an individual level, but rather the focus was on the perception of cooperation in an organizational context. The first three questions were as follows: (1) ‘A lack of cooperation has caused problems in the relationship’, (2) ‘We cooperate closely with this supplier’, and (3) ‘As a supplier, they have a good understanding of our problems’.

The totals in Figure 8.4 show that the Libyan firms did not have a positive perception of cooperation with their foreign partners. For the first question (‘a lack of cooperation has caused problems in the relationship’), 31.7% chose the alternative ‘strongly agree’ and 20% the option ‘partly agree’. Moreover, 16.7% of those surveyed selected the alternative ‘uncertain’. Thus, a large majority of the Libyan firms realize that a lack of cooperation is a source of relationship problems. For the alternatives ‘partly disagree’ and ‘strongly disagree’, the figures were 6.7% and 25%, respectively. For this group, the problem of cooperation will naturally increase the mistrust in the foreign firms. In comparing this with the totals in the following two questions, this was the highest score given to mistrust.
Figure 8.4: Cooperation with Foreign Suppliers

For Statement 2, which focuses on cooperation and understanding in the partnership, the accumulated value for alternatives ‘partially disagree’ and ‘strongly disagree’ was 10% and for Statement 3 was 3.4%, which means the degree of mistrust for the two statements was similar and was at a very low level. The reason for the degree of mistrust being higher in the first question is because both parties had weak links. One explanation could be that the last two statements examined the cooperation and understanding of the foreign suppliers, but not the substance of the relationships. Statement 2, which examined how close the cooperation was, had a total of about 85% for the combined alternatives ‘partly agree’ and ‘strongly agree’. The alternatives ‘strongly disagree’ and ‘partly disagree’ had a total of only 10%. A similar trend can be found for Statement 3, which measured the understanding of the foreign partner. For the alternatives ‘strongly agree’ and ‘partly agree’, 83.4% of the Libyan firms believed that the foreign firms understood their problems and the alternatives ‘strongly disagree’ and ‘partly disagree’ totalled only 2.4%. This means that a very large number of Libyan firms experienced a trustful relationship since they stated that their foreign partners cooperated closely and had an understanding of their problems. However, the number of firms that were uncertain with regard to both Statements 2 and 3 was more than 13%; the figure for the ‘uncertain’ group was also slightly higher for the first question (16.7%). The questions measured the general aspects of the relationships. The results from these three questions show that Libyan firms generally trust their foreign partners, who, they believe, understand them and try to meet their needs.
The earlier questions on the business relationships, which measured specific issues such as technological cooperation, have provided different results. They show a much lower percentage for the willingness of partners to cooperate. This is in contrast to the figures for the above questions designed to measure the functional aspects of the relationships. In the following question, the focus was on measuring two specific aspects of the essence of trust: one was the short-term profit performance in the cooperation, and the other was the satisfaction with the activity. The respondents were given the following statement: ‘The supplier puts cooperation with us before his short-term profit’. The statement was a response to a crucial aspect of trust building, namely, the actors’ mutual benefit in a long-term relationship. Mutuality requires an equal gain and understanding of each other’s needs and ability.

Figure 8.5 illustrates the cooperation and satisfaction of foreign suppliers. There were five choices on a scale, and the question examined the perception of Libyan firms concerning the willingness of the foreign firms to cooperate.

Figure 8.5: Attitudes towards Cooperation and Short-Term Profit Making.
The totals for the alternatives ‘partly agree’ and ‘strongly agree’ were 33.3% and 3.3% respectively, although very few Libyan firms (18.4%) saw the behaviour of the foreign firms as opportunistic. Instead, a large number of Libyan firms (45%) chose the alternative ‘uncertain’. These figures show that many Libyan firms are uncertain whether the foreign firms cooperate with local firms and they do not have confidence. This belief may be based on the presumption that these foreign firms aim to have a short-time relationship. However, those firms that selected the alternative ‘strongly agree’ were
confident of a long-term relationship. The aim of a long-term relationship was verified by the 3.3% who chose ‘strongly agree’ as their option.

This result may depend on the uncertainty of Libyan firms about the strategic purpose of the foreign firms in Libya. The interesting finding that confirmed this conclusion was the percentage of Libyan firms that were uncertain about the performance of foreign partners. The number of firms in this group was very high (45%). A closer analysis of the answer could be that the uncertainty signalled the foreign suppliers’ attitude towards profit, meaning that a group of Libyan firms had voiced their uncertainty as they had not observed any evidence showing the willingness of the foreign suppliers to cooperate. However, on average, the Libyan firms, to some degree, still trusted their foreign suppliers.

8.3.1. Personal Relationships at the Individual Level.

The survey included more than 10 questions that were designed to evaluate trust at an individual level; however, this study describes only a few questions that are representative and illustrate the general trend. These questions measure different aspects of trust at an individual level: some examine personal contacts and others are related to cultural differences.

The first two questions are about the personal interactions between the two partners. The general outcome that has emerged from the answers to these two questions is that the partners have a very good personal relationship, and this did not emerge because of the efforts made by the Libyan firms’ managers. The aim of the first question was to understand the level of social interaction; in the next, it was to gain an understanding of the partners’ commitment to the relationship. In response to the statement: ‘We have excellent personal relationships on a social level with people in the supplier company’, the totals for the alternatives ‘strongly disagree’ and ‘partly disagree’ were 16.7% and 33.3%, respectively, with 10% being ‘uncertain’ (see Figure 8.6). At the same time, 40% of the Libyan firms stated that they have an excellent personal relationship with the supplier’s staff. In this group, 35% selected the alternative ‘partly agree’ and 5% ‘strongly agree’. Despite the fact that the percentage for ‘strongly agree’ was not high, this should not be seen as a low number because the description ‘excellent relationship’ (one of the options) is a strong assertion. The total figure for the alternative ‘agree’ was 35%, compared with 50% who chose the alternatives ‘strongly disagree’ and ‘partly disagree’. This indicates that half of the Libyan firms believe that they do not have good personal relationships with the foreign suppliers’ staff.
The next question measured the commitment of the partners to their social relationships. This question had two functions: the first one was to provide information about the partners’ investment in the social relationship. The second was to try to confirm the conclusion reached in the first questions about a high level of mutuality in the personal relationship. The presumption was that a strong social relationship at an individual level indicates mutuality and that the partners are actively involved in establishing and maintaining the relationship.

For this question, 46.7% of the Libyan firms partly agreed with the statement that they were active in establishing relationships, and 18.3% of them said ‘strongly agree’. Thus, few Libyan firms made a bilateral investment in social interaction. As shown in Figure 8.6, the majority of the Libyan firms supported mutual investment in social interaction. 25% of the answers given by managers working for the Libyan firms answered either ‘strongly disagree’ or ‘partly disagree’ (5% and 20%, respectively). These results do not correspond with the percentages in the first question. One clear conclusion is that the degree of mutuality and trust among these managers is not high, but exist between them; this conclusion can only be reached by comparing the results from the two questions as shown in Figure 8.6.

**8.3.2. Cultural Differences and Formal and Informal Social Relationships.**

For a deeper understanding of social interaction and degree of interdependency, the theoretical section introduced measures like impact of cultural differences and degree of
formality. A high level impact from these elements naturally impacts on the level of interdependency. In the following questions, the purpose was to measure such concerns.

The four statements listed below were designed to examine the social impact of cultural differences on business interaction. The first two questions were on the cultural influence in terms of friendship and communication problems (see Figure 8.7). The next two statements examined the general impact of the cultural difference and considered its influence on business interaction (see Figure 8.8). The statements used were the following: (1) ‘It is difficult to make friends with salespeople and technicians’, (2): ‘Language differences create problems in the discussions with this supplier’, (3): ‘Cultural differences have caused crises in the relationship’, and (4): ‘When we visit the supplier, we interact on a formal level’.

In response to Statement 1, the Libyan firms disagreed; 21% of them selected the alternative ‘strongly disagree’, and 35% ‘partly disagree’. This means that 56% of the Libyan managers observed no problem in the social interaction with their foreign buyers. Only 5% of the Libyan managers said ‘partly agree’, and 1.7% chose the statement ‘strongly agree’. The remaining 36.3% were ‘uncertain’. This represents a large number of firms that selected this alternative; however, a comparison of these results with the results from Statement 2 forms the basis for the conclusion that there are strong ties in the personal relationships between the Libyan firms and foreign firms. This, however, does not correspond with the above answers.

Figure 8.7: Cultural Differences.
Statement 2 measured another aspect of cultural difference, namely, communication. The statement was about language difference as a source of problems. As illustrated in Figure 8.7, 43.3% said ‘strongly disagree’, 35% ‘partly disagree’, 10% ‘partly agree’ and only 5% ‘strongly agree’, therefore 78.3% of the Libyan firms stated that language was not a problem for their social interaction. Statements 1 and 2 were complementary: both signified a low level of social distance and strong social bonds. The results are interesting, as they illustrate the fact that social bonds are weak, and others are strong. Another conclusion drawn is that the cultural differences have a very low level of impact.

The next two questions, Statements 3 and 4, considered the cultural impacts and measured the formality of the relationships, respectively. The results for Statement 3 saw 78.3% of the Libyan firms not seeing the cultural difference as a source of crisis. The aim of Statement 3 was to understand the Libyan firms’ general view about social interaction and its influence.

Figure 8.8: Cultural Differences and Formal and Informal Interaction.

Statement 4 shows the formality of the relationships. The question measures the personal relationships, aside from the informal interaction, and can reveal facts about the differences between the social business and informal interactions. 61.7% selected the alternative ‘partly agree’ and 18.3% said ‘strongly agree’. On the other hand, regarding the relationships, 3.3% chose ‘strongly disagree’ and 13.3% ‘partly disagree’. This finding indicates that the majority of the Libyan firms clearly differentiate friendship from formal interaction. As the results from Statements 1, 2 and 3 show, there is
unquestionably a strong informal relationship. It seems that the Libyan firms, because of uncertainty about the unknown, have to rely on formal agreements. This could be because of the Libyan firms’ ties with other actors who have a major influence on the focal relationships. The interaction with the foreign suppliers is based on trust of an informal nature, with Libyan firms showing some uncertainty, as discussed above, about the social behaviour of the foreign suppliers. The responses reveal that Libyan firms divide the social relationships into two groups, one purely social and the other involving social-business interactions; however, when the interaction is functional (i.e., it has a social-business context), the relationship is more formal.

The next two questions are about the arrangements between Libyan firms and their foreign partners. The first question, as presented in Figure 8.9, was about the formalization of agreements; 35% and 23.3% of the Libyan firms selected the alternatives ‘a great deal’ and ‘entirely’, respectively. These answers are more interesting if they are linked to the next questions that were designed to measure a specific aspect of the personal interaction. Question 19.2 read as follows: ‘What effects do the written agreements have on actual dealings between your two companies?’

![Figure 8.9: Formalization of the Agreement.](image)

The Libyan firms, as illustrated in Figure 8.10, mentioned written agreements as the main factor in the relationships. 40% of the Libyan firms selected the alternative ‘great deal’ and 31.7% chose the option ‘entirely’. In this study, the Libyan firms recognized the written agreements and their impact as a means of challenging the uncertainty with the relationships. Such an attitude reveals another fact about the relationships: generally, a written agreement is a tool used to secure a relationship, and the role of formal agreements becomes insignificant. Under such conditions, where the partners have a long-
term relationship, the rules of the game are clearer for both. There is less of a need for written details in the agreements, although, in the case of Libya, despite strong informal social relationships, the relationships of Libyan firms contain a weak social-business bond. This is not because of the uncertainty in the social bonds, but instead it has emerged because of the impact of other parts and levels of the network, such as political actors in the social-business relationship.

To what extent are the arrangements with the supplier formalised in written agreements?

![Bar chart showing formalization of agreement with the supplier.](image)

**Figure 8.10: Formalization of the Agreement with the Supplier.**

### 8.4. Summary

The aim of this chapter was to generate an understanding of the atmosphere in business relationships, which manifests how actors are linked to each other. Depending upon the nature of the ties, these questions can be grouped into two interrelated categories. The first category deals with questions that measure the strength of the relationship and incorporate aspects such as mobility (which was not low) and mutuality.

The second category measures the outcome of the social and business ties, namely, trust. Trust is measured as the fundamental factor that binds the actors and facilitates the relationships. In this category, the answers to the questions examine the views of the Libyan firms concerning, for example, cooperation, personal relationships and attachment. The mean figures show that there is trust between actors, but the written agreements had a major influence.
Chapter Nine: Connections with Business and Political Actors and Business Environment.

9.1. Introduction

This chapter is devoted to studying two crucial aspects, 1) if and how the connections with business and political impact influence the focal relationship, 2) How changes in the environmental factors which a country is dependent upon can influence the focal relationships. The theoretical section in chapter 3 constructed the view that the focal business relationship is influenced by relationship not only by two types of connections, business and political actors, but also by the change in the horizon of the business network. These connections and changes in the horizon of the network can strengthen or weaken the focal actors’ interactions. When discussing the focal relationships, the previous chapters were focused on the presentation of the empirical information about the product and technology, adaptation and social bonds of Libyan firms. This was a step towards understanding the strength and weakness of the focal relationships. But that is insufficient for a comprehensive understanding of the firms’ behaviour and their relationship strength. In this chapter, the attempt is to study the impact of connections and the network environment on focal relationships. The following questions are addressed: What is the nature of the Libyan firms’ relationships with their business and non-business actors in the Libyan market? How do the embedded relationships affect the focal relationship between the Libyan firms and their foreign partners, and how are these managed?

As discussed in Chapters 2, and 3, the government as political actor exercises influence on business firms’ exchange relationship. To examine this impact, three areas will be discussed in this chapter. The first area considers the business connection, and the second is devoted to the connections with non-business actors. The attempt in the first section is to understand the extent to which the focal relationship is interrelated with the local and foreign firms and organizations. In the second section, negative/positive connections and the strength of the connections are discussed in the context of political actor (government influences on trade policy). The negative/positive nature of the bonds is indicated by the coercive or supportive actions of the government and the bureaucratic organizations covering trade policy decisions. The chapter begins with the views on the
interactions and activities between political and business actors, and finishes with a discussion on the management behaviour of the Libyan firms. In the third area, the focus is on the influence of the change in oil revenues and other related factors. Firstly, we will discuss the influence on the business and political actors; secondly we will discuss the influence on the relationships.


In this respect, the survey included several questions. Only a few have been selected as they contribute enough facts to draw some essential conclusions. The first two questions examined the connections to other suppliers and to suppliers competing with foreign firms. The question was ‘To what extent is your business with this specific supplier affected by your own relationships with some of the following? Figure 9.1 shows the answers about these three business connections: (A) Other suppliers of the Libyan firms, (B) Competitors to the foreign suppliers, and (C) Complementary products to the foreign suppliers’ products.

![Figure 9.1: Business connection.](image)

In the first question (A) which referred to the other suppliers, about 60 % selected the alternative ‘not at all’ and ‘only a little’ together, the same alternatives in questions (B) and (C) scored 46.7 % and 45% respectively. It is interesting to compare these scores with the last two alternatives ‘very much’ and ‘rather much’. Here the cumulative scores were 3.4% and 18.3% for question (A) and (B) respectively, and in question (C) 21.7%. In
question (C), more than 10% selected the alternative ‘do not know’. The answers to the questions indicate that the other suppliers competing with main supplier and the suppliers complementary to this supplier have a very low influence on the focal exchange relationships. This means that it is similar to the focal relationship that contains simple product exchange.

As the values for alternatives ‘very much’ and ‘rather much’ are low, there is a low interdependency between the focal and connected complementary suppliers. Also these answers disclose that there is weak connection between the Libyan firms and suppliers’ competitors, but this does not mean there are strong focal relationships between Libyan firms and their foreign suppliers, because the facts in earlier chapters proposed a weak focal relationship. The exchange produced between the focal actors, for example, as discussed in Chapter 6, did not have a complex nature.


Concerning the dependency on the financial actors, the survey contained some questions, one referred to the extent of the impact of the banks or financial organizations on the focal relationship, as illustrated in Figure 9.2.

The cumulative value for the alternatives ‘rather much’ and ‘very much’ was 25%. Nevertheless, the value is low in a country like Libya when all import contracts have to be confirmed by the Libyan Central Bank, maybe the understanding of the questions influences these answers. However, compared with the values given in the other three questions above for the same alternative, this was the highest response. In questions (A),
(B) and (C) above which examined the aspect of other supplier, competition and complementary, the alternatives ‘rather much’ and ‘very much’ were 3.4% and 18.3% and 11.7% respectively, which are slightly lower than the connection to sources contributing financial resources to the business activities. This means the majority of Libyan firms considered the financial actors had little influence. On the other hand, 38.3% of Libyan firms selected the alternative ‘not at all’ and ‘only a little’. This value is lower than the values in the similar alternatives in questions (A), (B) and (C) above. Thus the financial connection was viewed as creating a stronger bond than these connected actors did. But in general the connection is very weak.

9.3. Political Actions

As presented in the theoretical view in Chapter 3, governments as political actors use their powers to affect the business actors in different ways. In the area of relationships with business actors, the political actors used some tools to make actions towards both local firms and foreign suppliers, one of these important tools is policy: tariff and non-tariff trade policies. This study, following other researchers, subdivides the political actors into government and bureaucrats: see for example (Sharma and Jansson, 1993; Hadjikhani and Thilenius, 2005). Thus, the influence of the Libyan government and bureaucrats is discussed separately in the following sections. The government section will firstly examine the two important means of tariff and non-tariff polices by which the government imposes power on business actors and secondly discusses measures for studying how Libyan firms managed the political actions, and later in the same way, the bureaucrats will be discussed.

9.3.1. Political actor

In this section, the first three questions examined the general opinion of the Libyan firms on how the political and business connections affect the focal relationship. The question was ‘in your relationship with this supplier, give a value to the role of the following actors’. In this group, one of the questions was related to the connections of the political actors. The next two questions referred to business actors. Question (1) examined the foreign trade and referred to its impact on the focal relationship. Question (2) related to ‘competitors’ and the third to ‘Your customers’. Figure 9.3 illustrates the answers to these questions.
In your relationship with this supplier give a value to the following:

![Graph showing values for different categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>Foreign Trade</th>
<th>Your Customers</th>
<th>Your Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Importance</td>
<td>5.0</td>
<td>6.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Minor Importance</td>
<td>11.7</td>
<td>23.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Some Importance</td>
<td>28.3</td>
<td>31.7</td>
<td>23.3</td>
</tr>
<tr>
<td>Rather Strong Importance</td>
<td>31.7</td>
<td>45.0</td>
<td>16.7</td>
</tr>
<tr>
<td>Very Strong Importance</td>
<td>45.0</td>
<td>31.7</td>
<td>16.7</td>
</tr>
<tr>
<td>Do Not Know</td>
<td>8.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Figure 9.3: General Opinions on the Importance of Connections.

Based on the answers to these three questions, a big part of Libyan firms had knowledge about the environment in which they operated. This conclusion is drawn from the values for alternative ‘do not know’ that were 3.3%, 3.3% and 8.3% respectively. As shown in Figure 9.3 concerning foreign trade, very few, about 5% and 3.3%, of the Libyan firms saw the impact of foreign trade as having no or minor importance. For the question relating to customers, 9.6% selected the alternative ‘no importance’ and ‘minor importance’ together. For the question relating to competitors, 6.7% selected the alternative ‘no importance’ and 23.3% selected the alternative ‘minor importance’. The answers indicate that the Libyan firms assigned a lower importance to the business actors, especially competitors.

The values of alternatives ‘rather strong importance’ and ‘very strong importance’ were totally different. For foreign trade, the values for the alternative ‘very strong importance’ were very high at 45% and 31.7% for the alternative ‘rather strong importance’. A closer observation is needed of the answers on the customer, 31.7% selected alternatives ‘rather strong importance’ and 23.3% selected ‘very strong importance’.

The comparison of the values in the first two alternatives ‘rather strong importance’ and ‘very strong importance’ is interesting. It seems that the firms assigned a high score to the importance of the trade policy (45%) and to customers (23.3%). The value is slightly lower in the question about competitors (16.7%). The main reason why the competitors are not important in such markets is because the competition is weak. The
answers concerning the impact of the political actors on foreign trade are interesting. As mentioned above, the cumulative value of the first two alternatives ‘no importance’ and ‘minor importance’ in the question on trade policy was low, only 8.3%. However, the cumulative value of the last three alternatives ‘some importance’, ‘rather strong importance’ and ‘very strong importance’ was 88.4%, meaning that the Libyan firms see the actions of political actors as a very important element in their market activities. Political actors play a crucial role in the Libyan market.

The answers to the next two questions support the above conclusion in which connected actors have the strongest influence on the focal relationship. The survey contained several other questions that could verify the strong influence of the political connection. The first aimed at measuring the influence that each connected actor has on the Libyan firms and the second at allocating a value to the selected actor.

The first question was ‘Which group most influences the focal relationship?’ As illustrated in figure 9.4, the actors can be classified into two groups: political actors and business firm. When ranking these two groups, 68.3% of the Libyan firms viewed the political actor as the most influential in their business with the foreign suppliers. This indicates that the Libyan firms are more dependent on the connected political actors than on the connected business actors.

![Figure 9.4: The importance of the political actors in Libyan market](image)

These values confirm the conclusion that the focal actor relationship is highly influenced by the political actors. The review of the questions above provides a general picture about the influence of the connected actors on the Libyan firms. The explanation reveals the degree of influence of the political actors for both privately owned and publicly owned
firms. It also shows the general view about the role of the different political and businesses actors in the sphere of the connection. The following section examines the strength of these connections in the relationship between both actors by the tools used by political actors; the tariff and non-tariff decisions will be discussed.

9.3.2 Tariff Decisions.

To examine the area of tariff in foreign trade, the survey included more than seven questions. Two of the questions reflected the export and import tariffs. As illustrated in Figure 9.5, when Libyan firms were asked to assess the influence of the import tariffs and export tariffs, there was a difference between the two factors. The import tariff was considered to have a much higher impact on Libyan firms. For the alternative ‘not at all’, the value for the import tariff was 11.7% and for the export tariff it was 35%. For the alternative ‘very much’, the value for export tariff was 5% and for the import tariff 20%. But, more than 13% and 18% of Libyan firms selected the alternative ‘do not know’, and if accumulated, the value of alternatives ‘not at all’ and ‘only little’ were 31.7% for import tariff and 50% for export tariff. On other hand, the accumulated values of alternatives ‘rather much’ and ‘very much’ were 40.7% for import tariff and 12.3% for export tariff. This result indicates that the Libyan firms believed that the influence of the import tariff has a big impact on the focal business.

![Figure 9.5: Tariff and Non-tariff Decisions.](image)

In further studying the different types of tariff decisions, one question concerned government subsidies. As Figure 9.6 shows, the accumulated alternatives ‘to some extent’ and ‘rather much’ and ‘very much’ was 63.4%. But 16.7% of Libyan firms selected the
alternative ‘not at all’, one reason for this value may come from private firms which do not get subsidies from the Libyan government. For alternative ‘do not know’ the response was 18.3%. The answers show a large number of firms depend on government subsidies. In fact, in the Libyan market, the government spends large amounts as subsidies to all sectors which have an impact on the business interactions, but this not clear in the Libyan firms’ answers.

![Figure 9.6: Government as Financial Actor.](image)

Through these questions, the strength of the relationships with the financial sources was examined. As discussed, the financial dependency of the Libyan firms on external sources was very high. In the next section, the discussion will focus on the non-tariff decisions.

### 9.3.3. Non-Tariff Decisions.

Concerning the non-tariff transactions, the survey contained more than nine questions aimed at understanding the political action by using non-tariff regulations. All these questions examined the relationship between the Libyan and foreign firms. The questions examine areas such as product specification, standards, packaging, labelling and exchange and credit control.

The topic question was ‘To what extent is your business with a specific supplier affected by non-tariff actions’. Two of the questions referred to product standards and specifications, and the third to import quotas, as illustrated in Figure 9.7. In question (A) on product standards, 45% selected the alternative ‘rather much’ and 18.3% selected the
alternative ‘very much’, and in question (B) product specification, 33.3% selected the alternative ‘very much’ and 30% selected the alternative ‘rather much’.

To what extent is your business with this specific supplier affected by non-tariff trade policy?

![Bar Chart](image)

**Figure 9.7: Product Regulation.**

For question (C), as shown in Figure 9.7, the Libyan firms give fairly consistent answers. 26.7% of Libyan firms selected the alternative ‘do not know’, and the cumulative value for alternatives ‘rather much’ and ‘very much’ was 28.4%, at the same time, the cumulative value for alternatives ‘not at all’ and ‘only little’ was 23.4%.

The answers concerning how import quotas affected the business relationships with foreign suppliers do not reflect the real fact, because in other questions, the answers all give high values for this factor (see section 9.5.3). Secondly, the Libyan Government established the budget for imports of commodities in 1982 to control all foreign purchasing, as presented in Chapter 5. Nevertheless, these answers show that the Libyan government had high degree of influence concerning product standards and specification and there was a low level of knowledge among Libyan firms about the degree of influence of quotas for imports.

**9.3.4. Non-Tariff and Flow of Financial Resources.**

This section considers the questions about political actions in relation to foreign exchange. The attempt is to understand the content of the relationships and whether the government agencies exercise power over the Libyan firms and political actors to regulate financial transactions. The topic question for all four questions was: ‘To what extent is your business with a specific supplier affected by non-tariff actions?’ the actions
concerned were: (A) exchange control; (B) the exchange rate; (C) prior import deposits; and (D) credit restrictions.

Figure 9.8 shows the first two areas of Libyan government intervention in financial transactions between Libyan firms and their foreign suppliers. One interesting result is the values of the alternative ‘do not know’ in question (A) exchange control - 30% of Libyan firms selected this alternative, but in question (B), on the exchange rate only 10%, which shows the difference of level of knowledge among Libyan firms about the exchange control and exchange rate.

The results concerning the second question on the exchange rate indicated a high level of coercive action by the government. There were strong negative connections and low knowledge concerning exchange control. These results show the high dependency of the Libyan firms on the political rules regulating financial transactions between focal actors

![Figure 9.8: Political Exchange Regulations.](image)

The values given to the two alternatives ‘rather much’ and ‘very much’ in question (A) on exchange control, were 16.7% and 15% respectively, on question (B) exchange rate they were high as Figure 9.8 shows, 31.7% and 35% respectively. The difference between the cumulative values on those two alternatives for question (A) and (B) was high - it is 35%.

On the other hand, the cumulative values given to the two alternatives ‘not at all’ and ‘only a little’ in question (A) on exchange control, were 18.3% and, on question (B) exchange rate 6.6%. The answers show there are big differences between the cumulative values for the first and last two alternatives for these two questions with low scores in the first two choices and high scores in last two for question (B) . These scores show a high
dependency of the Libyan firms on the government decisions concerning foreign exchange regulations. In this case, the Libyan government used its power to control the flow of financial resources to foreign firms.

The next two questions examine the prior import deposits, and credit restrictions. Figure 9.9 shows the values given to the alternative ‘not at all’; it is high and much higher in these two questions than in the earlier ones. On question (C) import deposit, the value was more than 33% and for question (D) credit restriction was 25%. The values of the first alternative ‘not at all’ were same for both questions 11.7%, but the cumulative values for alternatives ‘not at all’ and ‘only a little’ were 18.5% for import deposit and 15% for credit restriction. On the other hand, the cumulative values for alternatives ‘rather much’ and ‘very much’ were 36.6%, for import deposit and 45% for credit restriction respectively.

To what extent is your business with this specific supplier affected by import deposit and credit restriction?

![Bar chart](chart.png)

**Figure 9.9: Political Exchange Regulations**

Nevertheless, there are high values for the alternative ‘do not know’, these answers show that the Libyan firms were aware of coercive action of government, which reflected negative influence on the focal business relations.

### 9.3.5. Connection to Bureaucrats

This section presents the answers about the questions that focus on bureaucracy and the political roles in the Libyan market. In this part are presented five of the six questions which examine these issues. The first three questions concerned product exchange and the second two questions measured financial and product exchange control. The topic
question was ‘To what extent do trade administrative procedures affect your business relationship with this supplier?’

The first three questions concerned (A) customs for product classification, (B) customs for product valuation, and (C) product testing. Figure 9.10 shows the values of the alternatives. Concerning question (A) customs for product classification, the cumulative value for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ was 73.3%, and the cumulative value for the alternatives ‘not at all’ and ‘only a little’ was 21.6%. The alternative ‘do not know’ scored about 5%, this answer showing that a big part of Libyan firms realized that they had a negative connection with product classification.

Figure 9.10: Connection to Bureaucrats – Product Regulations

The answers concerning questions (B) and (C) show the impact from product valuation and product regulations, the accumulated values for alternatives ‘not at all’ and ‘only a little’ were 25% for question (B) and 20% for question (C). On the other hand, the accumulated values for alternatives ‘to some extent’, ‘rather much’ and ‘very much’ were 56% for question (B) and 70% for question (C). The answers show that Libyan firms had high impacts from bureaucratic areas and the political actors used obstacles to strengthen the power against focal actors, which increased the negative connection.

The next two questions examine the bureaucrats’ behaviour from the views of two areas (A) customs documentation and (B) inspection time. Figure 9.11 shows the answers, the accumulated values for alternatives ‘not at all’ and ‘only a little’ were 23.3 % for question
(A) and 18.4% for question (B). On the other hand, the accumulated values for the
alternatives ‘to some extent’, ‘rather much’ and ‘very much’ were 66.6% for question (A)
and 78.3% for question (B). The comparison shows 11.7% difference, which means the
Libyan firms had higher level of influence from bureaucratic inspection time records than
from the requirement of documentation. However, no matter that the sources are different,
the answers confirm the conclusion that bureaucrats exercise their power to affect the
focal exchange relationships via these factors.

![Bar chart](chart.png)

**Figure 9.11: Relationships with Bureaucrats for Inspection and Customs.**

To what extent do trade administrative procedures affect your business
relationship with this supplier?

The Libyan firms’ answers in connection with bureaucrats as illustrated in Figure 9.10
and 9.11 show the bureaucrats use their position to affect the business exchange between
Libyan firms and foreign suppliers. In general, in the Libyan market, the political actors
have constructed a strong negative connection, and the bureaucrats are just tools for the
political actors that applied their rules.

### 9.4. Managing Political Connections

One crucial aspect in relationships with political actors, as discussed in Chapter 3, is if
and how business actors can manage the coercive actions of the political actors. This
aspect is vital especially in LDCs, as the governments in these countries always impose
their political actions to control the business firms. Therefore, the survey contained
questions to measure how firms in Libya manage their political connections. The
questions examine three areas as follows: (A) influence and cooperation management
behaviour, (B) management by connection, and finally, (C) adapting the internal organization.

9.4.1. Influence and Cooperation.

In this area, the two questions were concerned with exchange of political knowledge between the Libyan government and Libyan firms. The first question reflects the exchange of information about the consequence of the government’s political decisions. The next examines the knowledge of the politicians about the consequences of their actions on the Libyan firms’ foreign relationships. The topic question was ‘How do you mange the trade policy affecting your business relationships? (A) Contacts with decision makers; and (B) To cooperate and communicate the cost of the policy for the firm and society. The answers are illustrated by Figure 9.12. For the first question concerning contacts with decision makers, it seems the majority of the Libyan firms had contact with government. The accumulated values for alternatives ‘not at all’ and ‘only a little’ were 10% for question (A) and 18.3% for question (B). On other hand, the accumulated values for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ was 83.3% for question (A) and 66.7% for question (B). These answers implied that most of the Libyan firms discuss the political decisions that concern them. Nevertheless, some firms do not have knowledge about how to contact and cooperate with political actors by the fact that 6.7% and 15% selected the alternative ‘do not know’. Also, these answers show the general tendency that in the Libyan firms’ interaction with political actors, the degree of contacts was high, but the cooperation was low.

![Figure 9.12: Management by Exchange of Information.](image-url)
The next two questions increase the understanding of how effective Libyan firms’ activities were. The answers to question (A) ‘to what extent can you modify trade policy by contacting decision makers’ and (B) ‘do you manage the trade policy affecting your business relationships by ‘try to avoid’’ are displayed in Figure 9.13.

![Graph showing trade policy modification by Libyan firms](image)

**Figure 9.13: Avoidance and Negotiation Strategy.**

The accumulated values for alternatives ‘not at all’ and ‘only a little’ were 26.6% for question (A) and 33.4% for question (B). On the other hand, the accumulated values for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ were 68.4% for question (A) and 41.7% for question (B). The answers show that most Libyan firms can interact with the government to modify their decisions, but at the same time, the Libyan firms had a low possibility to avoid the trade policies which were applied by the government. Also this issue is not clear to Libyan firms, more than 25% selected the alternative ‘do not know’. However, the majority of Libyan firms have a high dependency on the government, and the government used their power to coerce the local firms. This means the government determines their relationships with foreign suppliers, at same time, the Libyan firms cannot avoid government trade policies.

### 9.4.2. Managing By Connection

As discussed in the theoretical section, a general method of managing political relationships is the use of connections with intermediary organizations. To understand the management behaviour of the Libyan firms, it is interesting to study which actors in the...
surrounding environment have assisted the Libyan firms. The survey included several questions to measure the utility of other actors in this task. The following four actors were examined - trading partners, local customers, branch industry, and local supplier. The topic question was ‘to what extent can the following group affect the trade decisions’. Figure 9.14 illustrates the scores of the influence of these four actors. The average of the alternative ‘do not know’ was 7.9%.

Among these actors, the highest value for the alternative ‘very much’ was 16.7%. This was given to the organization responsible for branch industry and shows that this was the most powerful and positively connected actor. More than 18% of managers supported the alternative ‘rather much’ and 21.7% the alternative ‘to some extent’. Combining these three alternatives produces a value 56.7%. In general, there is a connection between Libyan firms and the branch industry but this relationship is not clear.

The next strong connection was the connection to the trading partner, the accumulated value for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ was 51.7%, which is lower than the 56.7% for branch industry. But on the other hand, the accumulated value for the alternatives ‘not at all’ and ‘only a little’ was 40 %, which is lower than 51.6% for branch industry. For the alternative ‘do not know’ the value was 13.3% for branch industry, and 8.3% for trading partners. These answers show there is some influence of the foreign partners on the Libyan government. One explanation for the influence could be that these foreign firms put some pressure on the Libyan government and Libyan firms by aspects such as technical specification and terms of payments.

To what extent can the following group affect trade decisions:

![Figure 9.14: Influence of the Other Connected Groups.](image)
For the question on local customers and local suppliers, the accumulated values for alternatives ‘not at all’ and ‘only a little’ were 51.6% for local customers and 55% for local suppliers. On other hand, the accumulated values for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ were 43.3% for local customers and 40.1% for local suppliers. These values show that local customers and local suppliers are weakly connected to the Libyan firms and government.

9.4.3. Internal Adaptation

In this section, the answers to four questions will be presented about adaptation strategies. The following two questions evaluate the management in terms of (A) general adaptation and specific change in production and the production process and (B) political unit evolved to handle the political connection. The first question was about the organization structure and the second considers the production process. As Figure 9.15 shows, the accumulated values for alternatives ‘not at all’ and ‘only a little’ were very similar - 28.4% for organization structure and 28.3% for production process. But, the accumulated values for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ showed little difference - 58.3% for organization structure and 65% for production process. In general, the majority of Libyan firms changed both the organizational structure and production process to deal with the connection to the political actors. This means that comparatively, the firms had made less adaptation in the organization structure.

How do you manage the trade policy affecting your business relationships?

![Graph showing adaptation strategies]

**Figure 9.15: Management Adaptation.**
The next two questions measure the adaptation at the middle management and strategic apex level. Figure 9.16 shows that the accumulated values for the alternatives ‘to some extent’, ‘rather much’ and ‘very much’ were 88.3% for general manager and 63.3% for special unit. The accumulated values for alternatives ‘not at all’ and ‘only a little’ were very low - only 5% for general manager, but for special unit was high at more than 28%. These answers demonstrate that in the majority of the Libyan firms, the general managers undertake the responsibility of challenging the political connection. In addition, most of the Libyan firms did not have a special unit that challenged the political action.

![Figure 9.16: Internal Task Change.](image)

**Figure 9.16: Internal Task Change.**

**9.5. Influence of the Changes in Oil Prices.**

In LDCs, the dependency on specific resources can have a vital role in the development of relationships. As discussed in the theoretical part in chapter 3, the change in the environment of business network can affect specific business relationships and chapter 5 showed that Libya has a more or less complete dependency on the export of oil. The major part of industrial investment in the country is financed by the revenue from this source and therefore any change in the price affects the industrial development of the country. The impacts on economy and industries were generally discussed in Chapter 5. But the questions like how and in what way such a dependency impacts on business relationships between firms, require a deeper study. The aim of this section is to examine how such a change in the environment of business network can affect specific business relationships. In other words, this section regards the impact of the environment on a micro-level, the firms and their businesses specifically. In this study, the business
relationship strength is related to interaction with business and non-business actors but also the impact of environment.

However, the focal actors can be supported or coerced by some factors in the contextual environment. In Chapter 4, the Libyan environment depends heavily on oil revenues, and the economy is very sensitive to any change in international oil markets. Therefore, this section is devoted to examining the influences of the changes in oil price on the focal relationship. The empirical study included more than 29 questions that examined the influences of change in oil prices and related factors such as budget for imports of commodities, which was a basic tool for the Libyan government to control the foreign purchasing.

### 9.5.1 Influence of the Decrease in Oil Prices

In this area, the two questions concerned the influence of the changes in oil prices on relationships between the Libyan firms and foreign suppliers. The first question reflects the general influences. The next examines the direct impact of the decrease in the oil prices.

The topic for the first question was ‘To what extent is your relationship with this supplier affected by (1) Increased oil price, (2) Decreased oil price’. Figure 9.17 shows the answers concerning questions (1) and (2). The accumulated values for the two alternatives ‘marginal effect’ and ‘minor effect’ were 33.3% for increase in oil prices and 30% for decrease in oil prices. On the other hand, the accumulated values for the alternatives ‘medial effect’, ‘high effect’ and ‘very high effect’ were a little different - 55% for question (A) and 60% for question (B). For the alternative ‘do not know’, 11.7% of Libyan firms selected this alternative for both questions. In general, these answers show the business relationships are influenced by changes in oil price in both directions, they are supported in the case when the oil prices increase, and coercive in the case of decrease.
Figure 9.17: Influence of the Changes In Oil Prices.

The next group of questions focuses on the influence of the decrease in oil prices on Libyan firms. The first question was, ‘To what extent is the amount that local firms buy from the most important supplier affected’: the values are illustrated by Figure 9.18. A high value was given to alternative ‘high effect’ – it was 30%, in second place was the alternative ‘very high effect’, the accumulated value for both alternatives was 56.7%. In fact, the influence of the decrease in oil prices was not direct. However, the answers of Libyan firms reflect the degree of influence which is a little high.

Figure 9.18: The Influence on Purchasing Amount.
The next three questions examine the influence of the decrease in oil prices on some processes of Libyan firms as follows: (1) the production processes, (2) the technical information exchange with supplier, and finally (3) T & D. The values are presented in Figure 9.19, which shows the high value for three questions given to the alternative ‘medial effect’ - they were 35%, 31.7% and 25% respectively. Also, the answers show that production processes was affected more than technical information exchange and the training and development (T&D).

![Figure 9.19: The Influence on Firms’ Processes.](image)

9.5.2. Influence of the Changes in Budget for Imports of Commodities.

In the above questions, the influence was indirect on the Libyan firms. Nevertheless, there was some degree of influence on the behaviour of customers’ firms. The next group of questions examines the direct influences by government budgets for commodities that related to and depended heavily on the oil prices and the government oil revenues. In this section, are some questions that examine the influence of the changes in government oil revenues and the budget for imports of commodities.

For the first two questions, the topic question was ‘To what extent is your relationship with this supplier affected by’ (1) The change in government oil revenues, (2) The change in the budget for imports of commodities. The answers are illustrated by Figure 9.19. For the first question, the majority of the Libyan firms were very highly influenced by changes in the budget for imports of commodities, which in fact, depended directly on government oil revenues. The accumulated values for the alternatives ‘medial effect’, ‘high effect’ and ‘very high effect’ were very high, more than 86%, and for the influence of change in government oil revenue, 56%. On the other hand, the accumulated
values for alternatives ‘marginal effect’ and ‘minor effect’ were very low, only 18.3% for the government oil revenues and 10% for budget for imports of commodities. For the alternative ‘do not know’, 25% of Libyan firms do not have knowledge about how the changes in government oil revenues affect their business relationships with their foreign supplier, but only 3.3% do not know about the influence of the changes in the budget for imports of commodities.

To what extent is your relationship with supplier affected by:

Figure 9.20: Influence of the Changes in Government Oil Revenues and the Budget for Imports of Commodities

In the next group of questions, the focus is on the influence of changes in the budget for imports of commodities on the Libyan firms and their business relationship with foreign suppliers. The topic question was ‘will reduction in the budget for import of commodities affect’; (1) the amount you buy from this supplier, (2) your production process, (3) The technical information process and finally (4) T&D.

The values for the first questions are illustrated in Figure 9.21. The answers to this question show that a high value was given to alternative ‘very high effect’, which was selected by more than 48%. Moreover, the accumulated value of alternatives ‘high effect’ and ‘very high effect’ was very high - it was 71.6%.
Figure 9.21: Influence of the Reduction in Budget for Imports of Commodities.

The answers to the next three questions are presented in Figure 9.22. The accumulated values for the ‘high effect’ and ‘very high effect’ were 48.4% for the production process, 23.3% for technical information and 35% for the T&D. On the other hand, the accumulated values for alternatives ‘marginal effect’ and ‘minor effect’ were 13.3%, 31.6% and 28.3% respectively. The answers show that the degree of influence of reduction in budget for commodities was clearer than the influence of the decrease in oil prices. Also, these answers show how the purchasing of Libyan firms was very sensitive to the changes in budget imports of commodities, which were a basic tool for the Libyan government to control foreign payments. This opinion is supported by the answers on the next question on the degree of influences on foreign purchasing.
Reduction in the import budget will affect the following:

![Bar chart](chart.png)

**Figure 9.22: Influence of the Reduction in Budget for Imports of Commodities.**

The next three questions examine the vacillation of Libyan firms’ purchasing; the topic question was ‘To what extent does the vacillation of your purchasing from this supplier depend on’; (1) Limitation of amounts from budget imports of commodities, (2) Government bureaucracy, and (3) Trade policies. Figure 9.23 shows the answers for the first question - the limitation value was very high; more than 55% of Libyan firms selected the alternative ‘very much’, and the accumulated value for alternative ‘rather much’ was 76.7%. The answers concerning trade policies registered in the second rank. The accumulated value for alternatives ‘rather much’ and ‘very much’ was 56.7% and for documentation time it was 48.4%.
To what extent does the vacillation of your purchasing from this supplier depend on:

![](chart.png)

<table>
<thead>
<tr>
<th>Extent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not At All</td>
<td>6.7%</td>
</tr>
<tr>
<td>Only A Little</td>
<td>8.3%</td>
</tr>
<tr>
<td>To Some Extent</td>
<td>10.0%</td>
</tr>
<tr>
<td>Rather Much</td>
<td>25.0%</td>
</tr>
<tr>
<td>Very Much</td>
<td>36.0%</td>
</tr>
<tr>
<td>Do Not know</td>
<td>55.0%</td>
</tr>
</tbody>
</table>

**Figure 9.23: The Vacillation of Libyan Firms’ Purchasing.**

The next question examines the time needed by Libyan firms to finish the transaction with foreign suppliers. The topic question was ‘How much time is needed to complete your transaction with this supplier?’ Figure 9.24 shows the answers, more than 38.3 % of Libyan firms need three months, 25% need one month, and more than 21.7% need six months. This answer reflected the connection and strength of relationship with political actors - less time means strong relations and vice versa.

![](chart2.png)

<table>
<thead>
<tr>
<th>Time Needed</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Week</td>
<td>11.7%</td>
</tr>
<tr>
<td>One Month</td>
<td>25.0%</td>
</tr>
<tr>
<td>Three Month</td>
<td>38.3%</td>
</tr>
<tr>
<td>Six Month</td>
<td>21.7%</td>
</tr>
<tr>
<td>One Year</td>
<td>1.7%</td>
</tr>
<tr>
<td>More One Year</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

**Figure 9.24: Time Needed.**

The answer to the above question shows a large proportion of Libyan firms spend time to finish transactions. The next question examines the actions of Libyan firms when the Libyan government delayed applying the budget for imports of commodities; there are three options (1) Terminate our transaction with supplier (2) Turn to other supplier
competition with cheaper prices and finally (3) Negotiate with the supplier to find a solution. Figure 9.24 illustrates the values for the three questions, the majority of Libyan firms gave high values to option (3), more than 80% of Libyan firms selected the alternatives ‘partly agree’ or ‘strongly agree’. On the other hand, highest values were given to the alternative ‘strongly disagree’ for question (1) ‘stopped the relationships with supplier’. The value was more than 21.7% and ranked second was ‘change the suppliers’. This leads us to the next question, do Libyan firms and their partners understand each other and the influence of the changes in oil prices. The next section examines this subject.

In order to carry out import budget we:

![Figure 9.25: The Libyan firms’ actions.](image)

**9.5.3. Understanding the Influence of the Change in Oil Prices.**

In this survey, there are some questions that examine the exchange understanding between focal actors of the influence of change in oil prices and related factors on the business relationship. The first question directly concerned understanding the suppliers. The topic question was ‘The supplier understands the impact of changes in oil prices and their influence on your firms. Figure 9.26 shows the scores of the Libyan firms. A high value was given to alternative ‘to some extent’, but 20% of Libyan firms selected the alternative ‘do not know’ and 15% selected the alternative ‘not at all’. The answers show the level of uncertainty of Libyan firms, which is a little bit high.
Does the supplier understand the impact of oil prices changes?

![Bar chart showing the degree of supplier understanding.]

Figure 9.26: The Degree of Supplier Understanding.

The next two questions show the views about whether the foreign supplier understands the impact of a decrease in the oil revenues. The question was ‘When the oil revenues decrease’ (1) the supplier cooperates with us and understands our circumstances, and (2) the supplier does not cooperate with us and does not understand our circumstances.

The answers to these questions are illustrated in Figure 9.27. The accumulated value for the alternatives ‘partly agree’ and ‘strong agree’ was 41.7% for understanding, which is higher than the values given to not understanding – which was only 10%. On the other hand, the accumulated value for the alternatives ‘strongly disagree’ and ‘partly disagree’ was 6.6%, for question (1), which is lower than for question (2) - it was 45% for not understanding. For the alternative ‘do not know’, it was 11.7% for understanding, and 13.3% for not understanding. These answers show the Libyan firms see some cooperation and understanding from their foreign suppliers when oil prices decrease. One explanation for the cooperation could be that these foreign firms give the Libyan firms technical information and change the terms of payments.
The discussion in this chapter was devoted to two important aspects in business network. One was related to the impact of connections on focal businesses and the next reflected the matter of business network environment. In the first part, the second and third sections dealt with connected business and political actors and their impact on the focal relationships. The evaluation aimed at constructing a picture of the degree of negative or positive influence of these two connection types. Considering the political actions, the fundamental factors were examined. The end of this part presented the management actions of Libyan firms in challenging the uncertainty emerging from the negative connections. In the second part of this chapter, the influence of the network environment, more specifically, the change in the oil prices and related factors, were examined, and finally, the chapter presented an understanding of the exchange between Libyan firms and foreign suppliers.

The statistical measures manifest that the Libyan firms generally give high values to the impact of trade policy, and also that the influence of this policy on business relationships was more negative than positive. Further, the impact of the political actors was high. On the other hand, the lowest value on the focal relation was allocated to local customers and local suppliers.

In studying political actors, two tools, tariff and non-tariff, were examined. For tariff decisions, areas such as import and export tariff were considered. The answers show a large difference in the values given to these different areas. The highest negative impact was from non-tariff policy. For example, the negative ties for the control measures of

![Figure 9.27: The Degree of Supplier Cooperation and Understanding.](image-url)
government on foreign financial transactions scored high values. The Libyan government as political actor used their power via the exchange rate, exchange control, and credit restriction, to create obstacles for Libyan firms and foreign firms, among these areas, the strength of negative bonds varied. In other questions, the strength of negative or positive actions of bureaucrats was examined by some facts such as customs of product classification, valuation, and testing, which have a negative connection with coercive nature. Also, in this chapter, different types of influence and adaptation actions by Libyan firms for the management of the political actors were presented, in addition, regarding the influence on political actors, the values show that a high degree of influence was from branch industry, and a low degree was from local customers and local suppliers.

The second part concerned the influence of the change in oil prices on relationships, the main fact is that the Libyan government used the budget for imports of commodities as a tool to control the Libyan firms, which reacted to the decrease in oil prices. The results show a negative influence on the relationships of Libyan firms. In this part also, the answers show that the amount the Libyan firms buy was affected more than other factors, and answers show some understanding from foreign suppliers of the influence of the change in oil prices.
Part III

Chapter Ten: Results and Analysis of the Study

10.1. Introduction

The purpose of this study was to investigate the business relationships in a less developed country, namely Libya. The previous empirical chapters were devoted to presentation of facts about the purchasing behaviour of the Libyan firms when interacting with their foreign suppliers. To further understand the behaviour of these firms, the study also focused on the relationship between business and political actors, since the impact of political actors is important in such business markets. An attempt has been made to explore how the politically connected actors contribute by way of their supportive or coercive actions to the relationship between the Libyan firms and their foreign suppliers.

The following chapter is designed to analyze certain facts that have been presented in the previous chapters. As was the case with the empirical chapters, this chapter is also divided up into a number of sections. In the first part, there are four sections with the answers that include the focal actor’s relationships, adaptation, social relationships, and the relationship with the political actors. In all these sections, the facts are interwoven with concepts discussed in the theoretical framework, such as interdependency, uncertainty, trust and mistrust – these are used to facilitate the analysis of the strengths and weaknesses of the relationships between the Libyan firms and the foreign firms.

The second chapter concerns the conclusion for this study. In the final chapter, the aim is to assist understanding of the findings and give space for more general conclusions. The chapter, beside discussions on how the strength in the relationship is constructed, also attempts to discuss the theoretical implications of the study. This has been done by taking into account the results of the case study. The conclusions chapter contains first, general discussion, followed by general comments on the theoretical implications, and, finally, there are comments on the socio-economic values that apply to business relationships in LDCs.

10.2. The Focal Relationships

In Chapter 6, two points were studied, namely the development of the relationships and the extent of them. The first aspect was examined by asking questions about the history
and expectations of the relationship. With regard to the major findings, the questions about the history refer to (a) the intensity of the development of the relationships, and (b) the connection between the development of the relationships and the economic-political development in Libya.

The rate of intensity in the relationships shows the decreases and increases at different times, and events which coincided with economic-political changes. Much has happened, which has led to increase and decrease in the intensity, e.g., the years 1969\(^8\), 1974, 1978, 1980, 1984, 1986, 1989, 1997 and 1992. Furthermore, in the 1990s, the country was faced with a drop in oil prices and UN sanctions\(^9\), and later there was an oil price increase. In the case of Libya, there were only a few relationships started in the 1960s when the oil was discovered in Libya and the development process was subject to drastic changes. As the economic-political environment of these firms had a higher level of instability, there was, in the case of Libya, a low level of density and stability in the relationships.

Concerning the types of products exchanged, the results show that almost all of the Libyan firms purchase raw materials and industrial mining equipment, and the rest of the exchanges consist of industrial components and equipment. Moreover, the results also reveal that there are not any big differences for the answers regarding how past relationships affect existing ones.

**10.2.1. The Development of the Relationships**

This section will focus on the past and future aspects of the development of the relationships, including some crucial facts about the essence of the relationships between the Libyan firms and their foreign suppliers. Regarding the pattern for the development of the relationships, one of the questions looked at it over a five-year period. The results show that 28.3% of the Libyan firms selected the alternative ‘rapid increase’. Despite the uncertainty of the economic-political conditions, the number of exchanges had increased. In fact, 20% of the firms reported a minor increase in their number of relationships during the last five years. This positive development can indicate a degree of interdependency and trust. Furthermore, the Libyan firms intensified their exchange relationships in order to meet the rapid local demand in the wake of the new policies introduced by the Libyan Government. Nevertheless, it has been shown that some of the Libyan firms have recorded a decrease in the trend of the purchasing development over the last five years.

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\(^8\) 1969 The Establishment of ALFATH Revolution.  
\(^9\) UN sanction was imposed in Libya from 1992-2002.
40.7% of the Libyan firms selected the alternatives ‘slow decrease’ and ‘rapid decrease’, which means that it is difficult to measure the extent of the future purchasing trend.

Another of the questions in the study looked at profitability. The results reveal that the Libyan firms realized that profitability is high for both themselves and their foreign suppliers. These results signify the high level of economic gains over the past five years. Mutual gains will continue in the future. The answers also indicate that over the next five years there will be a high degree of profitability for both actors. The results also show that the future business expectations of the Libyan firms are low, which can be linked to a higher degree of uncertainty regarding future developments. According to the results, 36.7% of the Libyan firms selected the alternative ‘does not apply’. Concerning the rate of stability in the exchanges between the Libyan firms and their foreign suppliers, the figures reveal that there has, to some extent, over the past five years, been stability in the purchasing by the Libyan firms; however, some of them have a degree of volatility. Moreover, 16.7% of those surveyed picked the option ‘does not apply’, which means that the degree of stability is not high.

Mutuality and profitability are important values because they reject the opportunistic behaviour of the actors. The previous aspect shows a mutual profitability and a degree of stability in the relationships, but future expectation entails a high degree of uncertainty. In other words, it demonstrates a lower degree of positive expectation. This means that among the Libyan customers there is a high level of uncertainty regarding the future development of their relationships. The Libyan firms are uncertain regarding the changes in the environment of the relationships. Thus, this means there are some factors that affect their relationships.

**10.2.2. Product and Technological Relationships**

This study contains several questions that measure the essence of the relationships by measuring the strength of the technological and product exchange relationships. With regard to issues like product classification and the newness of the product, the results show that almost all the Libyan firms buy raw materials and mining equipment from the same suppliers, and, in second place, comes heavy equipment. This means that the Libyan firms buy in stock (one to three times a year), thus denoting a low degree of technological interdependence. However, this view is not supported by the evidence found in the results regarding the knowledge of the Libyan firms about the specificity and the newness of the product method. According to the findings of this study, nearly half of the Libyan firms (48.2%) see the newness of the product as being either ‘new in several respects’ or ‘a
totally new problem solution’. Concerning the difficulty in using products, the Libyan firms do face some problems, which means there is some dependency on the foreign suppliers. However, the degree of dependency is low because the standardized nature of the product does not have a high level of reliability. Therefore, such a type of product exchange does not need complex technological cooperation and adaptations. (High level of interdependency)

The results on the cooperation for the specification of product exchanges highlight another interesting aspect. Only 21.7% of Libyan firms selected the alternative ‘both parties’. However, the cumulative total for the alternatives ‘mostly the customer’ and ‘only the customer’ came to 56.7%. These answers may reflect the agreements between the Libyan firms and their suppliers that are in force and do not correspond with the above results. The conclusion can be drawn that there is a low level of technological interdependency because the standardized nature of the exchanged product has a high level of reliability. Therefore, such type of product exchange does not need complex cooperation and adaptations.

The results show a low degree of strength of knowledge regarding the product specification. 56.6% of the Libyan firms state that they either ‘mostly specified’ or ‘only specified’ the content of the products. This high level of power in product specification means that Libyan firms have knowledge about the product technology and did not feel dependent on their foreign suppliers. At the same time, the firms encounter some difficulty when using the product, and when the exchange included the technology of the product, this became problematic because the majority of the Libyan firms buy their raw materials and mining equipment from the same suppliers. This means the nature of the product is both simple and complicated. Regarding cooperation, only in 21.7% of the cases did both parties jointly specify the products. The other figures for the same question show that there is more interdependence between the foreign suppliers and the Libyan firms. The conclusion drawn here is that there is little cooperation between the supplier and the Libyan customer. Further, the majority of the product exchanges are of a simple nature, and weaknesses can be found in the relationships. Because of the low level of interdependency, the firms have a high degree of potential mobility. Regarding the newness of the product, the figure was high. Nevertheless, the Libyan firms do not, in fact, profess to there being a high level of technological cooperation, adaptation or interdependency.

Another question on the role of the firms carrying out exchanges as discussed in the earlier chapters looked at the degree of importance. The questions evaluated two
factors: the ‘amount exchanged’ and the range of products. The results show that both parties depend on each other: the foreign firms on the Libyan firms and vice versa. In the case of the latter, the majority of their purchasing needs have for a long time been met by their foreign partners.

Regarding the knowledge needed for the essence of other relationships binding the suppliers and the customers together, the study contains several questions. These questions examined the knowledge of technological relationships and are: (1) the role of the Libyan firms and the foreign suppliers, and (2) the degree of cooperation. The questions measured the degree to which the parties are involved in specifying the exchanged products. The aim was to understand if there was a balance or mutuality as well as cooperation. The basic role entails a high level of cooperation of product specification which generates a high degree of interdependency regarding the ties between the parties.

The results of several questions illustrate the lack of a strong technological relationship. For the question on the ‘new ideas for product technology’, the figures were different: 20.3% of the Libyan firms see their foreign suppliers as a ‘very important’ source, and only 3.4% considered them as being ‘very unimportant’. Regarding the question that examined the importance of suppliers as partners in technological ideas, the figures highlighted strong relationships. For 22% of the Libyan firms, the strategy is to use their suppliers’ technological ideas, whereas only 3.4% of them regard other factors as being important. For further examination of technological relationships, the questions were prepared to throw more light on both Libyan firms and foreign suppliers. The following question was posed: ‘Who specifies the technology in the products?’ The question showed that more than 50% of the Libyan firms specify the details in the exchanged products. The majority of the Libyan firms themselves undertake the technological part of the production system without technical assistance from the suppliers but in fact, the Libyan firms’ main purchases were raw materials and equipment. In Table 10.1, the key findings for the focal relationships are summarized.
### Table 10.1. Summary of the Focal Relationships

<table>
<thead>
<tr>
<th>Development of the Relationships</th>
<th>Findings</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Development patterns show that the economic-political aspect is critical.</td>
<td>- There is a high level of dependency on economic-political changes.</td>
<td></td>
</tr>
<tr>
<td>- The average length of the relationship is 18 years.</td>
<td>- There is mutuality and interdependency between the focal actors.</td>
<td></td>
</tr>
<tr>
<td>- The partners have a mutual interest and jointly profit from the exchange.</td>
<td>- There is instability in earlier exchanges.</td>
<td></td>
</tr>
<tr>
<td>- The relationships contain a low degree of exchange and development.</td>
<td>- There is a high level of uncertainty about future expectations.</td>
<td></td>
</tr>
<tr>
<td>- There is a high degree of volatility in the exchange.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- There is a low level of stability in the relationships.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- There is a low level of knowledge of the future expectations.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological Relationships of the Products</th>
<th>Findings</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>- There are both simple and complicated products.</td>
<td>- There are two kinds of bonds: core and surrounding bonds.</td>
<td></td>
</tr>
<tr>
<td>- The majority of the Libyan firms specify the product.</td>
<td>- There is a low level of interdependency.</td>
<td></td>
</tr>
<tr>
<td>- Libyan firms are dependent on their foreign suppliers concerning technological production and ideas.</td>
<td>- The following factors are very important to the relationship: the prices and the range of product</td>
<td></td>
</tr>
<tr>
<td>- An early approach is not employed, and a delivery delay has little effect.</td>
<td>- There is a low level of dependency on the supplier to specify the product.</td>
<td></td>
</tr>
<tr>
<td>- Libyan firms use a large amount of their purchases.</td>
<td>- The Libyan firms display a high level of mobility.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- There is a low level of interdependency regarding the delivery time.</td>
<td></td>
</tr>
</tbody>
</table>

10.3. The Adaptation.

In this section, there is an analysis of the results on some of the other ties that focus on the adaptation between Libyan firms and their foreign suppliers. This increases the understanding of the essence of the relationships and measures how the firms have adapted their different types of activities to each other. A high level of adaptation strongly binds the actors together for long-term business relationships. In contrast, a low degree of adaptation creates weakness in the relationships, and there is also a low degree of interdependency and high mobility in the partnership.

The results for the question that measured the aspect of the adaptation, namely its uniqueness, show that it was not specific, but instead had a general nature (see Figure 7.1). The total for general adaptation was not high. In such a situation, mobility is high and the cost of changing a business partner is low.

The various totals for the adaptations to the different ties mean that some conclusions can be drawn about the content: one is that the adaptive behaviour has two aspects – one aspect refers to the type of adaptation and the other to the degree of adaptation. As the
results show, the degree of adaptation is low. Regarding **product modification** and new product development, the results reveal that, for the supplier, there is a low degree of adaptation, which also means a low degree of interdependency and a very low level of technological cooperation between both parties. Moreover, the ties are weak.

Regarding **technological advice**, the aim here was to examine the technological cooperation at both the service and the advice level. The results show both kinds of adaptation, and the degree of adaptation for both types is low. This means that the foreign suppliers did not provide the Libyan firms with a great amount of technological services. This is demonstrated by the fact that a majority of the firms have a low degree of technological cooperation at both the service and the assistance level. In this study, there are significant differences between how the Libyan firms and their suppliers regard these aspects of technological advice. These results provide, to some extent, a deeper understanding of the technological links. As far as new product development is concerned, there is a low level of interdependence and strength.

The other area of adaptation was concerning service and **delivery**. The level of adaptation for technical advice is higher than for the technical information and delivery (see Figure 7.4). However, in this study, the joint technological cooperation is generally low. According to the findings for the delivery (see Section 7.5), the level of adaptation is lower than in the case for the information service and the technological advice.

Concerning the **administrative adaptation**, the results show that there is very little adaptation by both parties. It may be that the strengths of these parties do require a high degree of administrative adaptation. Associated with adaptation is **personal training**, and here the aim was to gain more of an understanding about adapting the personal knowledge to the technological factors. The results show that the level of adaptation is also low for this activity. The conclusion drawn is that the adaptation is neutral and the level of interdependency between the parties is low. The other aspect used to measure the interdependency and the strength of the relationship between the Libyan firms and their foreign suppliers was the degree of **investment in adaptation**. In general, the majority of both parties do not make large investments in adapting to their partners. This shows not only that such a level of investment generates a high level of mobility, but also that the Libyan firms make more of an investment than the foreign suppliers do.

The factors for the adaptation between the Libyan firms and their foreign suppliers show the degree of adaptation in several areas. Table 10.2 summarizes the main findings and results. In general, neither actor makes a specific adaptation to their activities or services. The results again demonstrate a low degree of adaptation between the Libyan firms and
their foreign suppliers. Concerning the links surrounding the core product and the technological ties, the degree of adaptation is also low, meaning that the relationships are weak.

**Table 10.2. The Adaptation between Libyan Firms and Foreign Firms**

<table>
<thead>
<tr>
<th>Areas of Adaptation</th>
<th>Findings</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Adaptation</td>
<td>No specific adaptation</td>
<td>Low level of adaptation</td>
</tr>
<tr>
<td>Product Modification</td>
<td>Low degree of adaptation</td>
<td>Low degree of interdependency</td>
</tr>
<tr>
<td>Technological Advice</td>
<td>The parties have some degree of adaptation</td>
<td>Low degree of interdependency</td>
</tr>
<tr>
<td>Service and Delivery</td>
<td>Low level of adaptation</td>
<td>Low degree of mutuality</td>
</tr>
<tr>
<td>Administrative Adaptation</td>
<td>Very low level of adaptation</td>
<td>Low level of dependency</td>
</tr>
<tr>
<td>Personal Training</td>
<td>Low level of adaptation</td>
<td>Low degree of interdependency</td>
</tr>
<tr>
<td>Investment in Adaptation</td>
<td>Low level of investment</td>
<td>High level of mobility</td>
</tr>
<tr>
<td>Organizational Adaptation</td>
<td>Low level of adaptation</td>
<td>Low degree of interdependency</td>
</tr>
</tbody>
</table>

**10.4. The Social Relationships**

This section looks at the results for the social relationships. The figures show the degree of trust and increase the understanding of the interdependency between the Libyan firms and their foreign suppliers. In general, the results for this section highlight some differences – for instance, there is a high degree of mutuality among the actors. The Libyan firms perceive the relationship as containing a balance in the exchange. This implies that the degree of opportunism is not high. The study reveals interesting issues in terms of trust: the first considers the exchange, for example, of business information or the formalities in the agreements, and the second concerns areas such as language or personal interactions. Given the ease with which a firm can change partners, as the results in Chapter 7 illustrate, the level of mistrust is low at the personal level, and the degree of mistrust at the organizational level is higher. The study shows that the Libyan firms distinguish between social trust and business-social trust. The first factor is functional trust and there is a feeling of dependency.

Concerning the level of mutuality (the first aspect of dependency), the Libyan firms feel that they have a high level of dependency, with 46.7% selecting the alternative ‘partly agree’. This view expressed by the Libyan firms is supported by the results for mutual dependency (see Figure 8.1). The firms see mutuality as the basis for interaction, which the managers are positive too. Related to the question of mutuality and examined here are the mobility and interdependency of the Libyan firms. According to the findings, the state
of the Libyan firms and their foreign firms after interaction highlights a low level of potential mobility. In the case of Libya, it is not easy to find other suppliers. Moreover, there is great potential for strengthening the relationships.

Related to the idea of trust, two other areas were examined: functional and personal trust. Regarding the latter, especially cooperation in an organizational context, the majority of the Libyan firms see the lack of cooperation as a source of relationship problems. This will lead to an increase in the level of distrust, but, in general, the results show that the Libyan firms generally trust their foreign suppliers who understand them. Nevertheless, when the technological cooperation is measured, the percentage figures given by the Libyan firms are a little different from those above. This shows that there is a much lower value in the percentage for the cooperation of the foreign supplier before a short-term profit is made. Here, the level of uncertainty is high, with more than 45% selecting the alternative ‘uncertain’. This means the level of confidence among the local firms is low.

The other area of social interaction examined was the personal relationships at the individual level. The aim here was to analyze the personal contacts and other related cultural differences between the Libyan firms and their foreign suppliers. The results reveal that the Libyan firms have good personal relationships, but the level of these relationships is, to some extent, not strong. Regarding the level of mutuality in the personal relationships, the majority of the Libyan firms support mutual investment in the social interaction, meaning that mutuality and trust exist between both parties. Regarding the cultural differences, in the literature study this factor was highlighted as a source of conflict. In this study, however, the findings provide a different result: when the influence on the interaction was examined, the majority of Libyan firms did not encounter any problems when socially interacting with their foreign suppliers, and they have strong ties in their personal relationships. Further, as for their interaction, the local firms do not see any problems concerning the different languages. These results are interesting: they show that some social bonds are strong, whilst others are weak. In the case of Libya, the cultural differences have little impact.

With regard to the formal interaction, the view of the Libyan firms is different. As the results show, the majority of the Libyan firms differentiate friendship from formal interaction. Because of the high level of political and market uncertainty, they therefore have to rely on formal agreements to challenge the uncertainty in the relationships. This means that a written agreement has a major influence. In general, the level of trust is quite high, especially regarding informal interaction, and no problems arise with the social
interaction between both parties. Table 10.3 gives a general view on the social interaction of the Libyan firms with their foreign suppliers.

**Table 10.3: The Social Relationships between Libyan Firms and Foreign Firms**

<table>
<thead>
<tr>
<th>Area of the Relationship</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeling of dependency</td>
<td>High level of dependency</td>
</tr>
<tr>
<td>Mutuality and adaptation</td>
<td>Low level of potential mobility</td>
</tr>
<tr>
<td>Mutuality and understanding</td>
<td>High level of understanding and mutuality</td>
</tr>
<tr>
<td>Trust and cooperation</td>
<td>High level of trust and low level of cooperation</td>
</tr>
<tr>
<td>Personal relationships</td>
<td>Good personal relationships</td>
</tr>
<tr>
<td>Cultural differences</td>
<td>No problems with the cultural differences</td>
</tr>
<tr>
<td>Formal and informal interaction</td>
<td>High level of informal interaction</td>
</tr>
<tr>
<td>The impact of the written agreement</td>
<td>High impact on the relationships, High level of uncertainty</td>
</tr>
</tbody>
</table>

*Source: By the Researchers.*

### 10.5. The Relationships with the Political Actors.

This section is devoted to discussing the results for the exchange relationships between the Libyan firms and the political actors and the strengths and weaknesses in these relationships. The analysis also enables conclusions to be drawn about the management actions of the Libyan firms which confront the uncertainty caused by the political actors and the oil price changes.

In Chapter 9, the results show the strength of the bonds between the business and the political actors, with the latter having a high level of influence on the focal interaction. The actions of the political actors were measured using the government trade policy that regulates the behaviour of the Libyan firms and their foreign partners. The three areas examined are affected by the government trade policy, namely the technological, product and financial ties. Of the three areas, the Libyan firms first assessed the government trade policy, followed by the behaviours of the customers and competitors. For the trade policy, the results show that the majority of the Libyan firms selected the alternative ‘very strong importance’, at the same time as the percentages for both the customers and the competitors are low. Thus, the Libyan firms concentrate their focus predominately on the political activities.

The results show the degree of importance of other non-business actors like the customers’ competitors and banks – the latter are more important in the exchange than any of the other business actors. Thus, the relationships between the Libyan firms and their foreign suppliers entail (1) a very high level of power dependency on the political
actors, (2) a low degree of connections with the local customers and the other competitors, (3) strong connections with the intermediary organizations, such as the government ministry and the branch industry, and (4) a strong connection between the business and the financial actors.

The conclusion drawn concerning the weak negative connection with the competitors is that it denotes there being a weak competitive structure in the Libyan market. On the other hand, the financial actors have a higher level of importance than the other business actors do. Moreover, the Libyan firms have a higher dependency on the financial actors than on any other business connection; however, when compared with the political actors, the percentages for the financial actors are low. The degree of influence which the political actors have on the banks is high; in fact, the banks are used as tools of the political actors.

The following points summarize the main findings for the focal relationships found in the Libyan market:

- A weak connection to the competitors;
- A weak positive connection to the suppliers’ competitors;
- A weak positive connection to the firms producing supplementary products;
- A strong dependency on sources, such as banks, and this has a negative connection;
- A weak positive connection to the customers;
- A strong negative connection to the political actors.

These figures for the strengths and weaknesses of the focal connected relationships mean that a critical conclusion can be drawn about the nature of the business network, namely the actors in the business network structure have weak links to each other. This is because the structure of the Libyan market does not have the mechanisms that empower the bonds between the actors. However, there is a strong bond between the business and the political actors.

10.5.1. Political Actions.

The role of the political actors was explored by evaluating the connection to the government and the bureaucrats. The content of the connection reflects the Libyan Government’s regulation of foreign trade and the bureaucrats who implement the decisions.

Regarding the trade policy, there were two areas that were examined: tariff and non-tariff trade polices. The results show that the import tariff is very important for the business
activities of the Libyan firms, more so than the export tariff. It could be the case that the low percentage for the export tariff regarding the performance of the Libyan firms is because of the focus on satisfying the local demand, rather than exporting to foreign customers. The figures for the import and export lead to the following conclusion: the Libyan firms are dependent on the local market and there is a small degree of internationalization within the firms. This is verified by the many questions measuring the interaction of the Libyan firms with their foreign suppliers.

Concerning the non-tariff regulations of the product and the financial exchange, an influential bond is created. The results show that the Libyan firms see the regulation of the ‘product standards’ as constituting the most coercive relationship. The degree of influence is very high (33.3%); however, the bonds through which the government exercises its control over the product exchange have a lower negative connection than the political rules associated with the foreign financial transaction. The connections in the foreign transactions cover, for example, credit restrictions and the exchange rate. The regulations have various effects on foreign financial transactions depending on the types of exchange, e.g., the negative impact of a prior import deposit is not as great as that of a credit control.

The figures also aim to see how the business relationships of the Libyan firms are affected by other factors. Besides the government’s policies, the bureaucrats (the next group) serve as the political actor’s tools. The connected bonds between the Libyan firms and the bureaucrats contain an exchange. On the one hand, the bureaucrats apply the political rules, whilst, on the other hand, the Libyan firms try to find solutions to managing the bureaucrats. The key coercive actions of the bureaucrats are carried out in areas such as product documentation for customers, product testing, product evaluation and classification. The Libyan firms realize that their relationships with the foreign suppliers are stronger than the connections to the market actors, like the competitors and the local customers. The majority of the Libyan firms have noted that the connection has a strong negative nature.

**Managing the Coercive Bureaucrats.**

The results show there is a high level of uncertainty for some connected actors; this uncertainty affects the focal relationships and the performance of the Libyan firms. Therefore, the firms employ management tools to reduce the impact on the time and resources which the firms could otherwise have invested in the business relationships.
The Libyan firms spend considerable time having to collect more than 12 certifications from different bureaucratic organizations. The Libyan firms have explained that just knowing how and where to collect such documentation requires a strong relationship with the political actors.

Besides the strong relationships with the political actors, each certificate needs considerable time and work, thus involving a number of people and a strong personal relationship (Agnaia, 1997). In addition, the instability of the rules of the authorities affects the business relationships with the foreign suppliers (see Chapter 5). For each set of problems, the Libyan firms always try to find specific solutions; therefore, some Libyan managers succeed in reducing the level of uncertainty by taking advantage of their personal connections which allowed them to expand the chances and possibilities to find solutions, and focus on the investment in the social relationships. Thus, the Libyan firms have strong connections with the political actors, at the same time the business connection has less of an impact on the focal exchange relationships.

In this study, some questions have measured the actions of Libyan firms vis-à-vis the political actors. In fact, the Libyan firms undertake a number of measures to reduce the impact of the coercive actions and, at the same time, increase government support. The firms adjust their behaviour - both their influential and adaptive actions. The results show that the firms would have not made any effort to influence the government because of its superior role, but the firms have ways of contacting the political actors. Furthermore, the percentages show that the firms have a high degree of political activity. In the questions concerning whether the firms had discussed the political issues with the government agencies, 70% answered in the affirmative.

The Libyan firms display a high degree of uncertainty concerning the expectations for future development. Analyzing the role of the political actors provides some explanations: the high level of dependency on the political actors and the instability of the political rules naturally generate future uncertainty that affects the management of the political relationships. With regard to further examining the interaction between the political and business actors, some questions specifically considered the degree of influence. One of the questions aimed to examine whether the firms have succeeded in convincing the political actors to alter the regulations. The figures are, however, low.

The study examined the connection with the other actors to reduce the uncertainty and the strength of the negative connection with the government as well as the usefulness of the other connected actors. The figures show the industry branch had the greatest influence.
With regard to adaptation, the Libyan firms have been obliged to make comprehensive changes at all levels. Changes to the production process and the centralization of decision-making are among those adaptive measures that the firms have instituted to reduce the uncertainty of the contextual environment. The management of the relationships with the bureaucrats has, in general, strengthened the position of the Libyan firms, and even that of the foreign firms, in the market.

10.5.2. The Impact of the Change in Oil Prices on the Relationships.

This section will focus on the impact of the oil price changes on the network, the actors and the focal relationship. In this study, 29 questions examined the influence of the change in oil price and related factors, such as the change in budget for imports of the commodities.

The percentages for the oil price changes show that the relationships of Libyan firms have been influenced by both the increases and the drops in the oil price, but the high negative impact was as a result of a decrease in the oil prices on the international markets.

Concerning the impact of an oil price drop on the amount that the Libyan firms buy from their foreign suppliers, the results show that the impact is not of a direct nature. However, the answers revealed that the degree of influence is quite high, with 38.3% picking the alternative ‘high effect’ and 20% saying a ‘medium effect’. For the question as to whether the firms are more influenced by an oil price drop, the results show that the production process is affected more than the technological information and personal training. However, the Libyan firms’ knowledge about the impact of the oil price changes is low. The findings show that a high percentage of those surveyed said ‘do not know’ (see Figure 9.19). The other related factor for the oil price changes is the influence of the changes to the budget for imports of the commodities which drove it down. In fact, this subject was not clear when discussed under the topic of government polices, but the Libyan firms, when asked to assess the influence by way of more direct questions, gave high percentages. The first part examines the influence on the relationships of the Libyan firms with their foreign suppliers. It shows that the level of the effect is very high. This means that the indirect changes in the oil prices affect business relationships through the changes in the budget for imports of the commodities. Moreover, relations between the political actors who control this factor as well as the power to control the Libyan firms’ relationships with foreign suppliers are strong.

In the next section, the study examines the impact of the changes in the budget for imports of the commodities on the performances of the Libyan firms. The results show
that the majority of the Libyan firms are negatively influenced by a reduction in the budget for imports of commodities: 71.6% said this had greatly affected the amount that they had bought from the foreign suppliers. The influence of a reduction in the budget for commodities is evident and is greater than the other tools (see Figure 9.23). The answers reveal that the trade polices came second, and the time it takes to document the matter third. The next subject to be analyzed was the behaviour of the Libyan firms when the government delayed introducing the budget on the imports of the commodities (in fact, the reason for this is always the decrease in the government oil revenues). The results show that the majority of the Libyan firms (more than 80%) selected the option ‘negotiate with foreign suppliers to find solutions’ (see Figure 9.25).

To see how strong the relationships between the business firms and the political actors are, a question was posed which examined the time the Libyan firms needed to complete transactions with foreign suppliers under these circumstances. The results reveal that only 11.7% of these firms can finish their transactions within a week, and 25% need more than a month (see Figure 9.24). The next subject analyzed was the exchanges and the understanding shown by the Libyan firms and the foreign suppliers towards the impact on their relationship of the oil price changes and the related factors. The findings show that the Libyan firms regard, to some extent, their partners as being understanding. In this section, as regards the level of cooperation and understanding, the Libyan firms see a low level of cooperation; whilst, at the same time, many of them chose the alternative ‘uncertain’ (see Table 9.27). However, the falling oil prices affected Libyan firms’ activities as these activities depend on oil revenue as the main source for finance, this source is regarded as the cornerstone for the firms, that means any changes relating to the prices in world markets will affect the Libyan firms’ activities and their relationships with foreign suppliers.

As a consequence, the dependence on one source for support for various activities in LDCs is a serious mistake due to any imperfections regarding the prices in the international market, the effects will reflect on such activities in both direct and indirect ways. In this study, the drop in oil prices represents a dilemma for the Libyan economy and Libyan firms as these firms depend on the government for finance, form, and implementation of their budget for imports of raw material and similar products for their operations. Whenever the prices dropped, the budget could be reduced accordingly. That also affected the relationships with foreign suppliers due to the drop in the oil prices which sometimes caused delays in payment remittance to the other party and that led to distrust and maybe to termination of the relations.
In general, the network, actors and their relationships are influenced by oil price change. Moreover, the impact is more negative than positive, which means the political actors, who have to control the financial resources, control the business relationships, and, hence, the role of the political actor should not be ignored when studying and analyzing the network.
Chapter Eleven: Concluding Remarks

11.1. Introduction.
This chapter is devoted to discussions on conclusions reached from the analysis of the case by theoretical views introduced in the earlier chapters. The discussion begins with some general conclusions about the business and non-business actors. In this chapter, a section is devoted to introduce some conclusions reached by the analysis of the strengths and weaknesses in the relationships. Also the empirical results are connected to the theoretical foundation introduced in Chapters 2 and 3. In this part of the study, the problem of the viable development, as described in Section 1.3, is also recapitulated. Following this presentation, the outcome of the empirical study, namely a business network context including political actors, will be introduced. This leads to the last section that contains the theoretical and empirical implications. The results of this study will also benefit local firms with regard to how they can improve their competitive power when interacting with MNCs. More importantly, it will help the MNCs to understand local firms’ behaviour and undertake means to increase efficiency in their relationships with local firms.

11.2. Business and Non-Business Actors.
The business network boundary is a perceptual parameter used to surround those issues important for studying a phenomenon. The perspective taken and the objective of the study restrict the setting of boundaries. The content within the boundary must include aspects that are essential for the study. The context beyond the boundary is considered unimportant and is recognized as insignificant to the purpose of the study. The critical question for every study then, is whether the construction of the boundary is such that the conclusions and results have validity (Hadjikhani and Thilenius, 2005 Lee et al, 2007). An essential decision is what is outside and what is inside the context. The mainstream of industrial network studies only encircles the business actors. The network boundaries delimit the others from the context and position them in the environment. The conceptual framework expanded this context to include non-business actors. One may speculate that the reason was exigent to the nature of a study that encompasses a situation highlighting high political impacts, but the theoretical claim of this study has been on the setting of boundaries in the industrial network model in general. The main consideration, as the results in the empirical study show, is the urgent need to include non-business actors in future studies (Welch and Wilkinson, 2004, Hadjikhani and Thilenius, 2005). Boundary
expansion can improve our understanding of the industrial network. If the boundary setting in the Libyan case had been similar to several other studies, the survey would only have contained questions on the behaviour of the business actors. An interesting question then would have been what conclusions could have been drawn and what difference would they have made to the results in this study.

In business network theory, the relationships between supplier and customer are embedded in a vertical context. The content of a relationship is not only an antecedent to the focal actors’ activities but also to the acts of connected suppliers’ supplier or customers’ customer. A central theme in long-lasting interdependency is that one relationship has an impact on another relationship. Furthermore, this content is based not only on partners and sacrifices in the business context but also on the actions of actors in the non-business context. Thus, a dyadic relationship is a part of the ‘network paradigm’, which recognizes interdependency between several types of actors. As the case of Libya displays, the focal relationship is thereby contingent on exchange with both business and non-business environments. As the theoretical view and the study manifests, a focal relationship can gain support or hindrance (coercive)/positive or negative (also their strength and degree of impact) from these different sets of connected relationships (See also studies like Bengtsson and Kock, 1999; Hadjikhani and Thilenius, 2005; Welch and Wilkinson, 2004). They can have positive or negative impacts on the firms. Thus, a network is a set of connected relationships which can support or hamper a focal relationship, depending on whether a dyadic relationship is affected by the connected relationships positively or negatively (Duck, 1993). One connected relationship can support, while another can hinder, a dyadic. In this construction, there is reason to expect that the network provides the content of the relationship.

Traditionally, industrial network theory perceives business connections to actors such as competitors as having a high negative impact on the focal relationship (Bengtsson and Kock, 1999). While cooperative relationships with suppliers and customers are easy to grasp, the relationship with competitors, which lacks direct economic transaction, has been neglected. In advancing knowledge on the relationship with competitors, studies like those of Gnyawali and Madhavan (2001) and Bengtsson and Kock (1999) explain the impact of competition on focal firms’ relationships. Easton and Araujo (1992) and Bengtsson and Kock (1999), reflecting on the distance between competitors, include two elements of competition/conflict and cooperation/harmony constructed on trust. In the Libyan case and also in the study of Hadjikhani and Thilenius (2005), we could illustrate the degree of impact that competitors had on the business relationship. The very low
degree of impact manifests two alternative conditions: a) the lack of competitors and strong market position of the firms, b) the cooperative strategy of the competitive firms. Competitive relationships can thus contain elements of negative/positive, constructed on social exchange (conflict and distrust) alone, or together with cooperation and economic exchange relationships. However, a high negative impact of the actors in the horizontal context can have a high impact on the focal exchange relationship. As illustrated in the Libyan case, these actors restricted the cooperative behaviour of the focal actors. Such an impact will be further discussed in the coming section on isolated networks.

However, in the study of business network in societies like Libya, a problematic issue was in the setting of boundaries. In an industrial network, with the concentration of activities and resources in a few specific actors, the network has a low density and becomes isolated. An isolated network has weak lines of exchange with its environment. The interaction is with a limited number of actors inside the context. Isolation is a perceptual map of the relationship density and is conceived as a structure coupling a few actors with each other. The more concentrated the density, the more isolated the business network becomes. This study defines isolation in terms of the density of the weak and strong ties. Elliot (1999), when defining isolation, deferred to the explanation offered by Bridges and Villemaz (1986) and Granovetter (1985) and connected it to the strength of the ties. The strength of the ties among the few actors prescribes the type of isolation. Strong ties constitute a strong isolated network and a loosely isolated network involves weak ties. Both types refer to a low density, constructing a limited boundary in the network context.

In a condition where a business network is constrained by some of the actors’ coercive actions, regulations, or lack of resources, the relationships constitute a structure in which the numbers of the business actors become delimited. The actors conduct their activities in a limited market space. The business network context of the Libyan firms, for example, is constrained by the political actors. The political actions curtail the territory of the business activities. The firms’ resources and activities are concentrated towards the political and a few specific business actors isolated from the Libyan purchasers’ network. While the activities in the business context are delimited, the territory of the political context is extended.

A secret industrial research project is an example of an isolated network. The members of the network interact only with a small, identified group working together towards a specific mission. Such a highly isolated network is less organic, as the interaction is only with a limited group but members are more diversified as they all have
specific roles. In contrast, the case of the Libyan study contains two interwoven structures with two completely different sets of goals. They draw the structure and the boundary in different directions. In the case of this study, the business context is limited because the purchasing firms only interact with a few business actors. The problematic issue in this study is that the members are not tightly coupled to each other but are strongly related to the regulative behaviour of the non-business actors. The values gained in the business interdependencies indicated weakly coupled actors inside the context of an isolated network, or at least, there is a weakness in the industrial context. Isolated networks with loose structures have shortcomings in their ability to develop new products or modify processes.

11.3. The Strengths and Weaknesses of the Relationships.
In the model used in this study, the strengths of the focal relationships contain the relationships between focal actors and those they are connected to. Following the structure above and the theoretical framework presented in Chapter 3, the empirical part examined the conditions for the weaknesses and strengths in the focal relationships. In Table 3.7, the elements that make up the weaknesses and the strengths of the relationships are presented, with the basic elements being strong technological and organizational cooperation and adaptation, and for long-term relationships there is the complexity of the exchange. The product complexity is the determining factor that affects the strength of the relationships and the degree of mobility (Håkansson, 1989; Ford et al., 1998; Hallen et al., 1987).

In the empirical part, the study showed that the technological and information exchange relationships were awarded low values. This indicates a weak relationship. The findings show that the focal relationship contains a low level of adaptation and information exchange. The product has, for example, a low degree of complexity. In fact, the product exchange is simple and is of a standardized nature. Further, the values of the product delivery indicate that the Libyan firms and their foreign suppliers have a low level of interdependency, which induces weak relationships. Nevertheless, the relationships are still going and, at the same time, they can be of a volatile nature. This denotes that there are other factors besides adaptation, technological cooperation and information exchange that influence the focal relationship.

The social interaction has provided evidence that shows high levels of mutuality and interdependency, which means there is high level of trust in the relationships. In this study, there are, with regard to the product and technological cooperation, two
contradictory facts, namely some bonds are weak and others are strong. For example, the financial transactions bind the actors strongly together. As far as Libya is concerned, the price and the range of products create strong bonds, but, according to network theory (Håkansson, 1989; Ford et al., 1998), the economic exchange does not, in terms of price and quantity, strengthen the relationships, but can bind the actors together for a long time. In fact, with regard to Libya, a competing supplier plays a minor role, which makes it difficult to explain the content of the relationships, with this theoretical view. Therefore, this means that there are other factors that keep the relationship going for a long time. The studies by Bradach and Eccles (1989), Husted (1994), Hadjikhani and Seyed-Mohammad (1998), Söderman (2003) and Hadjikhani and Thilenius (2005) provide an explanation for the economic exchange in the relationships that bind the actors together. This is done by way of the financial and product volume and the economic interaction that can strongly bind the actors together so that they can interact over a long period. In fact, the strengths of the relationships do not only depend on the exchange between the focal actors, but also on the influence of the connected relationships.

In this study, the focal technological and product bonds are weak and the competitors have a weak negative connection. They had little impact on the focal relationships, which means there is a low level of mutuality and, at the same time, a low level of mobility. The relationships of the Libyan firms are weak, and the relationships are maintained at this level for a long time. Table 11.1 (See also Hadjikhani and Thilenius, 2005) illustrates, in the case of Libya, what the different bonds comprise.

Table: 11.1. The Weaknesses and the Strengths of the Libyan Firms’ Relationships

<table>
<thead>
<tr>
<th>Weak Ties</th>
<th>Strong Ties</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Simple product exchange</td>
<td>- High interdependency for the purchase; high profit</td>
</tr>
<tr>
<td>- Small part of the production is complex</td>
<td>- High interdependency for the range of products</td>
</tr>
<tr>
<td>- Few exchanges</td>
<td>- Low level of competition</td>
</tr>
<tr>
<td>- Low level of adaptation</td>
<td>- Low level of mobility</td>
</tr>
<tr>
<td>- Low level of technology interdependency</td>
<td>- High level of social adaptation</td>
</tr>
<tr>
<td>- Low level of relationship investments</td>
<td></td>
</tr>
<tr>
<td>- Economic bases</td>
<td>- Large social exchange</td>
</tr>
<tr>
<td>- Low level of information exchange</td>
<td>- High level of profit</td>
</tr>
<tr>
<td></td>
<td>- Low level of future expectations</td>
</tr>
</tbody>
</table>

The other part of the study has examined the impact of the connected relationships on the weaknesses and strengths of the focal ties. The role of the political actors is used to lend
support to the connected relationships or to force them into focal relationships. It is
difficult to explain the behaviour of the local firms without mentioning this role. Within
this context, the role of the political actors is to control the resources. As for Libya, the
political actors exert an influence on the strength of the focal relationships. The
percentages show the high level of connectedness displayed by the political actors who
play a major role in keeping the relationships alive and making it difficult for the
competitors to operate within an uncompetitive environment. At the same time, the level
of uncertainty is increased. Moreover, there are bonds between the foreign suppliers and
the political actors.
The general conclusion drawn here is that, as far as Libya is concerned, the degree of
influence of the political actors on the business relationships is high, and this influence
affects local firms more than the foreign suppliers and the focal relationship, and thus has
some bearing on the weaknesses and strengths. Moreover, the political connection is
deemed as negative for the local firms. By dint of a high level of uncertainty found in the
connected actors, the interaction between the business actors and the political actors
becomes a major factor that has an impact on them and the focal relationships. In the next
section, the interaction between the business and the political actors will be discussed.

11.4. The Interaction between the Business and the Political
Actors.
The empirical study of the Libyan firms shows that there is interaction between two types
of actor. Therefore, in a study of exchange relationships between business and the
political actors, it is necessary to include the wider use of the concept of exchange. By
applying a wider interpretation of this concept, the network approach offers the possibility
of studying the framework, of which the business and the political actors are both a part.
Such a wider perspective appears to have been discussed within the network approach
with regard to both developed and developing countries.

As for countries like those which are dependent on only one resource like oil or
mining etc., the situation for the political actors is characterized by hierarchical power,
which, in turn, has control and influence over the business relationships, and the
interdependency between business actors is almost totally affected. In such a network
which is influenced by the political actors, the firms’ plans correspond generally with the
government’s plans, and because the government controls the resources and the local
firms’ production process and the process of documentation and transport, etc., these are
thus limited.
In this study, political actors are responsible for making the regulations and the laws that promote the political, social and economic development in Libya. The local firms are the customers, the foreign suppliers the buyers, and the government the political actor, and a strong degree of interaction between these important actors has been found. Figure 11.1 shows the interaction between them. With the focus being on the interaction between the government (the political actor) and the local firms, this study has found interdependency among them as well. Growth and development form the government’s agenda and it aims to accomplish the outcomes which are produced and generated by firms. Production of products and employment of people are means that affect the economic development.

In fact, as far as Libya is concerned, the interaction between the business and the political actors is evident. This is probably due to the fact that there are strong bonds between the political and the business actors. In this study, a business network is considered as a set of business and political actors who influence each other. In Figure 11.1, the relationship between the different actors is illustrated. They have some characteristics that are generalized, and the reciprocity is both direct and indirect (Lazega and Pattison, 1999; Kadushin, 2002). Each actor has a relationship with other actors and in this network the political actor (the strong actor) has the ability to relate its actions to the values and norms of the other actors. In theoretical studies, both the integration of the social dimension and a network perspective enrich the concept of the political behaviour of the business actors and introduce issues such as interference, influence and power, weakness/strength and trust/distrust in the relationships (Latifi, 2004; Hadjikhani and Thilenius, 2005). Within this line of thought, this study has seen how business actors behave in order to analyze the outcome of their political actions.

In this study, the perspective was constructed to include the hypothesis that political actors have institutional legitimacy based on values from political ideology: this has been examined (Hadjikhani and Sharma, 1999). As illustrated in Figure 11.1, the political actors have the legitimate power to influence the focal relationships (whether it be the strengths or the weaknesses) by using their tools, such as the trade policy. Further, the confidence of business actors is affected within the business framework. On the other hand, the political actors are also dependent on the business actors because the firms attained the economic development aims of the Libyan government.

In this study, the framework of the business networks is governed by the activities of the political actors. Both the local firms and the foreign suppliers depend on the political actors, as they have the power: in other words, they hold the legitimate position to control the resources in the market. On the other hand, political actors also depend on
both foreign firms and local firms to achieve economic goals (Jacobson et al., 1993; Hadjikhani, 1996). Thus, within the business framework of the Libyan firms, the political actors and their behaviour are part of the business framework, and their influence on the relationship affects the focal relationship (Latifi, 2004, p. 61).

Figure: 11.1. The Interaction between Business and Political Actors

In general, the relationships between the business and the political actors, who have, in the business framework, both direct and indirect relationships, are also within the network framework of this study. Both the business actors and their political counterparts have different characteristics, interact together, perform activities and control resources in order to reach their goals. As Chapter 3 has shown, some studies have described the relationship between these actors. For instance, the studies by Hadjikhani and Sharma (1999), Latifi (2004) and Hadjikhani and Thilenius (2005) make a distinction between the two different types of actors within the framework of the business networks, namely, the
business actors and the non-business actors. However, in this study, one of the issues focused on is the role of the political actors.

11.5. The Influence of the Surrounding Network.

Because the interaction process takes place within the general Libyan environment, its impact on the actors and their relationships is shown in this study to have been evident in the weaknesses or strengths of the relationships. In this section, the effect of some of the variables in this study, like the changes in oil prices, on the three actors will be discussed or compared in order to show the degree of importance that these variables have to influence each actor. In order to understand the business relationships and the role of the political actors in LDCs, it is not sufficient, as already discussed in the theoretical part, to view them as isolated units. Rather, they must be analyzed based on the impact as seen from a wider context comprising of links with a surrounding network (Anderson et al., 1994; Holm, 1996; Hadjikhani and Lee, 2006). In this study, the focal relationships are influenced by other relationships; Figure 11.2 illustrated below presents the model of this study. The view of the country’s resources is a means to understand the impact of oil price. Oil price is decided internationally and by act of several heterogeneous actors and contains a high level of volatility. This relationship made it difficult to observe within the context of network. This is called the contextual environment, and specifically is the country’s most important available resource.

It can be argued that the connections between the focal and the political actors are the influences and also the factors in the surrounding network. In this study, the values given highlight the fact that business relationships are affected by relationships with a political actor and the contextual environment. This means that the characteristics of a business relationship are influenced and can be modified due to the characteristics of other relationships and what is happening in the environment. This is due to these other relationships having an impact.

The basic hypothesis in this study is that the influence of the contextual environment will have an effect on the focal business relationships. In this case, the negative influence of the decrease in oil prices was high on both the business and the political actors. This is done by way of oil price changes that affect the political actors and then the behaviour of the focal actors. It might be argued that business and political actors bring their connected relationships to the focal relationships. According to this view, the two directions would be connected to or influenced by the focal relationships. The view presented here is that a focal business relationship is an affair shared by the relationships with the political actor.
The relationships are influenced by the contextual environment, and, in the case of Libya, the change in oil prices, whose degree of influence was high. The theoretical discussion of this study suggests that the political actors and the influences of the important available resources in the country are able to increase or reduce the strength of the business relationships (Holm et al., 1996, pp. 7-9).

Figure 11.2: The Relationships and the Influences between the Business and the Political Actors.

Figure 11.2 illustrates how a focal business relationship between a foreign supplier and the local firms is influenced by other relationships. In this study, there were two aspects of influence when relationships were examined: the first was the influence that political actors have on the relationships with both the foreign suppliers and the local firms. In accordance with this classification, the impact of the political actors on the two other parties’ relationships regarding the focal business relationships was studied. The second aspect is the identification of how focal business relationships are influenced by oil price changes in the contextual environment. These changes have economic and political
natures in both local and international arenas. The basic points relating to the influence are as follows:

- In LDCs, the business actors are influenced by both political actors and economic factors, both domestically and internationally, but sometimes the political actors are also influenced by these factors. In this study, both actors influenced each other. The impacts on the focal business relationships as well as the kind of impacts from a local firm’s perspective are examined. The study provides information about a number of characteristics which are specific for the business networks of such a market. Both the structure of Libyan industry and the level of economic development have significant and strong effects on the actors and the focal relationship. Since the country is dependent on oil revenues, the local firms rely heavily on the government to build the industrial capacity and infrastructure. On the other hand, the fluctuation in oil prices and government oil revenues has meant a lack of economic resources for some years with regard to financing one of the country’s critical resources.

- Government policies and regulations have a highly significant influence on the business framework as well as the operations of both the focal actors and the local firms.

- The structure of the Libyan market and the marketing policies have also a significant effect on the actors and the focal relationships. The political actors play a major role in the Libyan market, and the local firms are able to develop their strategies.

- Both cultural and social interaction has an equally positive significance, as demonstrated by the Libyan firms building good social relations with their foreign suppliers.

- The political actors have a significant role by dint of the tools used to influence the focal actors. They also play an important part since they directly influence the trade policy and control the local industry’s purchasing by way of the import budget for commodities.

11.6. Impact of Network Context and Industrial Development.
At this final stage, the study dares to draw some conclusions on how the structure of business networks in a country like Libya affects the development of the country. In this discussion, the development is strictly related to the business firm’s behaviour in a country. An interesting fact from the analysis of this case is the connection between the
business networks in a country like Libya. The dependency on one source and also the impact of the political environment impose problems even for the development of a country. As noted in the study of Hadjikhani and Thilenius (2005), the functions of business firms in such societies are weakened. An enfeebled market, like those dependent on only one resource and with a high influence of political actors (like Libya, Iran etc.) is a market condition in which firms divert their core business resources from the industrial activities towards complementary activities. Simply stated, resources that are to be invested in industrial relationships are degraded to upgrade supplementary relationships. Supplementary relationships consist of those, such as social and political, which are necessary for the core relationships. The core relationship is perceived as being composed of industrial and organizational components. Inasmuch as firms have an industrial nature, the resources are primarily to be addressed to the industrial and technological relationships. Technological cooperation, research and development, and organizational adaptations like stock holding, are some of the elements which comprise the content of the core relationships. This is the case in Libya when firms are obliged by extensive coercive actions of actors in the context, to put large amount of resources into the supplementary relationships at the cost of degrading the core relationships. In terms of relationship investment, industrial activities restrain and supplementary activities inflate. In markets like Libya, the political connection affects the entire behaviour of the firms. The negative impacts are antecedents for a large-scale political commitment. The commitments towards the contextual uncertainty are the adaptation investments made to fit the organization and production structure. Furthermore, the investments committed by firms build and keep the relationships with non-business actors. Other costs, such as bribery, transfer capital resources from the core to supplementary activities. In enfeebled markets, firms are interlocked into a strong contradictory zone of relationships. Firms are simply unable to effectively commit resources to business activities. Their business relationships, for example, incorporate non-business values to a degree that undermines the firms’ industrial nature. The peculiarity in a business market like Libya is that the coercive actions of these political and contextual environments affect their productions and finally the development of the country. The low level of long-term investment for the contextual uncertainty naturally influences the degree of industrial productions and manpower recruitment and finally the development of society.
**11.7. The Purchasing Behaviour of Local Firms in LDCs.**

The analysis of the empirical study highlights some differences in the characteristics between the purchasing of firms from LDCs and firms from industrial countries. The comparison of the Libyan study and the Iranian study with the IMP2 study provides new insights.

In accordance with the literature on the network aspect as discussed in Chapter 3, the long-term relationships enable the actors to develop their exchange relationships and strengthen the bonds of mutuality and interdependency. Depending on this, and the IMP2 studies, and Iran study by Hadjikhani and Thilenius (2005), the majority of Libyan and Iranian firms have long-term relationships with different characteristics. The findings of the Libyan and Iranian studies show weak relationships between the firms. There is a low level of technological cooperation and technological adaptation, and little in the way of new products. Further, the bonds of the standardized product exchange are weak. Also, the firms have high levels of potential mobility with regard to their foreign suppliers. Evidence seems to suggest that it is easy to terminate the relationships.

The critical point is that these relationships are still alive. In the IMP2 study, which is analytical for understanding the purchasing behaviour of the industrial firms, aspects of the length of the interaction and the strength of the relationships were, for example, more highly valued, and the outcome saw a high level of technological cooperation and a high level of adaptation and specificity in the exchanges. Under such conditions, the relationships of the Libyan and Iranian firms need to be further explained with regard to such questions as why and how have these firms kept their foreign suppliers, and why the bonds are still weak. The relationships of the local firms become more problematic when the evaluation considers the social-business interaction. The interesting finding was the difference found in the other studies with regard to two aspects of trust: first, the impact of the cultural differences and, second, what trust actually entails. For both the Libyan and the Iranian firms, the cultural differences have little impact. Both studies highlight a contrasting situation, namely local firms have the knowledge and place a considerable degree of trust in their foreign suppliers. This aspect has a real need to be further investigated. Another finding was that the social relationships are divided into two areas: informal and formal relationships. The critical issue here is that these two aspects have different types of trust and are based on different sources. The first one depends on the cultural factors and the other on a combination of cultural, business and political factors. Therefore, they contain various degrees of uncertainty and different types of management action.
Concerning the business actor in both international and Libyan studies, the business framework, generally, had a weak structure. In industrial network theory, there is a low degree of negative connection to the competitors, for example, this could mean that the focal actors have a high level of interdependency, but this view expressed in network theory cannot explain the weaknesses in the connection to the competitors in both the Libyan and the Iranian markets. In LDCs, the weaknesses in the business relationships are generated by other sources. In both cases, there were a few actors, and the connection to other business actors, such as supplementary and the competitors of the foreign suppliers, was weak. Concerning the business connections to the political actors, in both studies the level of uncertainty, which influenced the focal relationship and generated a low level of interdependency between local firms and foreign supplier, was high. The political actors interact directly with the business actors, and the political ideologies are dominated by the business frameworks and their behaviour. On the other hand, in both cases the local firms try to reduce the level of uncertainty by adapting to the management strategies. The industrial networks of both markets comprise a very high degree of connection to the political framework; on the other hand, the degree of strength in the business framework is generally low. The purchasing firms operate in a network where the political framework has a strong negative structure and its industrial equivalent does not need stronger relationships.

11.8. Theoretical Contributions.
While most studies in the field of international business regard the business activities of MNCs, more research is needed to integrate the relationship between the MNCs and local firms from LDCs. The role of political actors and the influence of dependency on one sole type of resource and aspects like change in prices of the main resource seem to be important in this study, but are quite neglected in research in international business.

Therefore, the first common perspective in studying business networks is their connection just to business actors (see for example Håkansson and Johanson, 1992; Håkansson and Snehota, 1995). Business actors limit the boundary setting of the network and the rest remains in the environment. The assumption that only business actors have much impact on the relationship between business actors needs more study. No matter the importance of business firms’ interaction, actors like government, bureaucrats or other non-business actors are there and want to play their roles. Other studies neglected those actors by stating their low or short term impacts. Against this stream, the contribution of this study, similar to a few others (Hadjikhani and Thilenius, 2005), was to develop a
conceptual frame to integrate business and non-business actors in the network. Following some studies in this way, the theoretical framework of this study included the non-business actors. Further, the study puts its emphasis on the aspect of depending on one resource. This is because there are several LDCs that have this dependency on oil or other types of exported products. Integrating these aspects into the business network creates theoretical problems as these types of actors belong to different systems and have their legitimacy on different grounds, but the real business life of MNCs in LDCs encompasses all these actors (Latifi, 2004).

The view of non-business actors is discussed by studies like Hadjikhani and Thilenius (2005), but this study modifies the view and considers the non-business actors as basic actors that have business and non-business goals, and integrates the impact of dependency on one resource and the influence of changes of one resource on the business network. The inclusion of the influence of change in main resource - in this study, oil prices - is necessary because of the problems of direct interaction between business and non-business actors with different goals needed in order to manage the side-effects or infrastructural activities influenced by this factor. A net of relationships between business and non-business and the influence of the oil prices may demonstrate a promising way for the MNCs to understand the content of business relationships of local firms in LDCs. This study, similar to some few others, has taken one step forward. More research is needed to explore the non-business actors in the business network and the relation of dependency to one resource.

As stated in another part of this study, there are a large number of studies that put their emphasis on MNCs’ behaviour from their own perspective with no consideration of the perspective of local firms. Therefore, there is a serious need for analytical framework which can unify the goals and resources of MNCs and local firms in LDCs. In line with this shortcoming, one main mission of this thesis was to develop a theoretical framework which can integrate these two actors dominated by one resource. Such a perspective can enhance our understanding of MNCs and business and non-business in LDCs. Also, development of new perspectives can increase not only our analytical views but also can improve the firms’ understanding of relationships between MNCs and local firms. New studies can open new doors for even political actors to understand the impact of their policies and also how the main resource influences local firms and MNCs. Further studies can also contribute knowledge to the local firms and MNCs on how to manage their relationships.
Another contribution is the development of the network approach for studying the influence of the dependency on one resource and the impact of changes in aspects like price. The view of contextual environment can assist a deeper understanding of business network in such a market.

In the network theory, actors’ connections, activity links and resource ties are usually studied in the relation between business actors; this study, however, shows that connections, links and ties are important in relations between business and non-business actors. This study also sheds some light on how an actor can influence the relationships by other factors in the network; it seems, however, that further research is required to investigate the function of networks consisting of business and non-business actors.

11.9. The Managerial Implication of the Study.

The observations and the identification of various influences that affect the business relationships with political actors are important. However, the conclusions that can be drawn from this research project indicate that it is essentially the political actors and the oil price changes that influence focal relationships. By expanding the perspective, the connected influences can also be identified, which, in turn, makes it possible to determine the business relationships in an LDC.

In the case of Libya, one of the conclusions is that the sources of the influences on the business relationships can rarely be identified as consisting of specific actors, but more often they are found in the exchange and interaction between the business and the political actors.

The managerial implications of this finding can be serious. For example, for the firms that have limited experience of how to build strong relationships with local firms and political actors, their operations can be constrained, when the transition is being done. Moreover, they lack experience of the influence on how to use the resources of the firms in relationships with other local firms and foreign suppliers. If the management of some of the MNCs are unable to identify a specific political actor as a source of a certain influence, there is the risk that the company will lose out in the competitive process going on in the market in which they operate. Consequently, the conclusion is that the influences of the political actors and the oil price changes affect the actors and the focal relationships, thus making the framework of the network unstable.

Using the analysis of the factors ‘interdependency’ and ‘uncertainty’ has provided some answers regarding the relationships. The high level of interdependency and the level of
uncertainty are some of the facts needed for understanding what the relationships in such countries entail.

Therefore, future research should focus on the generality of the present findings (i.e., are these findings valid for other conditions and countries). Further, future research should look at other countries that are different from Libya in several aspects. Future research can be carried out using other aspects with regard to what the business relationships entail. For example, studying the business relationship in isolation seems, in the case of Libya, to show that a few actors interact in the network, the government still plays a major role, the market is small (in terms of size) and the local firms still depend on the government.

Future findings might support the results presented in this work, and thus demonstrate their generality, or they might lead to developing new concepts and increasing knowledge in this area for future research.
References


## Appendix

Table: 1 The development of the variables in the Libyan economy during the period, 1970-2002

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2.0</td>
<td>2.5</td>
<td>3.1</td>
<td>3.6</td>
<td>4.8</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>1288.0</td>
<td>3726.2</td>
<td>10257.3</td>
<td>7951.2</td>
<td>7749.6</td>
<td>10772.2</td>
<td>17775.7</td>
</tr>
<tr>
<td>Gross Domestic Product of Oil Sector</td>
<td>812.6</td>
<td>2007.1</td>
<td>6571.6</td>
<td>3397.9</td>
<td>2740.8</td>
<td>2731.2</td>
<td>7080.7</td>
</tr>
<tr>
<td>Gross Domestic Product of Non Oil Sector</td>
<td>475.4</td>
<td>1719.2</td>
<td>3685.8</td>
<td>4553.3</td>
<td>5008.8</td>
<td>8041.0</td>
<td>10695.0</td>
</tr>
<tr>
<td>Gross Domestic Product of Industry Sectors</td>
<td>22.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>587.0</td>
<td>799.7</td>
<td>889.7</td>
</tr>
<tr>
<td>Gross Domestic Product of Mining Sectors</td>
<td>1.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>65.7</td>
<td>148.6</td>
<td>293.9</td>
</tr>
<tr>
<td>Exports &amp; Re-Exports</td>
<td>856.2</td>
<td>2005.6</td>
<td>6489.2</td>
<td>3645.6</td>
<td>3744.9</td>
<td>3222.2</td>
<td>5221.7</td>
</tr>
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<td>Imports</td>
<td>267.0</td>
<td>1454.8</td>
<td>3070.1</td>
<td>1937.6</td>
<td>1510.8</td>
<td>1728.5</td>
<td>1911.4</td>
</tr>
<tr>
<td>Total Trade</td>
<td>1123.2</td>
<td>3460.4</td>
<td>9559.3</td>
<td>5583.2</td>
<td>5225.7</td>
<td>4950.7</td>
<td>7133.1</td>
</tr>
<tr>
<td>Balance of Payment</td>
<td>589.2</td>
<td>550.8</td>
<td>3419.1</td>
<td>1708.0</td>
<td>2234.1</td>
<td>1493.7</td>
<td>3310.3</td>
</tr>
<tr>
<td>Oil Revenues</td>
<td>453.2</td>
<td>1283.0</td>
<td>4940.0</td>
<td>1846.0</td>
<td>1254.0</td>
<td>2878.0</td>
<td>1863.5</td>
</tr>
<tr>
<td>Non Oil Revenues</td>
<td>79.2</td>
<td>450.8</td>
<td>849.2</td>
<td>958.6</td>
<td>1074.0</td>
<td>1500.0</td>
<td>3527.1</td>
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<tr>
<td>Total Revenues</td>
<td>532.4</td>
<td>1733.8</td>
<td>5789.2</td>
<td>2804.6</td>
<td>2328.0</td>
<td>4378.0</td>
<td>5390.6</td>
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<td>Public Investment Expenditure</td>
<td>146.1</td>
<td>923.2</td>
<td>2551.6</td>
<td>1523.3</td>
<td>487.0</td>
<td>318.6</td>
<td>1765.0</td>
</tr>
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</table>

Source:
Table 2: The Development of the Libyan Economy’s Exports during the Period 1970-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Exports</th>
<th>Non Oil Exports</th>
<th>Relative Importance</th>
<th>Total Exports</th>
<th>Rate of Growth</th>
<th>Imports</th>
<th>Rate of Growth</th>
<th>Balance of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>841.8</td>
<td>-</td>
<td>267.0</td>
<td>-</td>
<td>1108.8</td>
</tr>
<tr>
<td>1975</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2023.2</td>
<td>58.39%</td>
<td>1445.8</td>
<td>81.65%</td>
<td>3478.0</td>
</tr>
<tr>
<td>1980</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6486.4</td>
<td>68.81%</td>
<td>3070.1</td>
<td>52.61%</td>
<td>9556.5</td>
</tr>
<tr>
<td>1985</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3645.6</td>
<td>-77.92%</td>
<td>1937.6</td>
<td>-58.45%</td>
<td>5583.2</td>
</tr>
<tr>
<td>1990</td>
<td>3534.7</td>
<td>210.2</td>
<td>94.39%</td>
<td>3744.9</td>
<td>2.65%</td>
<td>1510.8</td>
<td>28.25%</td>
<td>5583.2</td>
</tr>
<tr>
<td>1995</td>
<td>2966.0</td>
<td>256.2</td>
<td>92.05%</td>
<td>3222.2</td>
<td>-16.22</td>
<td>1728.5</td>
<td>12.595</td>
<td>4950.7</td>
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<td>2000</td>
<td>4992.2</td>
<td>401.8</td>
<td>92.55%</td>
<td>5394.0</td>
<td>40.26%</td>
<td>1911.4</td>
<td>9.57%</td>
<td>7305.4</td>
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<tr>
<td>2002</td>
<td>9824.0</td>
<td>353.0</td>
<td>96.53%</td>
<td>10177.0</td>
<td>47.00%</td>
<td>5585.7</td>
<td>65.78%</td>
<td>15762.7</td>
</tr>
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</table>

-National Authority for Information and Documentation.
Table 3 Imports according to the Classification of Commodities and their Relative Importance (RI) during the Period (1970 - 2000)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Value</td>
<td>39,300</td>
<td>19,9%</td>
<td>161,900</td>
<td>15,4%</td>
<td>338,630</td>
<td>16,9%</td>
<td>184,760</td>
<td>3,6%</td>
</tr>
<tr>
<td>RI</td>
<td>39,300</td>
<td>19,9%</td>
<td>161,900</td>
<td>15,4%</td>
<td>338,630</td>
<td>16,9%</td>
<td>184,760</td>
<td>3,6%</td>
</tr>
<tr>
<td>Food Stuffs &amp; Live Animals</td>
<td>2,500</td>
<td>1,3%</td>
<td>3,500</td>
<td>0,3%</td>
<td>10,710</td>
<td>0,5%</td>
<td>3,915</td>
<td>0,3%</td>
</tr>
<tr>
<td>Drink and Tobacco</td>
<td>2,500</td>
<td>1,3%</td>
<td>3,500</td>
<td>0,3%</td>
<td>10,710</td>
<td>0,5%</td>
<td>3,915</td>
<td>0,3%</td>
</tr>
<tr>
<td>Inedible Crude Materials other than Fuel*</td>
<td>3,800</td>
<td>1,9%</td>
<td>28,200</td>
<td>2,7%</td>
<td>38,910</td>
<td>1,9%</td>
<td>17,790</td>
<td>0,3%</td>
</tr>
<tr>
<td>Metal, Fuel Materials and Byproducts</td>
<td>6,300</td>
<td>3,2%</td>
<td>24,400</td>
<td>2,3%</td>
<td>13,060</td>
<td>0,7%</td>
<td>8,700</td>
<td>0,2%</td>
</tr>
<tr>
<td>Oil, Animal and Vegetable Fats</td>
<td>2,200</td>
<td>1,1%</td>
<td>14,200</td>
<td>1,3%</td>
<td>37,570</td>
<td>1,9%</td>
<td>19,290</td>
<td>0,4%</td>
</tr>
<tr>
<td>Chemical Materials</td>
<td>11,400</td>
<td>5,8%</td>
<td>39,000</td>
<td>3,7%</td>
<td>107,760</td>
<td>5,4%</td>
<td>68,540</td>
<td>1,3%</td>
</tr>
<tr>
<td>Manufactured Materials **</td>
<td>42,400</td>
<td>21,5%</td>
<td>306,100</td>
<td>29,1%</td>
<td>484,470</td>
<td>24,1%</td>
<td>265,460</td>
<td>5,2%</td>
</tr>
<tr>
<td>Machinery and Transport Materials</td>
<td>58,700</td>
<td>29,7%</td>
<td>359,400</td>
<td>34,1%</td>
<td>762,190</td>
<td>38,0%</td>
<td>488,720</td>
<td>9,5%</td>
</tr>
<tr>
<td>Various Classified Materials</td>
<td>31,000</td>
<td>15,7%</td>
<td>116,000</td>
<td>11,0%</td>
<td>214,860</td>
<td>10,7%</td>
<td>150,400</td>
<td>2,9%</td>
</tr>
<tr>
<td>Commodities Unclassified Transactions acc. to type</td>
<td>0,000</td>
<td>0,0%</td>
<td>0,000</td>
<td>0,0%</td>
<td>0,000</td>
<td>0,0%</td>
<td>7,014</td>
<td>0,1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>197,600</td>
<td>100,0%</td>
<td>1052,700</td>
<td>100,0%</td>
<td>2008,160</td>
<td>100,0%</td>
<td>5125,674</td>
<td>100,0%</td>
</tr>
</tbody>
</table>

Sources:
- ¤ = Relative imports
- National Authority for Information and Documentation.
Table: 4 The Geographic Distribution of Libyan Imports:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>Relative imports</td>
<td>Relative imports</td>
<td>Relative imports</td>
<td>Relative imports</td>
</tr>
<tr>
<td>Arab Countries</td>
<td>19,68</td>
<td>7,80</td>
<td>13,34</td>
<td>0,07</td>
</tr>
<tr>
<td>African Countries</td>
<td>1,941</td>
<td>0,08</td>
<td>3,803</td>
<td>0,02</td>
</tr>
<tr>
<td>Western Europe</td>
<td>153,13</td>
<td>61,2</td>
<td>1461,95</td>
<td>72,90</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>23,55</td>
<td>9,40</td>
<td>114,54</td>
<td>5,70</td>
</tr>
<tr>
<td>North and South America</td>
<td>20,46</td>
<td>8,20</td>
<td>151,252</td>
<td>7,50</td>
</tr>
<tr>
<td>Asian Countries</td>
<td>31,21</td>
<td>12,50</td>
<td>217,41</td>
<td>10,80</td>
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<tr>
<td>Other Countries</td>
<td>0,407</td>
<td>0,01</td>
<td>43,86</td>
<td>2,20</td>
</tr>
<tr>
<td>Total</td>
<td>962,5</td>
<td>100</td>
<td>6489,13</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources:
- National Authority for Information and Documentation.
QUESTIONNAIRE
## The Focal Relationship

### 1-1 Development

<table>
<thead>
<tr>
<th></th>
<th>Start and Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1</td>
<td>In which year was the first purchase made from this supplier (irrespective of product or interruptions)?</td>
</tr>
<tr>
<td>1-2</td>
<td>In which year did you personally get involved in this business relationship (approximately)?</td>
</tr>
</tbody>
</table>

### 2-1 How important were the following different units within your own company, for initiating the relationship? |

<table>
<thead>
<tr>
<th></th>
<th>1_No</th>
<th>2_Minor</th>
<th>3_Some</th>
<th>4_Rather strong</th>
<th>5_Very strong</th>
<th>9_Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-1</td>
<td>your own unit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-2</td>
<td>your own group headquarters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-3</td>
<td>other units of your own group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-4</td>
<td>the unit of the supplier firm you deal with</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-5</td>
<td>the suppliers group headquarters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-6</td>
<td>other units of the suppliers group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3-1 How important were third parties for initiating the relationship - e.g. other customers or suppliers to your own company, government agencies, consultants, law firms, banks etc? |

<table>
<thead>
<tr>
<th></th>
<th>1_No</th>
<th>2_Minor</th>
<th>3_Some</th>
<th>4_Rather strong</th>
<th>5_Very strong</th>
<th>9_Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-1</td>
<td>third parties in your own country</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-2</td>
<td>third parties in suppliers country</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-3</td>
<td>third parties in any other country</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4: Which of the following third parties had an important influence on the start of the relationship between your firm and the supplier, and where are they located?

<table>
<thead>
<tr>
<th>1. your own country</th>
<th>2. suppliers country</th>
<th>3. any other country</th>
<th>9. Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-1 the suppliers other customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-2 the suppliers own suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-3 other suppliers of yours competing with this one</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-4 other suppliers of yours complementary to this one</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-5 your own customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-6 government agencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-7 consultants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-8 banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-9 other (specify …………………)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Development Pattern**

Q 5-6: refer to all products bought from this particular supplier, taken together.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5-1 What has been the purchase trend over the last five years (or length of the relationship, if less)?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5-2 How stable was the purchase pattern? (Applies primarily to continuously supplied products)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5-3 How regular was the purchase pattern, i.e. have purchases been made at regular intervals?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5-4 What was the total purchase amount from this supplier last year? (In customer country's currency)</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-Rapid increase</td>
<td>2-Slow increase</td>
<td>3-Unchanged</td>
<td>4-Slow decrease</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>------------------</td>
<td>-----------------</td>
<td>-------------</td>
<td>---------------</td>
</tr>
<tr>
<td>6-1</td>
<td>What are your expectations regarding purchases from this supplier for the next five years?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-Raw Material</td>
<td>2-Semi Material finished</td>
<td>3-Component Material</td>
<td>4-Minor Material Equip</td>
</tr>
<tr>
<td>7-1</td>
<td>Classify the product</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8-</td>
<td>Newness of product and production methods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8-1</td>
<td>How much does the product depart from other products now available in the market?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8-2</td>
<td>How much does the product depart from the products you have used previously?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8-3</td>
<td>Difficulty of production and product use</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>1-easy done with existing skills</td>
<td>2-rather easy</td>
<td>3-rather difficult</td>
<td>4-difficult</td>
</tr>
<tr>
<td>8-3-1</td>
<td>How difficult is it for the supplier to produce the product?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8-4-2</td>
<td>How difficult is it for your firm to use it?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Who specifies the product?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Importance**

10- What is your share of this supplier's total sales in your country of this product? %

11- How large a share of your need for this product does this supplier provide for? %

12- In what respects is your firm important to this supplier?

N: 1- Strongly disagree 2-Partly disagree 3-Uncertain 4-Partly agree 5-Strongly agree 9- Do not disagree disagree agree agree know

12-1 For the amount we buy from him.
12-2 For the range of products we buy from him
12-3 Important partner in technical development
12-4 Source of product technology ideas for him
12-5 Source of production technology ideas for him
12-6 Facilitate their other operations here (e.g. distribution)
12-7 Bridgehead for his expansion in our country
12-8 Bridgehead for his expansion in other countries
12-9 Relationship enhances his image (standing) with firms in our country.

13 In what respects is this supplier important to your firm

N: 1-Strongly disagree 2-Partly disagree 3-Uncertain 4-Partly agree 5-Strongly agree 9- Do not disagree disagree agree agree know

13-1 As a major supplier to us
13-2 Safeguard, e.g. as parallel supplier
13-3 Important partner in technical development
13-4 Source of product technology ideas for us
13-5 Source of production technology ideas for us
13-6 Bridgehead for expansion in supplier country
13-7 Bridgehead for his expansion in other countries
13-8 Enhancer of our image in our own country
14-1 What would the impact be on the supplier firm if he were to lose you as a customer?

14-2 What would the impact on your firm if you were to lose this supplier?

**Need**

15 To what degree can performance requirements for the product be specified in advance by you?

16 What are the consequences to your firm of deviations from required product characteristics:

16-1 regarding your end product?

16-2 regarding your production process?

**Transactions**

17-1 How was flow orders to your firm

17–2 How regular was the purchases pattern, i.e. have purchases been made at regular intervals?
18 what are the consequences to your firm of delivery delays:

<table>
<thead>
<tr>
<th></th>
<th>1-Marginal Effect</th>
<th>2-Minor Effect</th>
<th>3-Neither nor Effect</th>
<th>4-Major Effect</th>
<th>5-Very serious Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-1</td>
<td>one week delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-2</td>
<td>one months delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-3</td>
<td>three month delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-4</td>
<td>six month delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-5</td>
<td>One year dally</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-6</td>
<td>More than one year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adaptations

<table>
<thead>
<tr>
<th></th>
<th>1-None at all</th>
<th>2-Very little</th>
<th>3-To Some extent</th>
<th>4-Agreat deal</th>
<th>5-Entirely deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-1</td>
<td>To what extent are the arrangements with the supplier formalized in written agreements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19-2</td>
<td>What effect do these written agreements have on the actual dealings between your tow companies?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Transactions

<table>
<thead>
<tr>
<th></th>
<th>1-Very stable</th>
<th>2-Rether stable</th>
<th>3-Neither nor rather</th>
<th>4-Rather volatile</th>
<th>5-Very volatile</th>
<th>8-Does not Apply</th>
</tr>
</thead>
<tbody>
<tr>
<td>17-1</td>
<td>How was flow orders to your firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17-2</td>
<td>How regular was the purchases pattern, i.e. have</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N

<table>
<thead>
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<td></td>
</tr>
</tbody>
</table>
18 what are the consequences to your firm of delivery delays:

<table>
<thead>
<tr>
<th>Effect 1-Marginal</th>
<th>Effect 2-Minor</th>
<th>Effect 3-Neither nor</th>
<th>Effect 4-Major</th>
<th>Effect 5-Very serious</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-1 one week delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-2 one month delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-3 three month delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-4 six month delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-5 one year delay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-6 More than one year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adaptations

<table>
<thead>
<tr>
<th>1-None at all</th>
<th>2-Very little</th>
<th>3-To Some extent</th>
<th>4-Agreat deal</th>
<th>5-Entirely</th>
</tr>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19-2 What effect do these written agreements have on the actual dealings between your tow companies?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20 What changes has your firm made in order to adapt to the supplier or his products or procedures, regarding:

<table>
<thead>
<tr>
<th>1-none</th>
<th>2-small</th>
<th>3-nether</th>
<th>4-large</th>
<th>5-very</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-1 your final product?</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>20-2 your production processes (techniques)?</td>
<td></td>
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</tr>
<tr>
<td>20-3 your production schedules?</td>
<td></td>
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<tr>
<td>20-4 your stock-holding policy?</td>
<td></td>
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<tr>
<td>20-5 your administrative routines?</td>
<td></td>
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</tr>
<tr>
<td>20-6 the technical information exchange (documentation, training, staff assignment etc)?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>20-7 the non-technical information exchange?</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>20-8 your quality-control procedures?</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
21. In all, how large is the investment made by your firm in your relationship with this supplier?

<table>
<thead>
<tr>
<th>1-none</th>
<th>2-small</th>
<th>3-nether</th>
<th>4-large</th>
<th>5-very</th>
<th>9-Do not know</th>
</tr>
</thead>
</table>

22. To what extent are the changes you have unique to this supplier or similar to those you have made with regard to other suppliers?

<table>
<thead>
<tr>
<th>1-Unique</th>
<th>2-Rather un common</th>
<th>3-Neither nor</th>
<th>4-rather common</th>
<th>5-Standard procedure</th>
</tr>
</thead>
</table>

23. What changes have been made by your supplier to adapt to yourselves or your products or procedures, regarding:

<table>
<thead>
<tr>
<th>1-none</th>
<th>2-small</th>
<th>3-nether</th>
<th>4-large</th>
<th>5-very</th>
<th>9-Do not know</th>
</tr>
</thead>
</table>

N: 1. product modification?
2. new product development for your sake?
3. his production capacity?
4. location of his own stocks?
5. his delivery procedures?
6. his technical advisory service?
7. his technical information?
8. his non-technical information?
9. his administrative routines?
10. his quality control procedures?

24. In all, how large is the investment made by the supplier in your relationship with your firm?

<table>
<thead>
<tr>
<th>1-Unique</th>
<th>2-Rather un common</th>
<th>3-Neither nor</th>
<th>4-rather common</th>
<th>5-Standard procedure</th>
</tr>
</thead>
</table>

25. To what extent are the changes the supplier has made unique to you or similar to those he has made with regard to other customers?

<table>
<thead>
<tr>
<th>1-Unique</th>
<th>2-Rather un common</th>
<th>3-Neither nor</th>
<th>4-rather common</th>
<th>5-Standard procedure</th>
</tr>
</thead>
</table>
26-1 Considering all the changes mentioned above, on whose initiative were they generally made?

<table>
<thead>
<tr>
<th>1 - All ours</th>
<th>2 - Mostly ours</th>
<th>3 - Quite balanced</th>
<th>4 - Mostly theirs</th>
<th>5 - All theirs</th>
</tr>
</thead>
</table>

26-2 whose requirements were generally best satisfied in these changes?

<table>
<thead>
<tr>
<th>1 - All ours</th>
<th>2 - Mostly ours</th>
<th>3 - Quite balanced</th>
<th>4 - Mostly theirs</th>
<th>5 - All theirs</th>
</tr>
</thead>
</table>

27 Considering all costs and revenues associated with this relationship, how would you assess its profitability over the last five years:

<table>
<thead>
<tr>
<th>1 - Very bad</th>
<th>2 - Rather bad</th>
<th>3 - Break even</th>
<th>4 - Rather good</th>
<th>5 - Very good</th>
</tr>
</thead>
</table>

27-1 For your own company?

<table>
<thead>
<tr>
<th>1 - Very bad</th>
<th>2 - Rather bad</th>
<th>3 - Break even</th>
<th>4 - Rather good</th>
<th>5 - Very good</th>
</tr>
</thead>
</table>

27-2 For the supplier company?

<table>
<thead>
<tr>
<th>1 - Very bad</th>
<th>2 - Rather bad</th>
<th>3 - Break even</th>
<th>4 - Rather good</th>
<th>5 - Very good</th>
</tr>
</thead>
</table>

28 Does the supplier directly provide any of the following services to you, and if so to what extent as compared to what you consider normal practice?

1 = No, not at all, 2 = Yes but less than average, 3 = Yes, average, 4 = Yes, above average, 5 = Yes, much above average, 9 = Do not know

<table>
<thead>
<tr>
<th>Service</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>28-1 Personal training and instruction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-2 Technical advice, cooperation &amp; development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-3 Field installation service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-4 Local stockholding of the products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-5 Other services (specify..................)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

29 How many in average number of meetings between your firms and the supplier?

<table>
<thead>
<tr>
<th>In supplier country</th>
<th>In your country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

30 How many people were contribute to the commercial relationship between your company and this supplier?

30-1 From the your company

<table>
<thead>
<tr>
<th>From the your company</th>
<th>/ people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

30-2 From the intermediary (sales subsidiary etc.)?

<table>
<thead>
<tr>
<th>From the intermediary</th>
<th>/ people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

30-3 From the supplier

<table>
<thead>
<tr>
<th>From the supplier</th>
<th>/ people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What share of your own working time do you devote to the relationship with this supplier?

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>1-Very low</th>
<th>2-Low</th>
<th>3-Neither nor</th>
<th>4-High</th>
<th>5-Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

RELATIONSHIP ATMOSPHERE

The following statement refers to the relationship between your company and the supplier. The first part deals with your relationship with the supplier company as a whole. The statements in the second part specifically refer to your relationship with units of the supplier firm located in the supplier's country (e.g., HQ, central marketing, R&D).

**N:**

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>1-Strongly</th>
<th>2-Partly</th>
<th>3-Uncertain</th>
<th>4-Partly</th>
<th>5-Strongly</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Considering everything, we actually have no alternatives to this relationship.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>It is very unlikely that this supplier would stop purchasing from us in the near future.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>If necessary we would go quite far in making concessions to this supplier.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>We are more important to this supplier than he is to us</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>We feel dependent on this supplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>We have the upper hand in this relationship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>We have feeling of mutual dependence in our relationship with this supplier.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>8</td>
<td>Adaptations are more frequently made by us than by this supplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Our relationship with this supplier is instrumental for obtaining information necessary for our other activities in this market.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10</td>
<td>It would be very difficult for us to find a replacement for this supplier.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>11</td>
<td>Lack of cooperation has caused problems in our relationship.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>12</td>
<td>Unsatisfactory performance (e.g., late deliveries, delayed payment) has</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Caused problems in our relationship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>The supplier puts cooperation with us before his short-term profit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>14</td>
<td>Necessary technical or commercial information is easily obtainable from this supplier.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>15</td>
<td>We cooperate closely with this supplier</td>
<td></td>
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</tr>
</tbody>
</table>
RELATIONSHIP ATMOSPHERE Cont.

16 Our goals are basically compatible with the goals of this supplier.
17 We feel we can trust this supplier completely.
18 Business with this supplier is usually based on mutual trust rather than legal agreement.
19 We have full confidence in the information provided to us from this supplier.
20 Our relationship with other companies has caused problems in our relationship with this supplier.
21 This supplier tries to exploit the advantage of our cooperating for his own sake.
22 We are convinced that this supplier can handle confidential information from us.
23 This supplier withholds important information from us.
24 We like dealing with this supplier.
25 We are satisfied with the level of attention we receive from this supplier.
26 The supplier has a good understanding of our problems as a supplier.
27 It is easy to agree about how to handle the various issues that arise in this relationship.
28 Misunderstandings between our two companies are quite rare.
29 The supplier's motives are generally clear to us.
30 We are well aware of this supplier's relations with other firms in this market.
31 Agreements on contract terms are usually reached easily.
32 We can criticize the supplier face-to-face when we consider it justified without jeopardizing the relationship.
33 The supplier's organization is rather closed to us when we want to obtain non-routine information.
34 The supplier is receptive to new technical solutions.
35 the supplier responds quickly to our requests for our of their salespersons to call.
36 We usually make an effort to establish personal contacts with people in the supplier's company.
37 We have excellent personal relations on a social level with people from the supplier.
<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Cultural differences have caused crises in the relationship</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>39</td>
<td>When we visit the supplier, we interact on formal level.</td>
<td></td>
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<tr>
<td>40</td>
<td>It is often difficult to understand the supplier's behavior and ways of thinking</td>
<td></td>
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</tr>
<tr>
<td>41</td>
<td>This supplier is as close to us any equally important supplier incur domestic market.</td>
<td></td>
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</tr>
<tr>
<td>42</td>
<td>Language differences create problems in discussions with this supplier.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>It is difficult to make friends with sales and technicians in this firm.</td>
<td></td>
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</tr>
<tr>
<td>44</td>
<td>We are quite familiar with the market in which the supplier operates.</td>
<td></td>
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</tr>
<tr>
<td>45</td>
<td>It is difficult to understand the supplier's way of doing business.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>46</td>
<td>We have made major investment in this relationship.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>47</td>
<td>This supplier is committed to along-term relationship with us.</td>
<td></td>
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</tr>
<tr>
<td>48</td>
<td>We are strongly committed to this supplier.</td>
<td></td>
<td></td>
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<tr>
<td>49</td>
<td>We would not supply another supplier at the expense of this count supplier.</td>
<td></td>
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</tr>
<tr>
<td>50</td>
<td>We consider the exchange of this product to be a part of a wider relationship with this supplier.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>the supplier considers us to be committed to this relationship</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>This supplier is prepared to invest time and money in developing the relationship between our two firms.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>53</td>
<td>This supplier is often interested in joint product development the activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>This supplier's organization is rather closed to us when we want to obtain non-routine information.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Language differences create problems in discussions with this intermediary.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Language differences create problems in discussions with this supplier.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>It is difficult to make friends with marketers and technicians in the supplier firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>It is difficult to make friends with marketers and technicians in the intermediary firm</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
## Relationships connected to the supplier company

1. **To what extent is your business with this specific supplier affected by your own relationships with some the following:**

<table>
<thead>
<tr>
<th>Relationship</th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1 any supplier of your own?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-2 any supplier products commuting with this supplier’s?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-3 any supplier of products complementary to this supplier's?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-4 any other unit of your own firm?</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1-5 any other unit of the supplier company</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1-6 any bank or other financial organization?</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

2. **To what extent is your business with this specific supplier affected by supplier's own relationship with some of the following:**

<table>
<thead>
<tr>
<th>Relationship</th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-1 any consultant or research institute?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-2 any trade union or social body?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2-3 any government agency?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-4 any international organization?</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2-5 any of the supplier’s other suppliers?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-6 any of the supplier’s own suppliers?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-7 any other relevant organization (please specify……)</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

3. **Trade policy and its impact on industrial relationships**

3-A-1 **To what extent is your business with this specific supplier affected by trade policy**

<table>
<thead>
<tr>
<th>Trade Policy</th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Import tariffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Export tariffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Add Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Government subsidies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Government state trading</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 License or permits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Others below</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3-B :To what extent is your business with this specific supplier affected by nontariff trade policy

<table>
<thead>
<tr>
<th>3-B-8 product standards</th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-B-9 Packaging ,labling and marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-B-1 Product specification</td>
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<tr>
<td>3-B-1 Export quotas</td>
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<tr>
<td>3-B-1 Import Quotas</td>
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<tr>
<td>3-B-1 Exchange control</td>
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<tr>
<td>3-B-1 Exchange rate</td>
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<tr>
<td>3-B-1 Prior import deposit</td>
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<tr>
<td>3-B-1 Credit Restriction</td>
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</tbody>
</table>

4-Trade policy and business behavior ( general questions)

4-A Which one of the alternatives (A+B above ) you recognize as coercive for the firm ( alt ..........) and which one you recognize as supportive ( alt .............)

1
2

4-B To what extent trade administrative procedures affect your business relationship with this supplier customs for product classification

<table>
<thead>
<tr>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 customs for product classification</td>
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<tr>
<td>2 customs for product valuation</td>
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<tr>
<td>3 Documentation in the customs</td>
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<tr>
<td>4 Inspection time</td>
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<tr>
<td>5 Product testing</td>
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<td>6 Others (please specify.........)</td>
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</tbody>
</table>
4-C  What kind of trade policy do you prefer: please choose one and give a value accordingly

<table>
<thead>
<tr>
<th></th>
<th>1-not at</th>
<th>2-only</th>
<th>3-to some</th>
<th>4-rather</th>
<th>5-very</th>
<th>9-do not</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>all</td>
<td>a little</td>
<td>extent</td>
<td>much</td>
<td>much</td>
<td>know</td>
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<tr>
<td>1 Tariff</td>
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<td></td>
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<tr>
<td>2 Quotas</td>
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<tr>
<td>3 Product standards</td>
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<tr>
<td>4 Exchange rate</td>
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<tr>
<td>5 Credit restriction</td>
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</tbody>
</table>

4-D  How do you manage the trade policy affecting your business relationships

<table>
<thead>
<tr>
<th></th>
<th>1-not at</th>
<th>2-only</th>
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<th>4-rather</th>
<th>5-very</th>
<th>9-do not</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>all</td>
<td>a little</td>
<td>extent</td>
<td>much</td>
<td>much</td>
<td>know</td>
</tr>
<tr>
<td>1 Contacts with decision makers</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2 Adapt the firm's organization structure</td>
<td></td>
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<tr>
<td>3 Adapt the production process</td>
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</tr>
<tr>
<td>4 to cooperate and inform them the cost of the policy for the firms and society</td>
<td></td>
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<tr>
<td>5 Try to avoid</td>
<td></td>
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</tbody>
</table>

4-E: To what extent can you modify trade policy by contacting decision makers.

<table>
<thead>
<tr>
<th></th>
<th>1-not at</th>
<th>2-only</th>
<th>3-to some</th>
<th>4-rather</th>
<th>5-very</th>
<th>9-do not</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>all</td>
<td>a little</td>
<td>extent</td>
<td>much</td>
<td>much</td>
<td>know</td>
</tr>
</tbody>
</table>

4-F: To what extent can the following group affect the trade decisions:

<table>
<thead>
<tr>
<th></th>
<th>1-not at</th>
<th>2-only</th>
<th>3-to some</th>
<th>4-rather</th>
<th>5-very</th>
<th>9-do not</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>all</td>
<td>a little</td>
<td>extent</td>
<td>much</td>
<td>much</td>
<td>know</td>
</tr>
<tr>
<td>1 Your trading partner in the foreign country</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Your local customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 your branch industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Your local suppliers</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>5 The final customers</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
4-G: The trade decisions have their bases on:

<table>
<thead>
<tr>
<th></th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>All the industries in the country</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>Long run needs of this particular industry</td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td>Short run needs of this particular industry</td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>Needs of particular firms</td>
<td></td>
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</tr>
<tr>
<td>5</td>
<td>Mutual understanding between this firm and decision makers</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

4-H: For management of trade issues we have

<table>
<thead>
<tr>
<th></th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A special unit or individuals are appointed for task</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>General manager takes care of the issues</td>
<td></td>
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<tr>
<td>3</td>
<td>Purchasing or marketing section takes care of the issue</td>
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</tr>
</tbody>
</table>

4-I-1: we participate on discussions with groups involving industrial branch people about how to affect the trade decisions

<table>
<thead>
<tr>
<th></th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
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</tbody>
</table>

4-I-2: Which groups influence on the business and business development please give a name and give a value

<table>
<thead>
<tr>
<th></th>
<th>1-not at all</th>
<th>2-only a little</th>
<th>3-to some extent</th>
<th>4-rather much</th>
<th>5-very much</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
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</tbody>
</table>

5- In your relationship with this supplier give a value to the following:

<table>
<thead>
<tr>
<th></th>
<th>1-No importance</th>
<th>2-Minor importance</th>
<th>3-Some importance</th>
<th>4-Rather strong importance</th>
<th>5-Very strong importance</th>
<th>9-do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>foreign trade</td>
<td></td>
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<tr>
<td>2</td>
<td>Your competitors</td>
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<tr>
<td>3</td>
<td>your customers</td>
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<tr>
<td>4</td>
<td>other supplier</td>
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<tr>
<td>5</td>
<td>Others (please name it ........)</td>
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<td></td>
</tr>
</tbody>
</table>
Affect change oil revenue on relationship with supplier

1:- To what extent your relationship with this supplier effect by:

<table>
<thead>
<tr>
<th>1-1: Increase the oil prices.</th>
<th>1-Marginal</th>
<th>2-Minor</th>
<th>3-Neither</th>
<th>4-High</th>
<th>5-Very high</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2: Decrease the oil prices.</td>
<td></td>
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<tr>
<td>1-3: Chang governments oil revenues.</td>
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<tr>
<td>1-4: The Imports budget.</td>
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<tr>
<td>1-5: Minster Industry.</td>
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<tr>
<td>1-6: Competitors in Libya.</td>
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<tr>
<td>1-7: Suppliers in Libya.</td>
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<tr>
<td>1-8: Customers in Libya.</td>
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</tbody>
</table>

2:- Can you give an example of how changes in oil revenues effected on your relationship with this supplier when oil revenues changed.

3:- Reduction in the oil prices will affect:

<table>
<thead>
<tr>
<th>3-1: The amount you buy from this supplier.</th>
<th>1-Marginal</th>
<th>2-Minor</th>
<th>3-Neither</th>
<th>4-High</th>
<th>5-Very high</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-2: Your production processes.</td>
<td></td>
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<tr>
<td>3-3: The technical information exchange with this supplier.</td>
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<tr>
<td>3-4: Competitors of your supplier.</td>
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<tr>
<td>3-5: Cooperation with our customers.</td>
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<tr>
<td>3-6: T&amp;D</td>
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<tr>
<td>3-7: Others</td>
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</tbody>
</table>
4:- Reduction in the import budget will effect:

<table>
<thead>
<tr>
<th></th>
<th>1-Marginal</th>
<th>2-Minor</th>
<th>3-Neither</th>
<th>4-High</th>
<th>5-Very high</th>
<th>9-Do not know</th>
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</thead>
<tbody>
<tr>
<td>4-1: The amount you buy from this supplier.</td>
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<tr>
<td>4-2: Your production processes.</td>
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</tr>
<tr>
<td>4-3: The technical information exchange with this supplier.</td>
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<tr>
<td>4-4: Competitors of your supplier.</td>
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<tr>
<td>4-6: T&amp;D</td>
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<tr>
<td>4-7: Others ............</td>
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</tbody>
</table>

5:- The supplier understands the impact of oil prices

<table>
<thead>
<tr>
<th></th>
<th>1-Marginal</th>
<th>2-Minor</th>
<th>3-Neither</th>
<th>4-High</th>
<th>5-Very high</th>
<th>9-Do not know</th>
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</thead>
<tbody>
<tr>
<td>5-1: Limitation of amounts form (budget import)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5-2: Change of in administrative routines (Bureaucratic)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5-3: Trade polices</td>
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<td></td>
</tr>
<tr>
<td>5-4: Others ............</td>
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</tbody>
</table>

6:- To what extent does the vacillation of your purchasing from this supplier depend on:

<table>
<thead>
<tr>
<th></th>
<th>1-Marginal</th>
<th>2-Minor</th>
<th>3-Neither</th>
<th>4-High</th>
<th>5-Very high</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-1: Limitation of amounts form (budget import)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6-2: Change of in administrative routines (Bureaucratic)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>6-3: Trade polices</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>6-4: Others ............</td>
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</tbody>
</table>

7:- In order to carry out the import budget we:

<table>
<thead>
<tr>
<th></th>
<th>1-strongly Disagree</th>
<th>2-Partly Disagree</th>
<th>3-Uncertain</th>
<th>4-Partly Agree</th>
<th>5-Strongly Disagree</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-1: Terminate our transaction with supplier</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>7-2: Turn to supplier competition with cheaper prices</td>
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<td></td>
</tr>
<tr>
<td>7-3: Negotiate with the supplier to find a solution</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
8.- How many times to needed to complete your transaction with this supplier? 

<table>
<thead>
<tr>
<th></th>
<th>1-one week</th>
<th>2-There month</th>
<th>3-Six month</th>
<th>4-one year</th>
<th>5-More one year</th>
</tr>
</thead>
</table>

9.- When the oil price is low we :

<table>
<thead>
<tr>
<th></th>
<th>1-strongly Disagree</th>
<th>2-Partly Disagree</th>
<th>3-Uncertain Agree</th>
<th>4-Partly Disagree</th>
<th>5-Strongly Disagree</th>
<th>9-Do not know</th>
</tr>
</thead>
</table>
9-1: Reduce the import
9-2: Stop relationship with this supplier .
9-3: The supplier co-operate with us .
9-4: The supplier does understand
9-5: Change supplier .
9-6: Cooperation with other supplier
9-7: Try to convince bureaucratic to have an understanding
9-8: Waiting the Government till adapt its policy to reduce the impact from a low oil price

10:- To what extent is our relationship to this supplier affected by the government development budget ?

<table>
<thead>
<tr>
<th></th>
<th>1-Marginal Effect</th>
<th>2-Minor Effect</th>
<th>3-Neither nor Effect</th>
<th>4-High Effect</th>
<th>5-very high Effect</th>
<th>9-Do not know</th>
</tr>
</thead>
</table>

11-A:- Which of the following factors have the highest and lowest degrees affect of on your company business?

<table>
<thead>
<tr>
<th></th>
<th>1-Very Low</th>
<th>2-Low nor</th>
<th>3-Neither High nor</th>
<th>4-High nor</th>
<th>5-Very High</th>
</tr>
</thead>
</table>
11-A-3: Our foreign supplier
11-B- Please rank the following factors impact on your relationship with this supplier:

<table>
<thead>
<tr>
<th>Factor</th>
<th>1-Very Low</th>
<th>2-Low</th>
<th>3-Neither nor</th>
<th>4-High</th>
<th>5-Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil price</td>
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<tr>
<td>Government import budget</td>
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<tr>
<td>Bureaucratic</td>
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<tr>
<td>Ministry of industry</td>
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<td>Our competitors in Libya.</td>
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<tr>
<td>Foreign Competitors</td>
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<tr>
<td>The customer in Libya</td>
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<tr>
<td>Ministry of industry</td>
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</tbody>
</table>

11-C- Our Relationship with this supplier is affected by:

<table>
<thead>
<tr>
<th>Factor</th>
<th>1-Marginal Effect</th>
<th>2-Minor Effect</th>
<th>3-Neither nor</th>
<th>4-High Effect</th>
<th>5-very high Effect</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>The competitors in Libya</td>
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<td>the suppliers I</td>
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12: What is your expected to revenues occasioned made commercial relationship with this suppliers

<table>
<thead>
<tr>
<th>Year</th>
<th>1-Marginal Effect</th>
<th>2-Minor Effect</th>
<th>3-Neither nor</th>
<th>4-High Effect</th>
<th>5-very high Effect</th>
<th>9-Do not know</th>
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</thead>
<tbody>
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</tbody>
</table>

13: What was the cost and revenues occasioned purchasing from this supplier during five years ago.

<table>
<thead>
<tr>
<th>Year</th>
<th>1-Marginal Effect</th>
<th>2-Minor Effect</th>
<th>3-Neither nor</th>
<th>4-High Effect</th>
<th>5-very high Effect</th>
<th>9-Do not know</th>
</tr>
</thead>
<tbody>
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<td>2002</td>
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14: What was your firm quote from the Government import budge in these years