# Palestine Small Business Enterprise :

## The Nature and Causes of Success

The Forum for Social and Economic Policy Research in Palestine

Dr. Yousef Naser

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**Production:**

**Editorial Assistants**: Karen Mann (English)
Sami Kilani (Arabic)
**Translated to Arabic**: Sami Kilani
**Layout** Lina Abdallah

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P.O.Box 19111, Jerusalem & P.O Box 2426, Ramallah
Tel.: +972-2-2987053/4
Fax: +972-2-2987055
E-Mail: MAS@planet.edu

For more information do not hesitate to call the Forum Coordinator at the above address.

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**Auther:** Yousef Naser: Assistant Professor of Economics, Bir-Ziet University.

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# Foreword

Small business enterprises make up a large proportion of the business sector in the Palestinian economy of the West Bank and Gaza Strip (WBGS). Data from the Palestinian Bureau of Statistics show that more than two-thirds of these enterprises employ less than five workers and many are run by families. This sector has a special importance for the Palestinian economy as a source of employment opportunities for families and individuals in WBGS.

The fact that small business enterprises are so prevalent is due basically to the Israeli occupation, which since 1967 employed measures to restrict the development of the Palestinian economy and compel the occupied territories to be dependent on the Israeli economy. This strategy impeded the expansion of Palestinian small enterprises into larger businesses.

The large number of small enterprises and the special importance of this sector to the Palestinian economy prompted the PRIP steering committee to support and fund this study. The aim of the study is to examine the positive role played by this sector, the constraints it faces and to explore the reasons why it is so predominant in order for Palestinian decision-makers to formulate policies appropriate to the small business community.

The study analyzes what makes up a small business enterprise, the various concepts and definitions of this sector and the experiences of this sector in different countries according to their stage of economic development. It also describes the reasons behind the establishment of these small enterprises in WBGS both before and after the signing of the Oslo agreements.

Also discussed are the features of the small enterprise sector in WBGS in terms of ownership, employment, size and sources of financing, and the distribution of income amongst the various small business sub-sectors. The study also identifies the problems, challenges and constraints on small enterprises in terms of finance, marketing, and production inputs and outputs.

However, the study does not consist only of a description of this sector in WBGS. It also provides a number of recommendations and suggestions to tackle the problems faced by small enterprises and enable the sector to become more efficient. The study explores successful policies implemented in relation to small enterprises in Western countries and whether these might be applicable in the Palestinian context. These recommendations consider first, the development of small enterprises and second, the use of modern administrative and managerial techniques. Development in this context means the development of individual small enterprises rather than that of the small enterprise sector as a whole.

PRIP wishes to extend its gratitude to the author of this study. It is hoped that the study will assist Palestinian planners and decision-makers to understand better the reasons behind the growth in the number of small enterprises in WBGS and enhance their capacity to implement policies of benefit to this sector and thus, to the Palestinian economy as a whole.

Thanks are also due to the reviewers for their valuable comments on the first and second drafts and to all who participated in the workshop held to discuss the study.

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**Yasser Shalabi**
**Program Coordinator**

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# I. Introduction

In nearly all the literature on small business, there is a consensus on the significant role played by these economic units. Some writers have described small businesses as the life-blood of any economy with a significant market mediated sector (Reid 1998). The International Labor Organization (ILO) Kenya report of 1972 refers to small enterprises as '…a sector of thriving economic activity which has the potential for dynamic, evolutionary growth' (Schmitz 1982). Since the ILO Report, literature in this field has proliferated in volume and diversity. Writers have focused on 'the role of small enterprises in providing earning opportunities...' (Schmitz 1982), the question of whether small enterprise development provides a basis for the leap to industrialization (Storey 1983), and the characteristics of small enterprises (Davies et al. 1992). In Palestine today, small-scale enterprises are increasingly seen as the potential engines of industrial development and economic growth (Nasr 1997). This study will attempt to identify and assess the major variables that determine success (or failure) of small-business enterprise in Palestine, particularly in the Northern region of the West Bank.

The next section will present a brief description of the Palestinian context, followed by a more detailed overview of the small enterprise sector. The third section will develop an analytical framework for the analysis of the small business sector in Palestine. The fourth section will present the result of the empirical research, and the final section will conclude by identifying the factors determining the success of Palestinian small business enterprises.

# 2. The Palestinian Setting

## 2.1. Continuous Upheavals and Instability

The historical chronicle of Palestine and the Palestinian people since the turn of the century has been one of continuous conflict and periodic ruptures of war (world and regional), revolution, uprising (Intifada), and at present an ailing, unending 'peace' process. Among the consequences has been the continuous burden of disparate alien rule (Ottoman, British, Jordanian in the West Bank-Egyptian in Gaza, and Israeli,) each occupier having its particular agenda and policies towards the region and its people. This has resulted in a legal system that is an amalgamation of laws and regulations enacted to serve the interests of the respective occupiers while economic parameters have been recast to meet the needs and interests of each particular occupier. Over half the Arab population of Palestine were displaced from their homeland into refugee camps scattered throughout the region. Since 1991, a prolonged and ailing peace process has added a new dimension to the enigma of the Palestinian situation. Rather than ushering in an era of stability and progress, it has ironically intensified an atmosphere of uncertainty and despair among the Palestinian population. This is partly due to the negative economic and political terms of the Oslo accords, including the cantonization, or physical fragmentation, of Palestine into areas A, B, C, which have legitimized and intensified Israeli control over Palestinian society and the economy in particular.

This experience has imparted to the West Bank a set of peculiarities that make it difficult to situate the social formation in any one theoretical formulation. Among the peculiarities existing today are the absence of a national state and the presence of an occupier with physical control over 97 percent of the West Bank area, and 100 percent control over the movement of goods and people in and out of this area. The prevailing ideology of the occupier continues to advocate a `Jewish State for the Jewish People' in Palestine. Essentially the Zionist entity covets the land but not the indigenous inhabitants. The consequence for the Palestinian regime is an unstable land tenure system due to Zionist claims of sovereignty and confiscation of land, persisting even after the start of the peace process, a fragmented economic system due to dependency on external factors and a simple de-developed productive base and infrastructure. Since 1967, the Palestinian economy has not been developed, did not benefit from taxes collected prior to 1995, has not undergone reforms or development in infrastructure, and the only regulations imposed have been to protect and insulate the Israeli market from `cheap Palestinian production'.

## 2.2 A Captive Market: Historical Impact of the Labour and Commodity Markets

Within the political-security parameters set by the Israeli authorities in the early years of the occupation, the introduction of labour and commodity markets modified the structure of the Palestinian economy without expanding or developing the resource base that prevailed in 1967. Israel's occupation of the West Bank and Gaza Strip brought together by force two distinct, asymmetric social formations under one rule. On the one hand, an agrarian, capital-poor, low-income economy (described by Graham-Brown as, "an agricultural hinterland" (Graham-Brown 1990), and on the other, an industrial, capital-rich, high-income economy (with a combination of both private and substantial state enterprise). The relationship between these two social formations, like any other relationship, is unique but there are features in common with other country experiences. The many examples of economic relationships between capital rich, high-income regions and labour surplus, low-income regions include those between South Africa and its neighboring states, North Africa and the French economy, the historical relationship between England and Ireland, and America and Puerto Rico.

Depending on the conceptual formulations utilized and political stance, differing interpretations and conclusions have been reached about the outcome of this encounter.1 However, there is agreement that the consequences of the occupation on the economies of the occupied territories have been profound and far-reaching. It would be difficult for either side to challenge Van Arkadie's observation that although there was no Israeli master-plan for changing the external economic relationships of the two occupied territories or a long-range vision of a preferred economic future for them ... what happened after 1967 was more complex and no less profound than if such a master-plan actually existed. (Van Arkadie 1977)

Eighteen years after occupation, and ten years after the observation made by Van Arkadie, an Israeli observer reached a similar conclusion. He noted that after examination of the facts, Israel's economic policy seems to be clear and consistent, aimed at: freezing the economic development of the Palestinian sector along with encouragement of improvements in the standard of living, based on income from work in Israel; economic prosperity for individual residents alongside economic stagnation at the communal level; discouraging independent economic development that would enter into competition with the Israeli economy, and prevention of independent economic development that could enable Palestinian political forces to establish power bases, and eventually a Palestinian state. (Benvenisti 1986).

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[1.] From among the favorable conclusions see: Ater, M., Autonomous West Bank is Poor Economics, Jerusalem Post, (October, 30, 1975); Bergman, A. (1976). The Economy of the Administered Territories 1974-1975. (Jerusalem, Central Bank of Israel); Bull, V. (1975) The West Bank, Is It Viable? (Lexington Mass: Lexington Books); Zakai, D. (1988). Economic Development in Judea-Samaria and the Gaza District. (Jerusalem: Central Bank of Israel).
From among the negative conclusions see: Hilal, J. (1975). The West Bank: Its Economic and Social Structure, 1948-1974. (Beirut, PLO Research Center) (in Arabic); Tamari, S. Building Other People's Homes: The Palestinian Peasant's Household and Work in Israel, Journal of Palestine Studies, Vol. XI, No.1, (Autumn, 1981), pp.31-66; and Sayigh, Y. The Palestinian Economy Under Occupation: Dependency and Pauperization. The Journal of Palestine Studies, Vol. XV, No.4 (Summer 1986), pp.46-67.

After further investigation he found that Israeli policy:

has actually been . a haphazard *post facto* consequence of decisions made without forethought, in response to pressures, or as compromises or concessions to Israeli pressure groups...[however]...in actual fact, economic policy is inseparable from political and security policies, and derives from them. (Benvenisti 1986).

Israeli decisions to open the labour market to Palestinian workers and export Israeli commodities to Palestinian markets exposed the Palestinian economy to powerful market forces. This was further intensified by the differences in the economic structures and wage levels of the two economies. Moreover, market forces in Palestinian occupied areas were not allowed to operate under conditions of laissez-faire, but under the sway of Israeli political, security, and economiinterests. For example Van Arkadie notes:

Israel channeled and controlled the basic market forces while, at the same time, limiting severely the role of public investment and comprehensive development programs in the territories. (Van Arkadie 1977).

Since 1967, whether by design or by default, Israeli occupation has warped the Palestinian structure and forced the occupied areas into subservience to the Israeli economy. The West Bank and Gaza served the Israeli economy in two important ways: first, as a reserve of cheap labour; and second, by providing a 'captive market' for Israeli commodities. The market for Palestinian labour in Israel and the market for Israeli commodities in the West Bank and Gaza have been crucial in determining significant changes in the structure of the Palestinian economy. In the process, the occupation has been a profitable venture for the Israelis rather than a burden.2

[2] It has been estimated that between 1967 and 1986, the net capital transfer from the West Bank to Israel was in the range of $600 to $700 million (US dollars), or almost $39 million per year. See Benvenisti (et al.), (1986), p.92. This does not include the benefits of lower wages paid to Palestinians working in Israel, nor the deductions for income tax, social insurance, national insurance, and Histadrut fees taken out of gross wages.

Since the 1993 signing of the Oslo Accords, the Palestinian economy continues to be a captive market for Israeli commodities, naively legitimized by the Paris economic agreement. However, it no longer serves as a reserve of cheap labour. This role has been taken over by more than 200,000 workers from a range of Asian and East European countries, mainly the Philippines, Thailand, and Romania. This development confirms the observations quoted above indicating the supremacy of ideological and political designs over that of economics. The closing of the labour market in Israel to Palestinian workers has had a significant impact on individual income levels and employment rates. However, a less obvious development has been a significant growth in the number of small business establishments (as will be shown below) since the signing of the Oslo peace accords.

## 2.3 The Small Business Enterprise Sector

From the start of occupation, the Israeli authorities actively restricted the establishment of industrial and agricultural enterprise. The means of restricting growth in the manufacturing sector was simple and straightforward; the authorities refused to grant licenses to entrepreneurs to establish productive enterprise. The firms that were granted licenses were those that offered no threat of competition with Israeli producers, or those that complemented and served Israeli producers (such as the clothing industry). This is indicated by Israeli data showing a slight increase in the number of industrial establishments in the West Bank from 2,332 in 1978 to 2,363 in 1986, falling to 2,146 by 1993. For the same years, the numbers for Gaza were 1,370, rising to 1,725, and then falling to 1,712 (Israel Central Bureau of Statistics, Statistical Abstract of Israel, 1979, 1987 and 1994). Only service enterprises were permitted to flourish, mainly retail trade in the form of unlicensed corner or village shops, a significant number of which are operated from home. (Our survey shows over 35 percent of the 161 shopkeepers interviewed owned the premises of operation).

### *2.3.1 Defining 'small'*

There are numerous definitions as to what constitutes a small business. Different terms such as family business, micro-enterprise, household firms, informal sector, have all been used to identify the same productive units, whilst the same terms have also been used to define different productive units. There is no single agreed definition of a 'small' firm or enterprise. The definitions are as diverse as the types of small enterprise, manufacturing or other, existing in the developing world.. A firm considered small in one country may be considered very large in another, and a firm considered small in one sector of the economy may be considered large in another sector.

The following is a partial list of the various definitions of what is considered to comprise a small business firm or enterprise.

a. A small business enterprise is one that is owner-managed and independent, the characteristics of which are:
   Lack of individual market power
   Lack of access to the stock market for funds
   Undifferentiated management structure
   Owner manager makes all decisions. (Ray and Hutchinson 1986).

b. Steinhoff (1978) quotes the American Small Business Act of 1953 definition, where a small business is "one which is independently owned and operated and not dominant in its field of operations." He adds that small business firms are characterized by:
   Independent management. Usually the managers are the owners.
   Capital is supplied and an individual or a small group holds the ownership.
   The area of operations is mainly local, with workers and owners living in one home community.
   Relative size of the firm is small within the industry when compared with the biggest unit within its field. This

measure of size can be in terms of sales volume, number of employees, capital investment, assets, or other.

c. The British definition set by the 1971 Bolton Committee (The Committee of Inquiry on Small Firms) established both an economic and statistical definition of a small firm. The economic definition stated that a firm was considered small if it satisfied each of the following three conditions:
It should have a small market share and thus be unable to influence its business environment.
It should be managed by its owners and not involve a formalized management structure.
It should not be part of a larger business organization and can thus make its own business decisions.

The statistical definition varied according to sector. Employment was used to identify size in manufacturing (200 and less), construction, mining, quarrying and motor trades (25 and less). In the small service sector, for firms such as retailing and wholesaling, turnover (£450,000 and £ 1.7m respectively) was used. For catering, the identifying variable was ownership. For road transport, business assets were the identifying variable (Sloman and Sutcliffe 1998).

d. A definition by the European Union (EU) of small and medium enterprises (SMEs), and one which has become widely adapted by researchers, uses the number of employees as the criterion to distinguish between firms of different sizes, irrespective of the industrial sector in which the firm operates. Three categories are distinguished by the following:

| Category of enterprise<br>Number of employees | |
|---|---|
| Micro enterprises | 0-9 |
| Small enterprises | 10-99 |
| Medium enterprises | 100-499 |

This approach allows us to distinguish features of enterprises that vary with degree of smallness such as:
Practices of hiring and firing
Pricing strategies
Investment strategies
Competition
Collusion
Innovation

This approach also allows us to show changes over time in the size and composition of the small firm sector.
However, there are shortfalls of such a definition given the diversity within the small business sector, such as:
Business activity
Organizational structure
Patterns of ownership
(Sloman and Sutcliffe 1998).

e. Little, Mazumdar and Page define small enterprises as those with fewer than 50 workers, enterprises with less than 10 workers as 'very small' and those with less than 5 workers and who operate in the home or workshops as 'cottage shops' (in Mead 1991).

f. The definition used by USAID for micro-enterprises is an enterprise with 10 or less employees, along with a set of descriptive characteristics on assets, revenues, location, etc (in Mead 1991).

An appraisal of the characteristics of enterprises in Palestine will show that over 90 percent fall in the category of 'cottage shops' or micro-enterprises. Given this large percentage, it would not be very useful to categorize firm size in Palestine by the number of employees nor by capital invested. A qualitative definition based on the firms' strategy, and environment is the most appropriate for the Palestinian case and this will be attempted in section four.

**Table 1.1: Number of Establishments by Type of Economic Activity and by Employment Size**

| Type of Economic Activity | 1 to 4 | 5 to 9 | 10 to 19 | 20 to 49 | 50 to 99 | 100 plus | Total Number of Establishments |
|---|---|---|---|---|---|---|---|
| Mining | 156 | 103 | 27 | 9 | 2 | 1 | 298 |
| Manufacturing | 5934 | 1394 | 581 | 179 | 25 | 14 | 8127 |
| Elect. & Water | 316 | 27 | 11 | 5 | 2 | 3 | 364 |
| C | 138 | 41 | 22 | 14 | 3 | 2 | 220 |
| Wholesale, Retail & Repairs | 22930 | 879 | 133 | 21 | 2 | | 23965 |
| Hotels & Restaurants | 1534 | 107 | 28 | 21 | 6 | 1 | 1697 |
| Transport, Storage & Communications | 222 | 79 | 36 | 20 | 2 | | 359 |
| Financial Intermediation | 264 | 38 | 7 | 15 | 6 | 1 | 331 |
| Real Estate & Business Activities | 1446 | 137 | 33 | 6 | 1 | 2 | 1625 |
| Total For The West Bank | 32940 | 2805 | 878 | 290 | 49 | 24 | 36986 |
| % of Total Establishments | 89.1 | 7.6 | 2.4 | 0.8 | 0.1 | 0.1 | 100.0 |
| Cumulative % | | 96.6 | 99.0 | 99.8 | 99.9 | 100.0 | |

Source: Palestine Central Bureau of Statistics, The Establishments Census, 1994 Final Results, August 1995.

**Table 1.2: Number of Establishments by Employment Size Percentage**

| Type of Economic Activity | 1 to 4 | 5 to 9 | 10 to 19 | 20 to 49 | 50 to 99 | 100 plus | Total Number of Establishments |
|---|---|---|---|---|---|---|---|
| Mining | 52.3 | 34.6 | 9.1 | 3.0 | 0.7 | 0.3 | 100.0 |
| Manufacturing | 73.0 | 17.2 | 7.1 | 2.2 | 0.3 | 0.2 | 100.0 |
| Elect. & Water | 86.8 | 7.4 | 3.0 | 1.4 | 0.5 | 0.8 | 100.0 |
| Construction | 62.7 | 18.6 | 10.0 | 6.4 | 1.4 | 0.9 | 100.0 |
| Wholesale, Retail &Repairs | 95.7 | 3.7 | 0.6 | 0.1 | 0.0 | 0.0 | 100.0 |
| Hotels & Restaurants | 90.4 | 6.3 | 1.6 | 1.2 | 0.4 | 0.1 | 100.0 |
| Transport, Storage & Communications | 61.8 | 22.0 | 10.0 | 5.6 | 0.6 | 0.0 | 100.0 |
| Financial Intermediation | 79.8 | 11.5 | 2.1 | 4.5 | 1.8 | 0.3 | 100.0 |
| Real Estate, & Business Activities | 89.0 | 8.4 | 2.0 | 0.4 | 0.1 | 0.1 | 100.0 |
| Total For The West Bank | 32940 | 2805 | 878 | 290 | 49 | 24 | 36986 |
| % of Total Establishments | 89.1 | 7.6 | 2.4 | 0.8 | 0.1 | 0.1 | 100.0 |
| Cumulative % | | 96.6 | 99.0 | 99.8 | 99.9 | 100.0 | |

Source: Palestine Central Bureau of Statistics, *The Establishments Census, 1994 Final Results*, August 1995.

**Table 1.3: Total Number of Establishments by Type of Economic Activity, Number of Employees, Family Labour, Sex, and Total Employed**

| Type of Economic Activity | Employees | Unpaid Family Workers | Owners | Female | Male | Total Number Engaged | Total Number of Establishments |
|---|---|---|---|---|---|---|---|
| Mining | 1637 | 119 | 389 | 1 | 2144 | 2145 | 298 |
| Manufacturing | 25230 | 3411 | 9217 | 5731 | 32127 | 37858 | 8127 |
| Elect. & Water | 1423 | 57 | 214 | 38 | 1656 | 1694 | 364 |
| Construction | 1417 | 69 | 252 | 98 | 1640 | 1738 | 220 |
| Wholesale, Retail & Repairs | 10739 | 7572 | 25374 | 2591 | 41094 | 43685 | 23965 |
| Hotels & Restaurants | 2480 | 590 | 1750 | 275 | 4545 | 4820 | 1697 |
| Transport, Storage & Communications | 1707 | 85 | 400 | 139 | 2053 | 2192 | 359 |
| Financial Intermediation | 1556 | 64 | 289 | 493 | 1416 | 1909 | 331 |
| Real Estate & Business Activities | 2507 | 245 | 1715 | 733 | 3734 | 4467 | 1625 |
| Total | 48696 | 12212 | 39600 | 10099 | 90409 | 100508 | 36986 |
| Percentage of Total Engaged | 48.4 | 12.2 | 39.4 | 10.0 | 90.0 | 100.0 | |
| Average No. Employed per Establishment | 1.32 | 0.33 | 1.07 | | | 2.72 | |

Source: Palestine Central Bureau of Statistics, The Establishments Census, 1994 Final Results, August 1995.

### *2.3.2 Characteristics and Structure of Palestinian Small Business Enterprise*

According to the definition provided by Little, Mazumdar and Page, the small business enterprise sector in Palestine can be designated a sector of 'cottage shops'. Small is the norm for units of production in the Palestinian economy. In almost 90 percent of private sector establishments not more than four individuals are employed, and in over 96 percent only nine or less individuals are employed (Table 1.1 and 1.2 ). However, there is significant variation by sector. As can be seen in Table 1.2, over 52 percent of mining firms have four or less employees, followed by transport, storage and communications firms with over 61 percent employing 4 or less. At the other end, almost 96 percent of firms in wholesale, retail and repairs employ four or less persons, followed by hotels and restaurants at over 90 percent. Overall, 99 percent of all firms employ less than 20 persons. In 1994, there were only 24 (0.1

percent) firms employing more than 100 persons. These are mainly in food processing and pharmaceutical production.

Another significant feature shown by data from the Palestinian Bureau of Statistics (PCBS) relates to the breakdown of employed persons as ‘employees’, ‘unpaid family workers’, and ‘owner-workers’. Table 1.3 shows that out of more than 100,000 persons employed in establishments, only 48,696 (or 48.4 percent) are employees, the rest consisting of family members. Again, as with distribution by employment size, there is also significant variation between sectors. The sectors with the largest proportion of employees (excluding electricity and water given that they are either public or semi public establishments) are those of financial intermediation and construction (both at 81.5 percent), followed by transport, storage and communications (77.9 percent), and then mining (76.3 percent). The sectors with the smallest proportion of employees and the largest family employed labour are wholesale, retail and repairs (24.6 percent) and hotels and restaurants (51.5 percent).

These figures show that the vast majority of Palestinian business enterprise consists of very small units with less than four employees, the majority family owned and operated. In all of the sectors shown in Table 1.3, the number of owners are greater than the total number of establishments in the sector. The two exceptions are electricity and water and financial intermediation. It is also significant that in the sector as a whole the average number of employed persons per firm is just less than three persons (2.72), of which 1.32 persons are employees and 1.4 persons are family members.

Nahhas, Ritchie, Dyer and Nakashian (1997) recently highlighted the familial characteristic of Palestinian firms. Although this study focused on five of the larger firms in the West Bank, the smallest employing 28 persons and the largest 200, their findings on strategic and organizational behavior and access to resources is significant. Despite the fact that the size of capital and the technology employed reflects a relatively advanced degree of the division of labour, both the internal organizational structure and external relations with suppliers (factor markets) and customers (product markets) is determined by personal and familial relations rather than purely market relations. The study found that the source of financing and credit was the family. The same determining factor was found to govern the operations of the firm, in particular identifying the organizational structure of the firms as a reflection of traditional patriarchal, male dominant norms.

It was found that supervision of the workforce by the owners was very close, with every detail of the production process overseen in the belief that the owners know best and workers could not be trusted. This reflects a tendency found in the smaller firms studied, where delegation of responsibility and authority is not part of the organizational structure.

In regards to marketing, it was found that these firms had no idea about the meaning of marketing as practiced in advanced capitalist economies. Marketing was not based on advertisement and promotion. What these firms called marketing was actually sales and distribution activities. They study also found that "Familial relations are the single most essential mechanism for building marketing networks" (Nahhas et al. 1997: 72). It was also found that family relations were also central in hiring practices and debt collection.

The specific Palestinian context described above for the business sector demands that an appropriate conceptual framework be identified and/or developed. The orthodox classical and neo-classical frameworks taught in university texts are appropriate for understanding abstract formulations and are practical for countries that developed concurrently with the development of these theoretical frameworks. Such countries have achieved high levels of capital accumulation in both the public and private spheres and the extent of the division of labour has been significant both on the social and individual factory level. These achievements have corresponded to relatively high levels of stability and certainty, as well as to the large market size. An attempt to apply a conceptual framework appropriate for advanced capitalist societies to the Palestinian case would be an exercise in futility and defy the purpose of research; namely to expand knowledge and understa.

# 3. Conceptual Framework

Over the years, various approaches have been used to analyze the urban sector and the small enterprise sector in particular. The most popular of these has been the two-sector – formal/informal – model, extended from the two-sector - urban/rural - model. The emphasis on the role of the informal sector as a refuge for surplus rural labour, a way station for entry into the formal sector, or if it has become a permanent feature of developing economies and therefore should be promoted. However, disagreement persists, with some writers placing greater emphasis on different approaches, such as the tripartite sector model focusing on individual/family/corporate enterprise types (Dannhaeuser 1991). Other writers reject the sectoral approach as too simplistic and static for the complexity of the developing world (Breman 1976), or for the definition of the sectors as too broad to be of any analytical use (Scoville 1988). A problem with most of these approaches is the overemphasis on the categorization of individual units into an "appropriate" category. For example, the classification of the 'street store' has elicited controversy. Some writers place it in the informal sector, others insist on it being in a sub-sector of the informal sector, with a new category of 'incipient capitalist sector'. Others place it in the 'petty merchant capitalist sector' (Dannhaeuser 1991).

Attempts will be made to avoid being sidetracked into definitional debate and to identify a set of concepts that will inform and enhance the analysis of small business enterprise in Palestine. Given the problematic nature of the Palestinian historical condition, its historically agrarian features, and ongoing transition from one form of occupation to another form (semi-occupation) on the path to eventual independence, necessities a framework of analysis incorporating the dynamics of societies in transition. The debate pertaining to agrarian transition in general and to the concepts of `simple commodity production' and the process of commoditisation3 is relevant to the development of appropriate analytical concepts informing us of the nature and characteristics of small-scale enterprise. The simple commodity production debate surrounds Bernstein's seminal article "Notes on capital and peasantry" (Bernstein 1984), prompted by an article by Ennew, Hirst and Tribe, (1977) and which elicited a vigorous response from Friedmann (1980). Bernstein offers a dynamic and uncluttered framework for the understanding of the penetration of commodity relations into agrarian social formations. Bernstein's approach is attractive for two reasons. First, it avoids deterministic, functionalist, and essentialist conceptions of capitalism and/or the indigenous forms of production. Second, it provides a set of analytical concepts, simple commodity production, intensification of commodity relations, and the simple reproduction squeeze, which advance the understanding of forms of production and their role in the economy. These concepts are also useful and can be extended for the understanding of non-agricultural forms of production within the wider social formation.

### 3.1. Preamble

Historically, the most common means by which commodity relations penetrate economies were supplied by the colonial state. The colonial state provides and supervises the initial penetration and then supervises the conditions of exploitation. Two distinct patterns which may evolve have been outlined by Bernstein. The first involves the coercive transfer of resources from the indigenous population to settlers and/or capitalist companies. This pattern required a continuous supply of labour and the role of the colonial state was essential in maintaining labour reserves and a steady flow of migrant labour. The second pattern involves the establishment of peasant commodity production, where the means of production were not separated from the producer. This pattern entailed limited technical changes in production but significant and far-reaching social changes in the conditions of production and exchange.

[3] This debate involves three articles by Ennew, Hirst and Tribe, Bernstein, and Friedmann, referred to below.

The emerging pattern of exploitation is tied to the historically concrete conditions in which different types of capital penetrated the agrarian economy. The process of commoditisation, therefore, is not uniform, evolving in predetermined stages and, according to Bernstein, it is not necessarily a complete process. Thus, it is not prone to general theoretical formulations. However, Bernstein maintains that this does not rule out the designation and use of concepts which differentiate between the forms and extent of commodity relations and which can facilitate the analysis of specific systems.

## 3.2. The Concepts

The concept designated by Bernstein in his treatment of rural production units, *simple commodity production,* is a particular form of production that can exist in different historical periods and in variant relations with other forms of production. [Furthermore]...Simple commodity production designates a form of production the logic of which is subsistence in the broad sense of simple reproduction of the producers and the unit of production (descriptively, the household) (Bernstein 1984: 163).

In this framework, simple commodity production is differentiated from capitalist (specialized) commodity production by the logic of subsistence rather than the logic of profit and accumulation.

Bernstein's taxonomy of 'peasants as simple commodity producers' is rejected by Friedmann, who states that'simple commodity production' identifies a class of combined labourers and property owners within a capitalist economy, and the circuits of reproduction of simple commodity production intersects with those of commodity, landowning, and banking capital, and with markets in labour power, in abstractly determined relations. `Peasant' household reproduction involves important communal and/or class relations which limit the penetration of commodity relations into the productive process (Friedmann 1980: 162).

Therefore, for Friedmann, the concept of simple commodity production cannot replace the term peasant production. Yet Friedmann accepts that simple commodity production is differentiated from capitalist production by its logic of subsistence and by the allocation of labour by the domestic group. Simple commodity production, unlike `peasant' production, however, is situated in a social formation which is characterized by highly developed markets for products, means of production, land and credit, and is supplemented by a mobile labour market, unlike the situation prevailing under `peasant' production. As long as personal (and/or familial) relations, and not market relations, determine the mobility of labour, credit, and access to land, simple commodity production does not prevail. Friedmann proposes an alternative concept for the analyses of social formations, calling it *form of production*. This concept "...is conceived through a double specification of the unit of production and the social formation." (Friedmann 1980: 160). Thus, the focus is on the relations within the unit of production and relations within the social formation. The prevailing relations within the social formation provide the conditions for reproduction of the unit of production and, combined with the organization of the unit of production, they determine the conditions of reproduction, disintegration, or transformation of the unit of production.

The essence of this framework is reinforced by the observation, made by Pedersen, Sverrisson and Van Dijk, that individual enterprises cannot be understood in isolation from the specific concrete environment in which they operate. Markets, their level of development, stability or instability is an important factor determining the characteristics of the business sector. Pedersen, Sverrisson and Van Dijk note that, “Large-scale production requires a relatively large and stable market to be profitable. To secure the necessary market stability, large-scale producers are forced to opt out of the smallest and most unstable markets and leave the to niche producers, to subcontractors, or un-serviced.”

They also observe that "…in the smallest and most unstable markets, very small or household-based enterprises may survive on a semi-subsistence level" (1994: 2-3). Adam Smith made a corresponding observation over 200 years ago. In the process of identifying the causes of the wealth of a nation, Smith pointed to the 'extent of the market' as a major link (Smith 1776, in Landreth and Colander 1994). In this process, the wealth of a nation depends on the productivity of labour, which depends on the division of labour, which in turn depends on the level of capital accumulation and on the *extent of the market,* which in turn depends upon the level of capital accumulation. The extent of the market is the size of the market that can absorb the huge expansion of output produced by the intensification of the division of labour. The reverse is also true; a limited market permits only limited division of labour.

This brings us to the second concept - `*intensification' of commodity relations* - indicated by Bernstein and endorsed by Friedmann. According to Bernstein, this concept can help distinguish the various ways in which, and degrees to which, production is constituted and reproduction realized through commodity relations (Bernstein 1984: 168).

Friedmann refers to this as a process of commoditisation and defines it as.a process of deepening commodity relations within the cycle of reproduction. Commoditisation occurs to the extent that each household is severed from direct reciprocal ties, both horizontal and vertical, for renewal of means of production and subsistence, and comes to depend increasingly on commodity relations for reproduction (Friedmann 1980: 162-163).

The next concept introduced by Bernstein is the *simple reproduction squeeze.* This concept explains the 'non-rational' behavior of simple commodity producers as compared to 'rational' profit maximizing behavior of producers under capitalism. For simple commodity producers, a fall in prices is experienced as a deterioration of the terms of exchange in the commodities it produces relative to those commodities it needs for subsistence.

This means a reduction in the level of consumption, or an intensification of commodity production, or both simultaneously. This is called the simple reproduction squeeze. An analogous concept, 'extended fungibility', is identified by Liption (1980 in Schmitz 1982: 166). This is defined as the "…ability of the 'family enterprise to adapt to changed production conditions by adjusting, not its production behavior, but also its consumption and reproduction decisions." However, unlike Bernstein, who identified the reproduction squeeze as a mechanism of indirect exploitation of labour by capital, Schmitz and Liption identified it as a source of strength for small enterprises. Schmitz reasons that, "Liption's arguments can be seen as directly opposed to those who suggest that the main problem is internal [managerial and entrepreneurial] to the small enterprise (even though they are not presented in this context)." (Schmitz 1982: 166).

### 3.3. Synthesis

What prevails today in Palestine is a social formation reflecting characteristics of both Bernstein's and Friedmann's frameworks. However, a conclusion designating small business enterprise as simple commodity producers or as a form of 'petty commodity' producers is not pertinent. It is satisfactory to recognize that the Palestinian situation shows characteristics of `simple commodity production', and that differences between Friedmann and Bernstein reveal the diversity in which the various units of production may be viewed, and thus will facilitate the analysis. Therefore, the concept of simple commodity production will be employed and identified as constituting one end of a continuum with capitalist commodity production at the other end. Within the range between these poles can be located various *forms* of commodity production, depending on the commoditisation process, or the extent to which the market determines the allocation of the factors and products (land, labour, capital). This depends on the development of product (goods and services) and factor markets confronting the units of production. Thus, simple commodity producers exhibit the logic of subsistence, and according to Friedmann must adapt, because in the case of

".simple commodity production, survival of the enterprise requires adaptation to changes in relative prices and increases in productivity and organic composition... ." (Friedmann 1980: 165). The application of the reproduction squeeze is a common practice of small business units in Palestine. On the other hand, because not all factor markets are developed, as is the case in the Palestinian social formation, we find a situation where changes such as capital intensification of production are often unnecessary and even impossible. The result is the continuity of the household as the unit of production and consumption. Therefore, the willingness/resistance to adapt is not due to cultural-traditional malleability/obstinacy, but to the concrete forms which penetration of commodity relations presents itself to the small business enterprise. The response of the enterprise will depend upon the extent and range in the development of market/commodity relations. The partial or distorted development of individual markets in the Palestinian context dictates to the simple commodity producer to pick up where the market fails, or falls short.

# 4. The Palestinian Small Business Enterprise

The major constraints historically facing Palestinian small business enterprises continue to be limited markets and instability. Contrary to expectations, almost five years after Oslo these features have become more intense. This has been mainly due to the physical fragmentation (popularly referred to as cantonization) of the West Bank, in addition to the isolation of the Gaza Strip. This has made the frequent, and often-prolonged closures, between and within the Palestinian areas and with Israel economically costly, estimated at around five million dollars per day. The long-standing impasse in the negotiation process has seen deadline after deadline pass with no serious steps to resolve the outstanding contentions. In addition, the lack of performance in terms of vision, policy, and efficiency by the Palestinian National Authority has compounded these problems. Yet, rather than the deterioration in the economic situation leading to large-scale business closures and bankruptcies, the number of small business firms has flourished, particularly in the northern region of the West Bank as the empirical data will confirm.

The following sections present an overview of the methodology used in collecting, organizing and evaluating the data. This is followed by a presentation of the major findings and an analysis of the results.

## 4.1 The Methodological Framework

The methodological approach used to collect the data and organize the research consisted of the use of two methods. The first involved a sample survey while the second approach was based on semi-structured, in-depth interviews with the owners of small businesses. The choice of this two-pronged approach was to gain the descriptive and cross sectional information provided by the survey. Although the survey is useful for making comparisons between the activities covered, it is not sufficient to judge complex issues such as growth potential or success potential. Given that the problems faced by small producers tend to derive from a variety of inter-linked factors (not all economic), it was found necessary to conduct and complement the survey with semi-structured in-depth interviews in order to gain better insights into the nature of the small producer. In addition, the information derived from this approach is more reliable given that many of these small producers are often not registered and therefore need to be assured of the confidentiality of the information.

To enhance our analysis, it is important at this point to identify and differentiate theunits under observation. The term household unit of production will be differentiated from family unit of production. The former refers to those business enterprises owned and operated by a single family, where the owner of the business is the family head. The family unit of production, or family firm, is one that is operated by the family, which may consist of two or more single families and ownership is located in the heads of each of the families (i.e. two brothers own a business which they inherited from their father). The third main form of business in terms of ownership is the partnership that consists of two owners or more that are not related by family ties.

This differentiation is conducted for two reasons, first because it fits with the conceptual approach presented above and second, because it is a reflection of the concrete situation. The data reveal that over 69 percent of small firms in the survey are owned by single households, followed by 17.7 percent owned by families and over 12 percent owned in partnership.

## 4.2 Characteristics and Assessment of Firms Surveyed

The results of the survey questionnaire confirm the characteristics displayed by the PCBS Establishments Survey.

However, given that this study focuses on the small business enterprise, the average size of the firms in terms of capital investment and total number of employees is smaller. Information was collected from 1,737 units of various types (see Table A.1) and from various sectors (services 48.3%, manufacturing 42% and trade 9%, excluding agriculture) in the northern part of the West Bank. The following sections focus on the characteristics of the firms surveyed, in particular their nature in terms of size and the markets they face, both input and output markets.

**Table A.1: Type of Firms Surveyed in the Study**

| | Frequency | Percent |
|---|---|---|
| Tailor/Clothing | 135 | 7.8 |
| Knitwear | 15 | .9 |
| Hairdresser | 85 | 4.9 |
| Auto Mechanic | 496 | 28.8 |
| Blacksmith | 201 | 11.7 |
| Aluminum Workshop | 132 | 7.7 |
| Electronics repair & maintenance | 73 | 4.2 |
| Shopkeeper | 161 | 9.3 |
| Sweets and Pastry | 27 | 1.6 |
| Shoe-making | 20 | 1.2 |
| Food Processing | 33 | 1.9 |
| Printing | 19 | 1.1 |
| Engraving | 18 | 1.0 |
| Pottery | 5 | .3 |
| Flag-making | 55 | 3.2 |
| Upholstery | 13 | .8 |
| Carpentry | 196 | 11.4 |
| Ceramics | 10 | .6 |
| Embroidery | 2 | .1 |
| Other | 17 | 1.6 |
| Total | 1723 | 100.0 |

#### *4.2.1 Small and Labour Intensive Firms*

The majority of firms surveyed are very small. No firm employed more than a total of nine persons (including the owner). Over 45 percent of the firms employed one person in addition to the owner, another 29 percent employed two persons, with 97.5 percent employing four or fewer persons (five with the owner). Over 26 percent of the firms surveyed reported a capital investment of less than 1,000 Jordanian Dinars (JD) and 72 percent less than 5,000 JD. The physical area of these units varied widely, yet over 71 percent of the firms were situated in premises with physical space of less than 50 square meters.

The characteristics of the employees reflected the family and household nature of these firms. From among the approximately 4,600 persons employed in the 1,717 firms surveyed, approximately 3,420 consisted of owners and members of the family (over 74 percent are family workers). Over 25 percent of the firms have only the owner employed, while 57 percent have one more family member employed, and another 14 percent employ two more family members. These figures are a significant indication of the absence of mobility in the labour market in the northern region of the West Bank. It seems that access to employment is a function of non-market familial relations. But the unit of production, as shown below, was established for the purpose of providing employment, and therefore income, to its owner and family members. The absence of job opportunities available outside of household/family enterprise in the wider economy is also apparent. Only 25 percent of persons employed in the surveyed establishments were non-family members.

One of the striking results of the data was the average number of employees per firm and the average number of employed family members per firm (see Table 4.1 below). These results tend to support the argument that small business enterprise in Palestine functions according to the logic of subsistence or 'survival' (the term survival was used often by respondents in the semi-structured interviews). The significant figure is the ratio of family members employed per firm. The average is 2 family members per firm, with the lowest number in shoe manufacturing and the highest in shopkeeping. The ratio of family members to non-family employees was also significant; 74 percent of employees in these firms were family members.

In the same manner that the labour market lacks mobility, the credit market also reflects a high degree of personal and familial relations. Over 86 percent of the respondents reported that the source of finance for their initial capital investment came from one of three sources, and around 90 percent reported a combination of three sources (See Table A.2). The major source of finance was personal savings, accounting for around 54 percent of the firms. This was followed by personal loans from private individuals who provided financing to 17 percent of the firms, with 14 percent of the firms acquiring credit from family members. Banks accounted for the financing of only 0.7 percent of the firms (13 firms) and NGOs providing finance to around one percent of the firms (15 firms). These figures point to the failure of the banking system set in place following the Oslo agreement, particularly since 664 of the total establishments surveyed were established after 1994. The major source of financing for these firms were personal savings (50% of the firms), personal loans from private individuals (18.2% of the firms), and family sources (15.4% of the firms). Only two (0.6%) of the 664 firms reported receiving a bank loan. The remaining firms reported a combination of the three major sources for their capital investment.

**Table A.2: Source of Financing as Reported by Firms Surveyed**

| | Frequency | Percent (%) |
|---|---|---|
| Savings | 911 | 53.9 |
| Private Individuals | 301 | 17.8 |
| NGO | 15 | .9 |
| Bank | 13 | .8 |
| Family | 244 | 14.4 |
| More than one source | 162 | 9.6 |
| Other | 45 | 2.7 |
| Total | 1691 | 100.0 |

### *4.3.2. Market Size*

Two additional factors indicated by the data that limit the capacity of small firms are the markets for inputs and outputs. Both the input and output markets are constrained. The local markets are restricted by size and income level from forming a significant level of demand for the goods produced. Input markets are to be found through or from one channel (Israel), and then mediated by local wholesalers, and retailers. Most of the firms surveyed (61.5%) reported the purchase of their inputs from local wholesalers, with a significant number reporting purchases from retailers (around 20%). In the sample of 11 types of firms shown in Table 4.2 below, this figure varied from a high of 95 percent for aluminum smiths, to a low of 42 percent for mechanics who purchased over 46 percent from retailers. The purchase of the majority of inputs on a piecemeal basis reflects the degree to which production, organization and management is purchase- rather than market-driven. The choice of wholesalers is limited to one or two according to those interviewed. Access to less expensive sources for inputs is hampered by a number of obstacles such as lack of knowledge of the local, regional and international market, but more significantly, physical obstacles (road blocks, permits, and closures) to Israeli markets. However, the most important reason is the lack of capital to support large inventories and the limited size of the product market. The output market is small and restricted to direct final consumption. Over 86 percent of the firms sell goods or services directly to their customers, only 2.5 percent sell directly to wholesalers, and 1.4 percent to retailers. Furthermore, the sales revenue of these firms is very small. Over 70 percent of these firms reported net revenue of less than 500 JD per month. Thus, the capacity to purchase large quantities of inputs is restricted by the extent of their markets.

The size of the market is also reflected by the competitive behavior of the firms. Over 66 percent saw other local firms as their main competitors, with only 0.8 percent viewing Israel as a main competitor. It is significant that over 16 percent of the firms reported that they faced no competition, particularly mechanics, then blacksmiths, aluminum workshops, carpenters, and shopkeepers.

The absence of a competitive environment was also reflected by the attitude of firm owners to the most important variables determining their competitiveness. Only 22 percent of firms viewed prices as a means of competition (Table 4.1 for variations per sector). Just over eight percent of mechanics and 10 percent of carpenters reported that prices were the most important factor of competition. This attitude was also reflected in the in-depth, semi-structured interviews. The reasoning was simple; prices charged by producers are low and barely cover their costs. In essence, there is marginal space for price competition. As a result, most respondents said they try to compensate by focusing on the quality of their products. This was reflected in the survey, where almost 60 percent saw product quality as a means of competition. On the other hand, many of those interviewed noted that customers care more about prices than about quality. The group giving price the greatest priority as a means of competition were shoe firms, in particular the larger operations with a higher capital to labour ratio. These firms reflected greater division of labour and were therefore able to produce greater quantities and benefit from economies of scale (or unused capacity).

The majority of firms reported that their production was the result of purchase orders. The only two groups with lower dependence on purchase order are clothing and knitwear firms. The high dependence of production on demand is the result of the uncertainty in the market and the relatively high cost of holding stock, especially during periods of closures or political unrest.

Another interesting feature of firms in the survey is their physical location. There is a significant number located in the rural sector. In some sectors of production such as food processing, the majority of firms are located in the rural sector (Table 4.2). It is also significant that the majority of these producers locate their firms on owned premises. The knitwear sector also has a significant presence in rural areas. In both of these sectors, the majority of the declared owners are women (Table 4.1). Although other sectors are found less frequently in rural areas, their numbers are still significant.

**Table 4.3: Type of Firms by Establishment Period**

| Time Period | Number of Years | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Pre 1967 | | 95 | 5.5 | 5.5 | 5.5 |
| 1967 to 1973 | 7 | 89 | 5.1 | 5.1 | 10.6 |
| 1974 to 1980 | 7 | 156 | 9.0 | 9.0 | 19.6 |
| 1981 to 1987 | 7 | 300 | 17.3 | 17.3 | 36.8 |
| 1988 to 1993 | 6 | 421 | 24.2 | 24.2 | 61.1 |
| 1994 to 1998 | 5 | 645 | 37.1 | 37.1 | 98.2 |
| Missing | | 31 | 1.8 | 1.8 | 100.0 |
| Total | | 1737 | 100.0 | 100.0 | |

If we compare the distribution by region of firms established prior to 1967 to those established after 1994, we find that in the past over 83 percent of firms were located in the 'cities' and only 11.6 were located in the villages (the remaining in refugee camps). Those established after 1994 are distributed as follows: 44.5 percent in villages; 46.5 percent in 'cities'; and nine percent in refugee camps. This is a significant change in trend of the entrepreneurs starting up small business firms. It also reflects the increases in the means of transport, the loss of employment in Israel, which was a main source of off-farm labour employment for most villagers prior to 1993, and the faltering viability of dry-farming agriculture. Again, we observe the impact of external changes on internal changes in the behavior of Palestinian producers.

This dependence on external factors is even more marked if we look at the historical growth pattern of small business firms. A significant pattern that is revealed by the data is the timing of the establishment of individual firms. Table 4.1 above shows that the majority of the firms surveyed were established during two time periods (the Intifada years and the post Oslo years). This reflects the increasing uncertainty of employment opportunities in Israel during these years. As closures and work-permits became regular features during 1994-1998, so we find the greatest increase in the number of small firms. This observation is supported by the reasons given by the owners of firms for starting their business, with around 70 percent citing economic and employment needs.

## 5. Implications and Conclusion

The major traditional and widely accepted indicator of a successful small business firm or enterprise is growth. The focus ion a set of variables, which include growth in output, in employment, and in profits. In addition to these quantitative indicators is the qualitative transition of a small business from one where the entrepreneur plays the key role in managing the enterprise to one where the owner devolves management responsibility to non-owner managers. These non-owner managers operate the firm according to modern systems of organization and management. Small owner operated firms have little or no formalized management structure whereas modern businesses become more formally structured, more bureaucratic, and power within the organization becomes more dispersed. If we were to apply these criteria to the Palestinian case we could safely conclude that Palestinian firms today are nowhere close to being classified as successful. If we were to apply the same orthodox western standards to the firm's organizational behavior the conclusion would be in the words of Schmitz, "…the outside observer might easily get the impression of organisational chaos." (Schmitz 1982: 165).

In the Palestinian case, traditional western indicators of success (growth and modern management) are not sufficient criteria for measuring or identifying characteristics of success. However, if the criterion of growth is applied to the sector as a whole, in terms of the numbers of small businesses, then one must conclude that there is growth. Therefore, there is success as the textbook criteria stipulate on the level of the sector as a whole.

Within the context of the developing world, two approaches have been used to assess the causes of failure or the constraints on growth of small business firms. The first approach focuses on the internal characteristics (entrepreneurial and management talents and skills) as the major constraints or causes of success. The second approach focuses on the external constraints faced by small firms, in terms of access to markets, resources, and exploitation via a variety of mechanisms which appropriate the surplus and do not allow firms to accumulate capital and grow. The first approach provides an appropriate criterion to businesses in western industrialized countries. In these countries, markets are highly developed and access to resources is more or less determined by market forces. In the event that market forces fail or falter, there exist regulations (anti-monopoly laws, or subsidies to agriculture etc.) to limit or compensate for the shortfall in the market system, or regulations and laws that enhance the market system. In developing countries, where the market system is partially functioning and where minimum standards of public administration and enforcement of laws are lacking, this criterion becomes redundant.

In this study, the approach used has been to identify the context under which individual units of production operate, in particular the household unit of production. This form of unit of production makes up the majority of small business firms, followed by family units, as has been shown by the study. The production behavior of Palestinian firms is not based on the neo-classical assumption of profit maximization, nor has it been based on variation of this such as revenue or market share maximization. This is not because they are irrational economic agents, lacking in entrepreneurial talents and management skills. From what is revealed in the data, Palestinian firms are survivalists, their declared aim is to hang on and make ends meet. In a context of extreme instability and uncertainty, as most of the past 30 years have been to one degree or another, success is measured by survival.

The production behavior of small business firms in Palestine has been rational given the conditions they face. The production behavior has varied and adjusted with the structure, extent, and existence/absence of markets confronting these producers. As we have seen, the absence of a credit/financial market, despite the presence of over 13 different banks with tens of branches all over the West Bank and Gaza Strip, has forced producers to seek alternative, albeit marginal, sources of financing. The loss of the labour market in Israel has forced many (ex-farmers, ex-workers) to become small-scale entrepreneurs for lack of alternatives or lack of markets. As the data indicated, over 90 percent of firm owners identified the need for employment or economic pressures as reasons for starting the business, not the goal of becoming a rich capitalist through maximizing profits.

The survival and growth of the number of firms, dependent mainly on household labour, is due to a production strategy within the context of the prevailing market conditions facing the small business firm sector, and the household unit of production in particular. Variations in market conditions are reflected in variations of the production strategies of the business units.

The use of household labour is a reflection of the constrained labour market on the one hand, and the ability to self-exploit household labour on the other hand. The characteristic of 'fungibility' or the imposition of the 'reproduction squeeze' imparts to firms operated by household units a greater capacity to withstand the volatility of market conditions. This is indicated by the fact that the majority of small businesses are household owned. Family firms are less susceptible to fungibility or the reproduction squeeze. These usually consist of two households or households in the making, where there is competition for patriarchal hegemony.

Household firms dependent on family labour are more resistant to changing terms of trade than firms depending on hired labour and must therefore meet a higher wage bill.

Given the absence of markets, favorable personal and familial relations are two prime characteristics of success. Thus, traditional social and cultural relations and a strategy to utilize these variables to guarantee access to resources not mediated by the impersonal market are an asset and enhance the chances of success. Reliability, trustworthiness and honor all come into play on both the product and factor markets, as well as in marketing and debt collection (Nahhas 1997). This is especially so given the absence of clear property laws and the non-enforcement of formal contracts.

Given the instability of the last 10 years (Intifada, Madrid, Oslo, and closures) and the ongoing uncertainty, purely economic variables or managerial, accounting and organizational skills, let alone marketing skills, do not inform us of the nature of success. When the economy as a whole has been under siege and on the decline since 1993, we witness not only the continuity of the small business sector, but also a growth in the number of firms that defies orthodox economic logic.

It has been shown that small business firms are good survivors in the face of the most difficult economic conditions. Their numbers have grown during poor economic conditions and have fallen during times of improved economic opportunities (wage labour in Israel). The major constraints on the growth and development of these firms was revealed to be not internal factors, but rather the external conditions which limit their success beyond survival (or subsistence). The major external constraints are the absence of a mobile labour and credit market. Policies aimed at the development of a mobile labour market require strategic macro economic transformation on both sectoral and inter-sectoral levels. Economic growth within sectors and linkage between sectors has to be a priority for policy makers, with growth in employment a major goal.

Growth in employment is a long-term goal whereas development in the credit market can be achieved in the short term. The absence of a credit market is a major obstacle facing small businesses that have the potential to develop and grow. At present, the only options are family sources of credit, which are determined by personal non-market relations, and, most importantly, are not large enough to make a difference to the firm. A well thought-out and efficient small business loan progress the most likely to exert a significant impact on the future of Palestinian small businesses. Options must include soft and easy loans, government guarantees, and maturity periods tied not only to time but also to economic cycles.

In conclusion, it is not the nature of the Palestinian small firm that is the problem, but the environment or context within which the firm operates. Owners and employees are endowed with the skills necessary for the efficient production of goods and services, or have shown a capacity to learn and adapt those skills when necessary. The focus of policy makers should be on removing constraints and creating conditions to allow the markets to allocate resources, rather than the politicians and numerous interest groups that have arisen since Oslo.

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**Table 4.1: Type of Firm by Number of Firms, Sex, Workers and by Type of Workers**

| Type of Firm | | Number of Firms | Sex of Owner | | Total Number of Workers | Average Number of Workers | No. of Workers by Type | | | Average No. of Workers per Establishment by Type | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | M | F | | | Family | Hired | Apprentice | Family | Hired | Apprentice |
| 1 | Clothing | 135 | 54 | 81 | 404 | 3.0 | 275 | 129 | | 2.0 | 1.0 | 0 |
| 2 | Knitwear | 15 | 5 | 10 | 38 | 2.5 | 32 | 4 | 2 | 2.1 | 0.3 | 0.1 |
| 3 | Blacksmith | 201 | 201 | 0 | 508 | 2.5 | 404 | 92 | 12 | 2.0 | 0.5 | 0.1 |
| 4 | Aluminum-smith | 132 | 131 | 1 | 365 | 2.8 | 236 | 103 | 26 | 1.8 | 0.8 | 0.2 |
| 5 | Carpentry | 196 | 196 | | 548 | 2.8 | 402 | 126 | 20 | 2.1 | 0.6 | 0.1 |
| 6 | Shoemaking | 20 | 20 | | 56 | 2.8 | 27 | 29 | | 1.4 | 1.5 | 0.0 |
| 7 | Food Processing | 33 | 24 | 9 | 91 | 2.8 | 71 | 20 | | 2.2 | 0.6 | 0.0 |
| 8 | Shopkeeper | 161 | 1 | 160 | 399 | 2.5 | 367 | 32 | | 2.3 | 0.2 | 0.0 |
| 9 | Hairdresser | 85 | 5 | 80 | 238 | 2.8 | 166 | 52 | 20 | 2.0 | 0.6 | 0.2 |
| 10 | Electronics Repair | 73 | 72 | 1 | 159 | 2.2 | 146 | 13 | | 2.0 | 0.2 | 0.0 |
| 11 | Mechanics | 495 | 494 | 2 | 1390 | 2.8 | 978 | 324 | 88 | 2.0 | 0.7 | 0.2 |
| Total | | 1546 | 1203 | 344 | 4196 | 2.7 | 3104 | 924 | 168 | 2.0 | 0.8 | 0.5 |
| Percent of Total | | 100 | 77.8 | 22.3 | 100 | | 74.0 | 22.0 | 4.0 | 74.0 | 22.0 | 4.0 |

Source: Data collected from survey.

**Table 4.2: Type of Firm by Size of Employment, Capital Investment, Credit Sources, Ownership, Location, Production Strategy, Raw Material Sources, Customers, and Competitive Strategy**

| Firm Type | | Cloth-ing | Knit wear | Black smith | Alum.-smith | Carp-entry | Shoe-maker | Food Proc. | Shop-keeper | Hair-dresser | Electr. Repair | Mech-anics |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of Firms | | 135 | 15 | 201 | 132 | 196 | 20 | 33 | 161 | 85 | 73 | 496 |
| Number of Workers | | 384 | 25 | 91.5 | 96.2 | 92.8 | 85 | 100 | 93 | 166 | 88.7 | 983 |
| Capital Investment (JD) | Up to 999 | 44.5 | 33.3 | 30.3 | 15.2 | 21 | 15 | 15 | 36.6 | 32.9 | 41.1 | 23.4 |
| | 1000 to 4999 | 36.3 | 52.3 | 52.8 | 59.1 | 52 | 50 | 70 | 30.4 | 43.5 | 36.6 | 50 |
| | 5000 + | 11.1 | 6.7 | 8.4 | 21.9 | 19.8 | 20 | 15 | 26 | 20 | 11 | 17.3 |
| Source of Financing | Self | 59.9 | 35.7 | 60 | 60 | 58.6 | .2 | 67.4 | 53.4 | 49.5 | 64 | 50.3 |
| | Friend | 17 | 14.3 | 19 | 13 | 20.2 | 3 | 11.9 | 25.3 | 18.5 | 12 | 25.7 |
| | Family | 8.5 | 14.3 | 12 | 19.2 | 15.6 | 16.2 | 10.3 | 12.1 | 21.2 | 21 | 15.7 |
| | Other | 3 | 21.4 | 5 | 2.3 | 2.5 | | 6.9 | 4.5 | 3.6 | | |
| Ownership Status | HH | 74.4 | 73.3 | 79 | 63.4 | 70.8 | 55 | 45.5 | 60 | 80 | 83.3 | 68.8 |
| | Family | 14.3 | 6.7 | 15.4 | 16.8 | 17.4 | 20 | 45.5 | 26.6 | 7.1 | 8.3 | 19.5 |
| | Partner | 9 | 20 | 4.5 | 19 | 11.3 | 25 | 9.1 | 11.4 | 12.9 | 6.3 | 11 |
| Premises | Rented | 69.2 | 85.7 | 80.9 | 77 | 78.4 | 90 | 24.2 | 60.5 | 72.6 | 79.5 | 85.2 |
| | Owned | 27 | 14.3 | 19.1 | 22 | 20.6 | 10 | 69.7 | 35.7 | 25 | 20.5 | 14.2 |
| Location | R.Camp | 4.5 | | 11 | 5.3 | 7.7 | | | 13.7 | 12.9 | 15.1 | 8.1 |
| | Village | 37.3 | 46.7 | 43 | 36.6 | 30.1 | | 69.7 | 38.5 | 32.9 | 28.8 | 30.8 |
| | City | 58.6 | 53.3 | 46 | 58 | 62.2 | 100 | 30.3 | 47.8 | 54.1 | 56.2 | 60.1 |

| Firm Type | | Cloth-ing | Knit wear | Black smith | Alum.-smith | Carp-entry | Shoe-maker | Food Proc. | Shop-keeper | Hair-dresser | Electr. Repair | Mech-anics |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Production Decision | On Demand | 60.9 | 60 | 97.5 | 99.2 | 93.8 | 85 | 80 | 100 | 100 | 91.8 | 95 |
| | Prod. Line | 3 | 23.7 | | | 4.6 | 10 | 13.9 | | | | |
| | Sub-Contract. | 27.1 | 13 | 5 | | | 5 | | | | | |
| Source of Raw Material | W.saler | 55.3 | 46.2 | 85 | 90 | 82.4 | 95 | 80.8 | | 50.9 | 59 | 42.3 |
| | Retailer | 29.8 | 30.8 | 14 | 5.4 | 11.4 | 5 | 12.9 | | 28.8 | 24 | 46.5 |
| | Other | 14.9 | 23.1 | | | | | 3.2 | | 20 | | 4.4 |
| Customers | Local | 45.2 | 68.3 | 95 | 98.5 | 91.6 | 5.3 | 62.5 | 100 | 92.9 | 95.8 | 91.6 |
| | W.saler | 14.5 | 14.2 | | | 4.2 | 20.8 | 9.4 | | | | |
| | Retailer | 2.5 | | | | | 73.9 | 9.4 | | | | |
| | Other | 33.8 | 14.3 | | | | | 18.7 | | 7.1 | | |
| Owners Declared Competitive Strategy | Quality | 58.2 | 33.3 | | 69.8 | 68.5 | 22.2 | 71.4 | | 54.9 | 57 | 61.9 |
| | Price | 13.2 | 22.2 | 74.2 | 12.3 | 10.7 | 33.3 | 7.1 | | 3.9 | 16.4 | 8.6 |
| | Both | 7.7 | 22.2 | | 8.4 | 5.1 | 11.1 | 7.1 | | 7.8 | 13.1 | 14.9 |
| | Other | 12.1 | 22.2 | | 8.4 | 6.2 | 22.2 | | | 30 | 15 | 12 |

Source: Data collected from survey