





# “The prospects of Bahrain’s entrepreneurial ecosystem: an exploratory approach”

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# THE PROSPECTS OF BAHRAIN'S ENTREPRENEURIAL ECOSYSTEM: AN EXPLORATORY APPROACH

## Abstract

Having a positive environment and enforcement in a social-political economy is necessary to poster an effective entrepreneurial climate. The passion for self-startups and risk-taking attitude are entrepreneurs' traits with effective motivations, innovation, creativity, persistence, and flexibility. This helps the entrepreneur succeed and excel in their business. The success of a new project adventure is a crucial matter in business and investment. The literature review revision allows detecting the most attractive factors, the main reasons for startup failure, and the challenges facing entrepreneurs and new projects. This review paper enlightens Bahrain's entrepreneurship ecosystem's attractiveness and argues how the economy in the Kingdom of Bahrain encourages startup companies to establish and develop their business. The analysis results illustrate that the Government of Bahrain's support system with effective public institutions and encouraging society are significant factors contributing to the success of the startup project. Nourishment extended by the government institutions and other supportive organizations like Tamkeen, Injaz, and EDB simplifies the formation of startup projects and support their sustainable growth. Analyzing the most common reasons for startup failure, the paper presents the proposed solutions to avoid these traps. It suggests the appropriate bodies in the entrepreneurship ecosystem, supporting and helping entrepreneurs overcome these difficulties.

## Keywords

innovation, entrepreneurship challenges, success factors, startup failure, ecosystem, Bahrain

## JEL Classification

L26, M13, O30, Q57

## INTRODUCTION

This review paper attempts to detect the most frequent challenges facing the creation of startups and analyze how Bahrain's ecosystem affords an excellent environment to overcome these challenges, create opportunities, and attract entrepreneurs to launch startups. Motives, challenges, factors affecting the success and the failure of startups have been an important topic for researchers for the last decades. The roots of the research on entrepreneurship could be extended to the works of Knight (1921), Schumpeter (1934, 1942), and Penrose (1959). These earlier efforts focused on the role of entrepreneurs as innovators, risk-takers, and market motivators. Over the past four decades, entrepreneurship research has been significantly developed, profiting from innovations in technology, finance, and different areas. In numerous countries, entrepreneurship is considered a major force of the economy for development. The economy's growth counted based on developing small business replaces putrefying state-owned organizations and generation of employability (Mazzarol et al., 1999).

The report released from the United Nations notifies the economic challenges of Arab countries can be sorted out with the effective encouragement and expansion of the private sector. The report high-

lights the importance of accessibility to private sectors to active participation in business activities (Fergany, 2002). Bahrain and Oman are considered growth-oriented to other MENA countries like Saudi Arabia, UAE, Qatar, etc., due to the existence of oil reserves in the Gulf nations. The diversified economy in Bahrain, like Dubai, intensified comparatively high-growth societies (Fergany, 2002). During the mid-twentieth century, the vast social welfare, development plan, and public works were generated after discovering oil (Kabasakal & Bodur, 2002). However, within a few years, these same Gulf nations have found it tough to withstand such generosity due to population growth and rapid unemployment among nationals, particularly the younger population (Gill et al., 2000). Considering these challenges, the Kingdom of Bahrain and other Gulf nations are encouraged by private parties to be involved in business and entrepreneurship to create employment. The Government of Bahrain established various platforms and international collaboration in association with universities and institutions to meet this challenge.

The economy of Bahrain is flourishing and primed businesses to gain rewards. Bahrainis join the labor force with an extraordinary array of skills and tremendously high inspiration stages, making them idyllic employees. The forward-thinking government works closely with businesses and commercial establishments to develop a business-friendly atmosphere through policy reform. These are balancing with the strategic position at the heart of the Gulf brands in Bahrain, the optimum location to inductee and raise a business. Bahrain established institutional collaboration with the state-sponsored establishment to enhance mindset, which could contribute to the entrepreneur. Creating an appropriate ecosystem that supports the entrepreneurs and enables them to launch their venture is an important startup success factor. Bahrain's Government gives great attention to support entrepreneurs and new startups. This support has a different form and also attracts foreign investors.

This paper is a research adventure to identify the most recognized challenges and motives of entrepreneurship and analyze how the Bahrain's Government supports entrepreneurs to overcome these threats and afford the attractive environment for initiating a startup. Section 1 presents the relevant literature review and research background. The results and discussion of the results are presented in section 2. The conclusion and future research are mentioned in the final section.

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## 1. LITERATURE REVIEW AND BACKGROUND

The field of entrepreneurship has an enormous impact on the economy and growth (Bruyat & Julien, 2001). The literature is rich in researches focusing on the different aspects of entrepreneurship. The roots of this literature could be found in the earlier contribution of Knight (1921) who focused on the role of entrepreneurs as profit-makers and risk-takers. It is also in Schumpeter's work (1934, 1942) that highlights the crucial role of innovative entrepreneurship and its contribution to economic growth. Penrose (1959) gave critical importance to the firm resources in the success of entrepreneurship and growth. This contribution led to the foundation of the resource-based view theory. Cyert and March (1963) also have the initial

contribution through the behavioral theory of the firm. For Kirzner (1973), entrepreneurship allocates the available resources and invests the market opportunities, which lead to economic growth and development. Granovetter (1985) presented the special importance of social networks in entrepreneurship. Low and Macmillan (1988) discussed the different aspects associated with new firms' creation.

Covin and Slevin (1989) examined the strategic dimensions of entrepreneurship, focusing on the environmental factors concluding that risk-taking, innovation, and proactiveness are key success factors of the firm strategy. For Vesper (1990), new entrepreneurs should consider five important factors when they start their projects: customer needs, products and services, technical know-how, resources, and personal

contacts. Barney (1991) analyzed the sustainable competitive advantage of a firm, concluding that entrepreneurs looking for a value creation strategy should adopt strategic choices that enable them to possess valuable, rare, and inimitable resources. Lumpkin and Dess (1996) focused on the impact of strategic orientation on entrepreneurship performance. Busenitz and Barney (1997) differentiated managers and entrepreneurs through different levels of the decision-making process. Aldrich (1999) presented the evolutionary theory of organizations, highlighting the entrepreneur's role in creating organizations. Shane and Venkataraman (2000) established a framework for entrepreneurship and emphasized entrepreneurship opportunities and the role of these opportunities in the entrepreneurial process.

Other researches have focused on the opportunities, motives, challenges, and obstacles facing entrepreneurship. Several studies classified motives for creating new business in two groups: "push" and "pull" motivations. Push motivations are driven by the need to escape from unwanted reality, while pull motivations drive the force that inspires successful outcomes. Looking to earn a reasonable living through own business is one of the most mentioned in the results of the previous research such as the works of Carter and Cannon (1992), Dunn (1995), Shane et al. (2003), and Roomi et al. (2009). The negative work environment such as the working hours, inadequate salary, difficulty in finding are also pushed motivations for entrepreneurship creation (Brockhaus & Horwitz, 1986; Watson et al., 1998; Borooah & Hart, 1999; Grilo & Thurik, 2006; Sarasvathy, 2008). On the other hand, researchers identified pull motivations like the desire for self-esteem, wealth, or social status (Gilad & Levine, 1986; Barrow, 1993; Lumpkin & Dess, 1996; Watson et al., 1998; Feldman & Bolino, 2000; Mckay, 2001; Doobs & Hamilton, 2007; Ireland et al., 2009; Wales, 2016).

Considerable research studies have examined the challenges facing entrepreneurship and the reasons for startups' failure. These studies were conducted in different regions, and different methods were used to identify the most influential factors on startups' failure. This pa-

per classified these reasons into four categories: The first category contains the factors connected with the relation with customers (customer-based reasons). These factors have been found as failure reasons of entrepreneurship (Bednár & Tarišková, 2017, 2010; Pyysiäinen et al., 2006; Wijewardena & De Zoysa, 2005; Ladzani & Van Vuuren, 2002). The second category contains the factors related to the market and the competitors (market-based reasons). The sharpness of the competition, the absenteeism of the competitive advantages, and the lack of strong channels to access the market are examples of these factors (Gutiérrez et al., 2015; Arruda et al., 2013; Geroski et al., 2010; Song et al., 2008; Rose et al., 2006; Mata & Portugal, 2002). The third category contains the technology and technical failure reasons (technology and technical-based reasons). The lack of know-how, the ignorance of the products and the activities related, and the lack of the knowledge related to the required technology for the project are the main factors of this category (Huck & McEwen, 1991; Lumpkin & Dess, 1996; Zahra, 1996; Hodgetts & Kuratko, 2007; Fairlie & Robb, 2007; Lafontaine & Shaw, 2016; Audretsch & Belitski, 2017; Park, 2017; Tiwari & Goel, 2017). The last category is related to funding and financial management failure reasons. This category includes the factors related to the firm and funds management (Hahn et al., 2020; Goel, 2018; Marvel et al., 2016; Raven & Le, 2015; J. Odia & A. Odia, 2013; Groenewegen & De Langen, 2012; Baptista et al., 2007; Ladzani & Van Vuuren, 2002).

This research paper attempted to explore to what extent Bahrain's environment is motivating entrepreneurs by increasing the opportunities in the markets and mitigating challenges and obstacles facing entrepreneurship.

## 2. GENERALIZATION OF THE MAIN STATEMENTS AND DISCUSSION

The revision of the literature review allows detecting the most attractive factors and challenges facing startups and new projects. After identify-

ing these factors, this paper presents Bahrain's experience to offer a balanced, attractive ecosystem encouraging national and foreign entrepreneurs compared to the other GCC countries. Research has intended to find the Bahrain's entrepreneurship ecosystem with all the motivated components, searching for the most common reasons for the startup failure, and finally suggesting the appropriate solutions and the supportive bodies to overcome these reasons. So, the research design shall reflect why Bahrain is an attractive place to start the business adventure, what is the support given by the public and private institutions to guide the entrepreneurs and support this investment adventure.

This exploratory study is intended to understand and identify Bahrain's attractiveness towards the entrepreneurs and the support the Bahrain's entrepreneurial ecosystem is offering for the new startups.

## 2.1. Bahrain is an attractive place to start a business adventure

Bahrain's location in the heart of the Gulf location and the easy access to the other countries in the Middle East and Asia makes Bahrain an attractive place for entrepreneurs, in addition to the huge governmental investment in the physical infrastructure such as the long regional road network and the investment areas for different sectors. The Economic Vision 2030, which has been launched by His Majesty King Hamad Bin Isa Al Khalifa in October 2008, represents the strategic guide for Bahrain's economic future. This Vision is targeting to shift Bahrain from one built on oil wealth to a well-diversified productive economy. This Vision focuses on three basic principles: competitiveness, integrity, and sustainability. The objective of the Economic Vision 2030 is to build a strong economy for the benefit of the public. The government has launched the economic programs, representing the roadmap to achieve the Economic Vision 2030 goals. These programs are permanently revised and adjusted to adapt to economic changes and investment ecosystem development. This revision also covers the reform of the legal frame of the investment and the issuance of the new regulations to accompany the development and

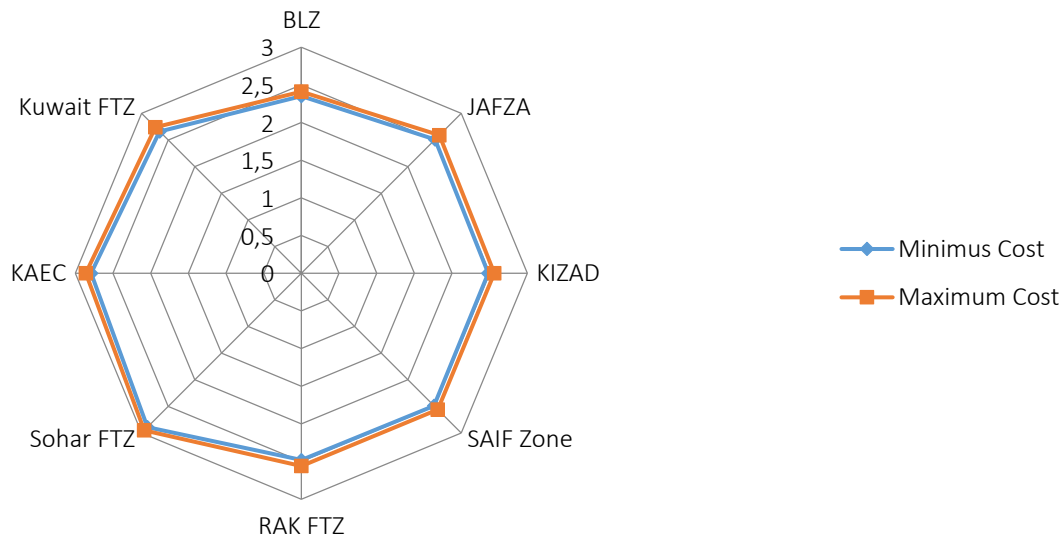
the progress in the investment ecosystem. For example, Bahrain's Government adopted a cluster of laws to facilitate and encourage entrepreneurial investment and support entrepreneurship, such as the investment limited partnership law, protected cell companies' law, trusts law, liberalized business activities law, minimum capital requirements law, FinTech regulatory sandbox.

Bahrain's Economic Development Board is responsible for attracting investment and supporting initiatives that enhance the investment climate by providing appropriate information and assistance for entrepreneurs and investors who need to establish and start their work in the Bahrain's economy. The government has given special care to the information and communication technology industry by implementing the appropriate infrastructure and facilitating the investment process. The Bahrain market hosts a range of IT companies in the areas of IT services, IT distribution, IT consulting, software developers, and customer support centers. Bahrain has been ranked number one in the MENA region for its ICT readiness and offers the most competitive and affordable ICT services in the region (EDB, 2019). The focus on the ICT sector investment is argued for two reasons: (a) the importance of the growth and the efficiency of the investment in the sector itself and (b) the output of the development of this sector and its impact on the other sector and specifically on the financial sector, which is considered an attractive and strategic sector in Bahrain in 2030.

According to the KPMG report, which evaluated the costs linked to an ICT investment in the GCC countries, the average annual cost of operations in Bahrain is low-cost compared to the other GCC countries (KPMG, 2018). The operating costs covered the annual licensing fee, commercial rent, manpower cost, cross-border connectivity, telephone and internet services, electricity, and water cost. Figure 1 illustrates the cost difference in the different GCC countries compared to the minimum and maximum costs.

The annual operating cost associated with various GCC countries and compared to Bahrain.

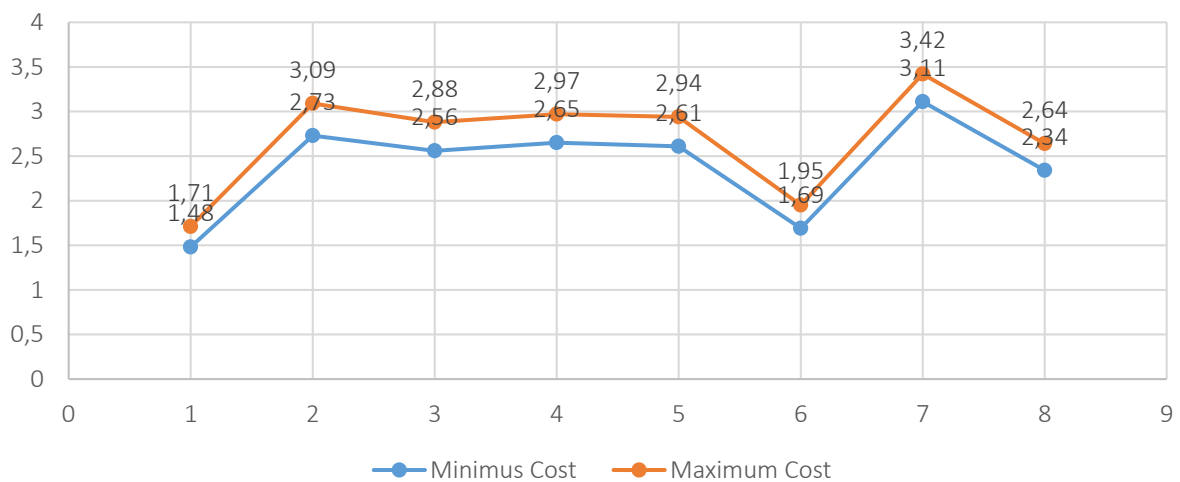
Source: Authorities of various GCC industries and KPMG reviews.



Note: BLZ: Bahrain logistic zone\*; KAEC: King Abdullah economic city, Saudi Arabia\* (investment parks\*); JAFZA: Jebel Ali free zone Dubai\*\*; KIZAD: Khalifa industrial zone, Abu Dubai\*\*; SAIF Zone: Sharjah Airport International free zone, UAE\*\*; RAK FTZ: Ras Al Khaimah free trade zone, UAE\*\*; Sohar FTZ: Sohar port and free zone, Oman\*\*; Kuwait FTZ: Kuwait free trade zone\*\*.

Figure 1. Estimated total cost of business set-up in GCC

Source: Authorities of various GCC industries and KPMG reviews.



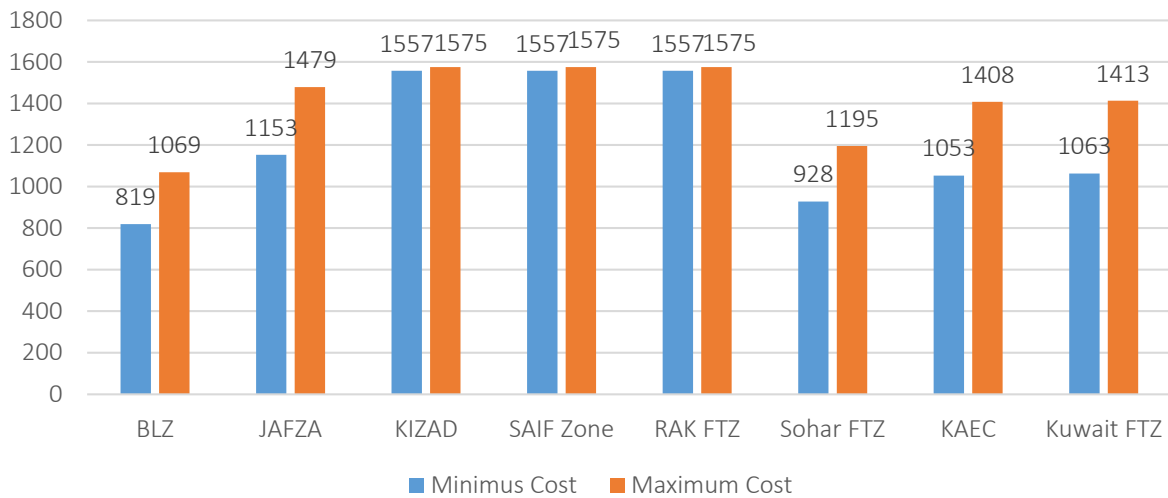
Note: Follow Figure 1 abbreviations.

Figure 2. Estimated annual operating cost

The data show a clear indication of cost advantage compared to other GCC, comparing the cost of utilities and internet using in Bahrain and Dubai demonstrating that Bahrain has the lowest cost and a clear competitive advantage over the other GCC countries (Figure 2). Similarly, in total annual manpower cost, Bahrain was lower than other GCC countries

(Figure 3). Compared to the other GCC countries, Bahrain is the fastest in issuing the investment license and accelerating the registration and processing time, which is estimated to be between four and six weeks. The commercial rental costs for office space in Bahrain is also the lowest compared to the other GCC countries (Table 1).

Source: Authorities of various GCC industries and KPMG reviews.



Note: Follow Figure 1 abbreviations.

**Figure 3.** Total annual manpower cost in USD for logistic company

**Table 1.** Infrastructure, utilities, and other facilities for startups in Bahrain

Source: Ministries of Commerce and Industry, Water and Municipality, KPMG research and analytics.

Land and rental construction (USD)	Land rental for a warehouse	Service charge	Pre-built warehouse with office space rental	Construction cost for warehouse
	9.5	1.4	84.8-113.8	650-670
Cost of utilities (USD)	Electricity (per kWh)		Water (per m3)	
	0.029		1.27-2.23	
Seaport costs and time	Terminal handling for 20-foot containers (USD)		Clearing, documentation, and transportation	
	93		290	
Customs fee (USD per container)	Import	Export	Transit	Certificate of origin
	85	85	80	135
Sea freight cost and duration for exporting from	Sea freight cost (USD per 20' container)	Sea number of days	Sea freight cost (USD per 40' container)	
	350	1 to 2	600	
Taxation	Corporate income tax	Municipal tax	Withholding tax	Other taxes summary
	None	10% of commercial and residential rent for expatriates	None	None

## 2.2. Startups and entrepreneurial projects' motivations and reasons for failure

Asking about motivations, obstacles, and failure reasons of entrepreneurship is crucial in the business sector. Fifty-one percent of people asked "What is the best way to learn more about entrepreneurship?" responded with "Start a company" (Mansfield, 2018). Searching for the reasons motivating people to their own business, Xia et al. (2018) found four motivators: estimation, independence, experience, and characters. Varghese

(2019) recognized independence, learning, experience, extra income, and wealth attractiveness.

Entrepreneurs have different motivations to start their own business. The most famous reasons are:

- 1) independence and looking to own and run a business;
- 2) recognition and self-realization;
- 3) pushed by passion;
- 4) innovation;
- 5) looking for outsourcing income;
- 6) finding opportunity before retirement;

- 7) life event or pressure such as divorce, death, etc.

Searching for the most common reasons for start-up failure, most of the evidence found in the literature review and the specialized website agreed on the following factors as the main failure reasons. (McGowan, 2017; Bernardo, 2018; QuakCapitl, 2018; Cantamessa et al., 2018):

### 2.3. Startups and entrepreneurial projects prospect

Entrepreneurs should have effective support to accelerate the penetration to the market and increase the likelihood of success and continuity of the business. After developing the startup vision, entrepreneurs should have the support to create their business model to avoid the failure of the project. In this subsection, for each group of failure reasons, a set of questions is prepared to assist entrepreneurs in avoiding the failure trap and help them to build their business model and then a suggestion of appropriate partners available in the Bahrain entrepreneur ecosystem to support the entrepreneurs and investors.

#### 2.3.1. Customer-based reasons

To avoid customer traps in startups, entrepreneurs should have an answer to a set of questions such as:

- Which unmet needs is the project targeting?
- What is the customer segmentation targeted?
- What is the product/s pricing strategy? (cost-plus, competitive pricing, value-based pricing, price skimming, penetration pricing)
- Which competitive strategy is adopted? (low cost, differentiation)
- Any other specific questions related to the nature of the project.

#### 2.3.2. Market-based reasons

For this group of reasons, a set of the following questions is proposed:

- What are the access channels to the market?
- What are the project expectations about customer lifetime value (LTV) and customer acquisition cost (CAC)?
- How does a project or product differ from competitors?
- What are the competitive advantages?

The Bahrain's Government has had an enormous initiative to support the entrepreneurs and investors in Bahrain for local ecosystem partners who can support entrepreneurs to overcome the market and the customer-based reasons for failure:

- 1) Bahrain Economic Development Board (EDB) is a public body that is ready to assist the entrepreneurs regarding their inquiry about the industry assessments, the processes, and the requirements, or any kind of advisory support;
- 2) Bahrain Business Incubator Center assisting entrepreneurs in Bahrain through physical workspaces, counseling, advice, documentation, and administrative support;
- 3) CH9 is a business accelerator that delivers diving events, workshops, workspaces and, talks to promote the startup ecosystem in Bahrain;
- 4) Flat6Labs Bahrain is a regional startup accelerator that provides strategic mentorship, inventive workstation, entrepreneurship-oriented business training in the MENA region;
- 5) Riyadat concentrates on women entrepreneurship in Bahrain by providing incubator and other facilities;
- 6) Rowad assists and supports entrepreneurs in Bahrain at each phase of the business cycle through education, training, incubation, and mentorship.

#### 2.3.3. Technology and technical-based reasons

Technology's role is becoming more critical, and it constitutes a core component of the new ventures and entrepreneurship. To avoid traps related



to technology and technical operations, entrepreneurs should have an answer to a set of questions such as:

- 1) What are the activities required to develop and produce the final product/s of the project?
- 2) Which type of activities (in-house or outsource)?
- 3) How will outsourced activities affect the cost of the project?
- 4) What type of technology project does the project need/use/produce?
- 5) What are the requirements for expanding or accelerating the scale of production?

Bahrain entrepreneur’s ecosystem provides the opportunity for entrepreneurs to benefit from technical and technological support from Bahrain’s Economic Development Board (EDB).

Brinc aims to empower entrepreneurs and founders and helps them use technology to develop their product by offering internet connection support, hardware, drones, and robotics.

C5 Capital accelerates technology investment firm that aims to promote the growth of startups through a cloud computing accelerator program.

Nest provides support for all FinTech projects in cooperation with American Express Middle East. They provide innovative digital solutions, automated payments, and alternative physical and digital platforms for merchants

**2.3.4. Funding and financial management-based reasons**

For the funding and financial management issues, it is to ask questions like:

- 1) What is the margin created by the project?
- 2) What are the fixed and variable costs incurred?
- 3) How much investment in working capital and assets will be required?
- 4) What are the funding sources, and to which extent they can support the expansion?
- 5) What are the breakeven point and the flexibility of this point?

Bahrain’s ecosystem provides the opportunity of providing entrepreneurs with financial advisory through the different bodies mentioned above, such as EDB, Bahrain Business Incubator Center, Riyadat, and Flat6Labs. For funding entrepreneurs, in addition to the Islamic and conventional banks in Bahrain and other mentioned bodies

**Table 2.** Peer-to-peer lenders in different regions

Source: authors.

United State	United Kingdom	Europe	GCC
Lending Club	Blend Network	Mintos	Beehive
Upstart	ZOPA	Estateguru	Eureeca
Prosper	Funding Circle	Peerberry	Ziina

**Table 3.** Incentives of free trade zones and investment parks

Source: Authorities of free zone, investment park, and city.

Types of incentives	BLZ	JAFZA	KIZAD	SAIF Zone	RAK FTZ	Sohar FTZ	KAEC	Kuwait FTZ
Tax exception	√	√	√	√	√	√	x	√
Foreign ownership (100%)	√	√	√	√	√	√	√	√
Repatriation of capital/profit (100%)	√	√	√	√	√	√	x	√
Duty-free in raw materials and equipment	√	√	√	√	√	√	√	√
Duty-free access to the GCC market	√	x	x	x	x	x	x	x

Note: Abbreviations are given in Table 1.

like Nest, C5 Capital, and Brinc, entrepreneurs can look for other solutions like Middle East-venture Partners, Bahrain Development Bank, Tamkeen. Fintech technology is also enabling entrepreneurs to have access to funds through peer-to-peer (P2P) lending platforms. Table 2 presents a list of the famous P2P lenders in different regions, including Bahrain, where they have penetrated. Beehive is MENA's first regulated peer-to-peer (P2P) lending platform, based

in Dubai and extended recently to Bahrain, provides Sharia-compliant services for entrepreneurs. Similarly, Bahrain is one of the friendliest countries for entrepreneurship and startups for tax exception, full foreign ownership, repatriation of capital and profit, duty-free raw material and equipment, and access (Table 3). These data emphasize its performance and credibility to which the Kingdom of Bahrain announced in its Economic Vision 2030.

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## CONCLUSION

This paper identified the common reasons for startup failure, the top challenges for the new entrepreneurs, and the key success factors for entrepreneurship. The exploratory research outlined the framework of the ecosystem in GCC countries and how Bahrain has an advantage compared to the rest of the GCC countries. The research emphasized the form of incentives and investment and how Bahrain is more diversified and entrepreneur-friendly. The entrepreneurs in Bahrain find full support from Bahrain's Government and the entrepreneur ecosystem partners in Bahrain through the EDB, Tamkeen, Injazz, Bahrain Business Incubator Center, and other public institutions private entities. The most common failure reasons regrouped in four groups: technology and technical-based reasons, market-based reasons, customer-based reasons, and funding and financial management-based reasons. The appropriate analysis of these reasons enables the issuance of four sets of questions to help entrepreneurs avoid the failure traps. Finally, a suggestion of the specialized Bahraini units, which can support the entrepreneurs in answering these questions and overcoming the failure reasons, is given.

The rapidly growing population in Bahrain and the diversified cultural atmosphere attract massive investment towards the Kingdom of Bahrain. In the coming decades, Bahrain must consider these opportunities and invest in more infrastructural development. The Kingdom must also focus on conserving the scarce supply of water and electricity tariffs to attract industries. The labor and skilled manpower are also other challenges for the Kingdom; the structural dependency on expatriates emphasizes investment in the advanced and industrial oriented education system in the countries they need to focus on.

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