Is there a place for entrepreneurs in the Arab world?

Where does the new breed of Emirati entrepreneurs fit in to a landscape dominated by multinationals and big family-owned Arab businesses?

Nada al Qassimi was the head of media and marketing at the Dubai Health Authority when the company hired to run the campaign on diabetes botched the job. Having seen too many companies, especially foreign ones, run bad campaigns because of the lack of understanding of the local culture, she decided to open her own company, Two 12, in the midst of the recession in March 2008, to provide better marketing and advertising services to organisations in the UAE.

Over in Abu Dhabi, Ziad al Khaja and Abboud Braiki of Visual Advertising created the city’s first roadside recycling bins that glow in the dark. “What inspired me to work on this project is the vision of the UAE leadership on using alternative energy. That was a big incentive for us, and we used the sun as a source of energy to illuminate the signboards on the recycling bins. These signboards are used for advertising and have zero footprint,” al Khaja told INSEAD Knowledge.

These Emiratis are the new breed of entrepreneurs who have emerged in the United Arab Emirates (UAE) in recent years. The 2010 Global Entrepreneurship Monitor (GEM) report on entrepreneurship in the UAE says that the region’s total entrepreneurial activity rate - which measures the percentage of the population either actively trying to start a business or already owning and managing a business less than three-and-a-half years old - sharply increased from 8.44 per cent in 2007 to 13.25 per cent in 2009.

The report also shows that the UAE has the highest participation rates for young businesses and the second-highest rate for business start-ups compared to other countries at a similar stage of economic development.

According to Dr Ahmed al Mutawa, the CEO of Khalifa Fund for Enterprise Development, the typical UAE entrepreneur is in his or her thirties and has most likely worked in a government or private institution. Some 25 per cent of the finance applicants are female and that number is rising.

Reasons for growth

Al Mutawa says that the appetite for entrepreneurship is high because of the opportunities that the government and institutions such as the Khalifa Fund are giving Emiratis in terms of training, financing and other forms of assistance. Khalifa Fund, for example, has signed many agreements that offer waivers and privileges to national independent businesses so that they can grow and have all the support they need during the developmental phase.

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Another reason for entrepreneurial growth in the UAE is the change of perception towards starting a business. The GEM study says that a majority of Emiratis now view entrepreneurship as a good career move that offers them a high status, which also helps them receive favourable media attention. Some three-quarters of those polled were confident of having the necessary skills and experience to start a business.

“Entrepreneurs in the UAE are looking eagerly for [business] opportunities in different sectors. They feel that they can improve their standard of living by owning a business rather than be employed,” al Mutawa told INSEAD Knowledge. “The type of business ranges from the regular to the innovative, and we even have lifestyle entrepreneurs.”

Are these entrepreneurs a boon to the economy in terms of sectors and products? Al Mutawa says that the economy cannot be dictated by small businesses. “A business is established to meet a demand. Yes, it is also serving the economy. But is it sufficiently technological? Is it improving the economy? These businesses are too small in scale to have such an effect at the moment.”

Challenges

Al Qassimi says that her main challenge is competing with the international companies. “As UAE is an open economy, it attracts big multinational marketing agencies. It would have been very difficult for me, being one of the first Emiratis in the market, to enter the market. However, because of the government’s policy to support UAE nationals, I am welcomed when I go and knock on doors.”

Initially, al Qassimi struggled to match the standards of the multinationals. “However, I realised that my strength lay in the knowledge of the local culture and I capitalised on that by putting in touches that clicked with the Emiratis. They liked it, even if the ads were not big in terms of marketing or advertising value, and I gained a lot of support,” she says.

There is a strong fear of failure in the UAE community with regards to the creation of a new venture; the cultural significance is the loss of face associated with business failure. Hence it was not surprising when concerned friends and family asked al Khaja if he was capable of carrying out the unheard-of task of putting luminous signboards on recycling bins. “But when they saw the project on the ground they started supporting me,” says al Khaja. “The whole community is watching this new Emirati invention. It’s the first time where advertising boards are powered by solar power and placed on recycling bins.”

Regulatory reforms

In 2010, GEM called for continuous regulatory reforms to ease the way businesses can be conducted in the UAE. It sees the absence of many legal rights as a weakness in the current environment. Al Mutawa concurs: “SMEs can be better supported in the regulatory environment. One of the first things the government needs to do is define SMEs – which enterprise is small and which is medium-sized - and then design exemption schemes to help them. Then there needs to be reforms in insolvency and bankruptcy laws, which hamper business activities.”

By UAE law, if a company does not make payments to creditors within 30 days, it must declare insolvency or face charges of bankruptcy by negligence, which is a criminal offence. The lack of structured bankruptcy laws and a banking system that has zero flexibility on loan repayments have forced many business owners to flee in fear of criminal sanctions. GEM has called for the UAE to adopt the best-in-class international standards when reforming bankruptcy laws so that business owners do not end up incarcerated if they encounter payment issues to creditors.

Big versus small players

The major economic activities in the UAE are dominated by large family businesses, in addition to government and quasi-government companies. So where do small businesses fit in? Al Mutawa says the issue is to compliment, not to compete. “Family-owned businesses are usually big players and that is no place for young entrepreneurs. Entrepreneurs can of course grow and compete with them. However, until then, the small and medium-sized companies usually grow on the back of the big ones through subcontracting activities. Khalifa Fund has an initiative called Khalifa Gateway, which is a portal in which they put the small and medium-sized companies with the big ones so that the latter can do subcontract work. This encourages and supports the growth of SMEs.”

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