

ASSESSMENT OF ENTREPRENEURSHIP CHALLENGES IN THE MIDDLE EAST AND NORTH AFRICA

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ABSTRACT

The paper highlights the barriers of the emergence of entrepreneurship in the Middle East and North Africa (MENA) countries, and the role of the government to support the entrepreneurship programs. The paper examines how entrepreneurial ventures can be enhanced through discrete policy measures, encompassing network support, training, building institutional capacity, and public procurement. In this study, we surveyed a group of entrepreneurship leaders in Libya and Saudi Arabia to get some insights. The paper initially found that government intervention is considered effective and plays a leading role in challenges. The paper provides guidance to practitioners and highlights the factors that should be considered to develop the entrepreneurial in the MENA region.

Keywords: Entrepreneurship, Middle East and North Africa, Libya, Saudi Arabia

INTRODUCTION

Entrepreneurship is an important, yet untapped, source of economic growth around the world. There are two main parts that entrepreneurship ecosystem is built around and complementary to each other, which are the entrepreneur and the opportunity [1]. The entrepreneurial ecosystem can also be broken down to “The combinations of social, political, economic, and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures” [2]. Entrepreneurial ecosystems have functional goals, and they involve knowledge creation and management in innovation [3]. The outputs of the entrepreneurial ecosystem are the activity or process that individuals create opportunities for innovation. This innovation leads to add value in society and provides the ultimate outcome of an entrepreneurial ecosystem [4]. In the early work, Schumpeter [5] discussed the role of the entrepreneur in economic development and the impact of entrepreneurial innovation and creative destruction. Additionally, a study showed that individual characteristics, environment, and governance have a significant role in entrepreneurship decisions across the world [6]. However, the study summarized the principal obstacles into lack of entrepreneurial skills, lack of business, lack of funds, inadequate regulation and legal infrastructure, inadequate minority investor protection, and family-focused and culture nature of business [7].

Entrepreneurship is becoming very critical in developing countries that have instability and low job creation [1]. The first major study of entrepreneurship in the region was 2009 as Global Entrepreneurship Monitor (GEM) research project, which provides essential baselines for monitoring changes over time [8]. In the region, leaders and policymakers need to exploit the growing youth population by turning to

entrepreneurship. It is important to realize how political changes could affect the world of entrepreneurship and startups. Government agencies can play a critical role in boosting enterprise and innovation. Governments can mobilize the changes required. They need to set directive and policies at the federal or state level and understand what entrepreneurial ecosystems are, how they form, and how the role and limitations of government policy are well-placed to generate more effective outcomes.

Moreover, building transformational and progressive entrepreneurial ecosystems within the universities is a crucial step toward building thriving entrepreneurial ecosystems within the countries in the MENA region [9]. The decision to become an entrepreneur is a personal choice, but many factors help or frustrate a person to follow this path. Although entrepreneurship is a very critical aspect to enhance economic growth and reduce unemployment, there are many barriers and challenges to successful entrepreneurship in developed countries [10]. An intensive study showed that there had been a significantly increased in investigating entrepreneurship in MENA publish [1], but there are still some challenges that hinder investors from identifying potential opportunities in new business models and in expanding the development of individual emerging companies

This paper aims to investigate the emergence of entrepreneurship in the Middle East and North Africa (MENA) region and explore the role of the government to support the entrepreneurship programs in the same region. In this context, the paper provides answering two main questions: 1. What are the main challenges and barriers that are preventing from growing and sustaining an entrepreneurial in the MENA region? 2. What is the role of the government's policies to overcome the challenges?

LITERATURE REVIEW

Entrepreneurial Ecosystem and Models

Entrepreneurial ecosystems are defined as elements that enable productive entrepreneurship within a specific field [11]. The concept of entrepreneurial ecosystems has two parts. The first is “entrepreneurial,” which refers to the “process in which opportunities for creating new goods and services are explored, evaluated, and exploited [5], [12]. Moreover, the term “entrepreneurial” refers to the Micro Small and Medium Enterprises (MSMEs) that are usually at the initial or scaling stages [13]. The second part is “ecosystems,” which is generally defined as “a system, or a group of interconnected elements, formed by the interaction of a community of organisms with their environment [14]. Strengthening the ecosystems of entrepreneurship depends on a variety of elements. Some of these elements are: expanding the circle of people who are motivated about starting enterprises, encouraging a mindset that accepts risk-taking, training individuals in business-related skills, offering networks related to technologies and systems for venture creation, and supporting public policy [15].

Factors Influencing Entrepreneurial Motivation

There are always positive factors that “pull” and negative factors that “push” individuals into entrepreneurship [16]. “Pull” motivations are usually associated with the desire to achieve goals by independent or social development activities. “Push” motivations may occur from the family pressure or the unemployment status [17]. For example, a previous study [18] found that Chinese entrepreneurs were most motivated by desiring for higher earnings, desiring to have fun; needing achievement, and desiring to make a direct contribution to the success of a business. Scholars have argued that the act of starting up a business is based on the change needs by individual’s objective or market situations [19].

Furthermore, there were debates regarding the psychological or external environment factors that effect on entrepreneurial motivation. Some research examines the influencing of both psychological and external environment factors on creating a business. Researchers agreed that there are significant difficulties in

making a comparison of both factors on entrepreneurial motivation [20]. The psychological variables are measured at an individual level and the external environment at the group level [20]. Entrepreneurship policies have a big influencing in terms of encouraging social entrepreneurship. The policy helps individuals to act in a socially entrepreneurial way. Studies highlight the critical role that the policy can have to identify the market gaps and to encourage the development of social entrepreneurs in national or local [21], [22]. There are different types of policies and actions that the government may support individuals to create their enterprises [23]. The education system is also considered as one of the requirements for entrepreneurship development, particularly in developing regions [24]. It is essential to motivate individuals to select entrepreneurship options and set-up a new venture. There is a positive relationship between education and the individual's choice to become an entrepreneur as the result and outcome of previous entrepreneurial activities [25].

Government Policy and Entrepreneurial Activity

Entrepreneurship has a significant impact on economic growth, and entrepreneurs have a substantial role in a steadily growing economy and including poverty alleviation. The relationship between the entrepreneurial sector and employment is growing [26]. That means that entrepreneurs could change the way people live and work. With their innovations, they can create jobs and wealth with entrepreneurial ventures. Entrepreneurial activities have substantial social involvements [27]. Worldwide, policymakers recognize the value of entrepreneurship. However, economic development, culture, technological development, and education are distinct factors that have influences on the emergence of entrepreneurship. Reliable and consistent entrepreneurial growth is expected in countries where these factors are present and considered. For that, governments have started to support the entrepreneurship program and reduce restrictions on entrepreneurship. The government policy is seeking to target indirect rather than direct strategies with a greater focus on the role of small firms. Entrepreneurial activities have a significant role in addressing the broader set of development challenges facing the country [28].

Innovation and Technology driven entrepreneurial ecosystem

Previous studies have reported that entrepreneurial ecosystems are implemented in different industries, each offering a specific objective and outcome [29], [30]. Each entrepreneurial ecosystem plays a critical and unique role in industry development and economic growth [31]. In the traditional models, technical know-how was necessary to develop new products and technologies while the market knowledge was necessary to know which new products introduce successfully in the marketplace, these combination of knowledge are crucial in ecosystems [32]. Recently, several studies have highlighted a new type of knowledge; it is about the entrepreneurship process itself [14]. It is about the challenges facing entrepreneurs such as the business scale, the design of business plans, and marketing the ideas to investors and venture capitalists. Large established businesses with significant management functions are always rich in technology and play a significant role in developing the ecosystem [33]. These businesses are talent magnets, many of them recent graduates, and providing commercial opportunities for local businesses in different regions [33], [34]. They offer training and facilitate all required technologies that help the initially recruited for their technological know-how acquire management skills. This supports the internationalization, which will help the young generation to be open to opportunities outside the country and transfer the knowledge and ideas from outside as well as bridging the gap between developed and developing countries.

The Middle East and North Africa Region

Governments across the region are more centralized and managed by leaders, and rules are more top-down management way where the president or the king of the country has full control of a country. In addition, the cultures of the region are most likely guided by Islam religion. The region has a strategic place in the world and many resources; however, the critical part that makes these countries do not rapidly develop is the lack of management system. In the 1990s, there was discourages entrepreneurship programs, restructuring the business environment, and the company's creation due to the protracted pace of policy reform in the region [35]. However, many countries have taken some aggressive actions to move towards value-adding exports and growth in science-based industries in recent years, which indicates that these countries have the ability and the human cadres are capable of bringing about change. Despite this in 2009, the Global Entrepreneurship Monitor (GEM) report highlighted that rates of involvement in entrepreneurial activities in the MENA countries were lower than the expectation for the developing countries [8].

In the MENA region, culture, religion, and national affiliation play significant roles in occupational decisions and affect the business environment. Furthermore, the uniqueness of the region and the distinctiveness of some of the factors that have a strong influence on business. For instance, there have been many political changes, and the region has gone through many political and economic violent conflicts throughout history, which has a direct impact on the economic sector. Most of the independent businesses are small and medium-sized enterprises, which up to 85 % of all businesses [36].

Recently, interest in entrepreneurship in the Middle East and North Africa has increased, prompting several studies to try to understand the obstacles to economic growth at the community level. For example, a study [37] found that the education system and subjective norm through perceived behavioral are significant factors to enhance entrepreneurial intention among UAE national youth. Also, a study [38] highlighted that there is a lack of solid theoretical foundations of entrepreneurship in the MENA region to develop their entrepreneurial ventures. Arab countries on ways to address the problem of unemployment and promote economic growth by raising levels of entrepreneurship through the development of different programs. However, a study [39] argued that Entrepreneurship promotion is not a practical solution to reduce youth unemployment, and the authors found that entrepreneurship may be harmful to youth by reducing unemployment. Regardless, ethical practices very critical and have a positive impact on corporate governance, which helps to get more corporate social responsibility [36]. The MENA region should introduce changes in business culture and focus more on innovation and entrepreneurship [40]. Thus, most of the countries in the region have a unique financial business since Islam forbids interest in lending or borrowing money from banks or individuals [41]. This simple Islamic finance principle changes many businesses' and supporters' views.

Entrepreneurial Initiatives in the MENA Region

The first contribution to entrepreneurship in the Middle East and North Africa was in 1963, which reviewed the entrepreneurs of Lebanon and the role of the business leader in a developing economy by Yusif A. Sayigh [42]. Entrepreneurial initiatives in the MENA region include technology incubators, non-governmental organizations (NGOs), networking associations, and university programs. The rate of founding new initiatives per year has been dramatically increasing in the past 20 years, which increased from 1.5 per year to 10 per year as a result of the increased awareness among governments and people [43]. The same study found that realizing the importance of entrepreneurship in growing economies has led to a movement in the region, mostly within the nongovernmental organizations, which launched about 62% of the entrepreneurial initiatives. The entrepreneurial initiatives lie under one of four main types: 1. personal enablers, 2. financial enablers, 3. business enablers, and 4. environmental enablers [43]. It is the

effectiveness of these initiatives that create a better entrepreneurial ecosystem more than the number of initiatives. Understanding what motivates the entrepreneurs and what resources are available for them is the first step toward building an entrepreneurial culture in the MENA region. A study conducted on the MENA region found that the technological capabilities and innovations have a positive impact on the international entrepreneurship in the region [44].

METHODOLOGY

Quantitative Survey

To get insights about the entrepreneurship programs in the region, fifty decision makers and entrepreneurs from public and private sectors participated in the survey. The paper started with literature review to investigate the entrepreneurial ecosystems and the factors that influence and motivate entrepreneurs and entrepreneurship programs in the MENA region. Then, an online survey was distributed using Qualtrics Software. The survey questions were developed based on the study objective. Sixteen questions were distributed and focused on four main areas related to the entrepreneurship issues:

- Assessing the education system encouragements for young people to start their enterprises.
- Exploring the situation of entrepreneurship including the difficulty to be an entrepreneur and level of the opportunities
- Determining the role of the government in engaging and supporting entrepreneurship
- Scanning factors that affect the effectiveness of the entrepreneurial system.

CASE STUDY

Libya and Saudi Arabia

This study focusses on two countries in this region, Libya and Saudi Arabia, to investigate the level of entrepreneurship challenges. Oil is an essential source of income for Libya and Saudi Arabia. The oil-price and its business-related play a significant role in the economies of both countries. Also, it is the big driver to change the economic competence of governments and their institutional capabilities.

In both countries, there are only few private businesses incubators that help guide entrepreneurs. One of the programs in Saudi Arabia is BADIR, which is considered as a non-profit initiative that offers technology development and commercialization [45]. “The BADIR program aims to encourage, facilitate, and support the establishment and development of a sustainable technology incubator industry in Saudi Arabia” [45]. Similarly, Libya has been working since 2011 on many entrepreneurship initiatives and activities such as ACTED and Intilaaqah programs, which aims to support the concept of social entrepreneurship in Libya and empower the young Libyan generation [46]. In both countries, governments try to launch several programs and promote new policies that encourage entrepreneurship, which helps skilled young people to create their job opportunities as well as new opportunities for others [47].

RESULTS AND DISCUSSION

The initial results of the survey show that there is a lack of entrepreneurship programs in both countries Saudi Arabia and Libya. However, there are also new initiatives to boost entrepreneurship among the new generation. 80% of the survey participants believe that the education systems in the region do not encourage people to start their enterprises and that are currently not enough entrepreneurs. About 50% of

participants considered the business schools are in good levels compared to the rest of the world universities, while about 40% thought that the business schools in the region are slightly poor compared to the rest of the world. Similar evaluation was given to whether the education system meet the needs of a competitive economy. 70% of participants observed that the adoption to the latest technologies is in moderate to low level. The results further noted that the entrepreneurial environment has improved despite the ongoing challenges facing the region. Based on the survey, most entrepreneurs believe that starting with a good idea that is associated with hard work is what makes an entrepreneurial venture succeed. Moreover, most participants agreed on similar factors that increase the effectiveness of the entrepreneurial system. These factors include government support, Individual support, education awareness, operational competencies, and venture capital. The survey result confirms that there are many challenges that could face entrepreneurs in the region, such as lack of individual skills, deterioration in the economy, government rules & policies, society culture, and high competition. Participants considered educational bodies, investment entities, and governmental and private entities to be all equally responsible to support entrepreneurship programs. The survey showed that an entrepreneur's primary motivation for starting his/her own business is making money, and the main challenges in creating and sustaining entrepreneurs can be divided into three areas:

- Providing a stimulating educational system since the education system has a core role in educating and training the new generation of entrepreneurs and promoting entrepreneurship.
- Provide the necessary support from the government to create entrepreneurship programs. The results confirm that governmental entities have a central participation role in the entrepreneurial sustainability environment by supporting new enterprises to start a business and get a bank loan.
- Adopt resources that help to accelerate the business. Seventy presents of participants confirm that the adoption of the latest technologies is moderate to a low level, while technologies and innovations are the base resources to the entrepreneur. In addition, the potential for digital services is still not fully utilized in the entrepreneurship sector, which makes another obstacle to facing the world of financial technology.

CONCLUSION AND FUTURE WORK

In most developing countries, there is a need for concerted and coordinated efforts on multiple fronts to promote entrepreneurial activity and motivational factors. The present study focuses on determining the barriers behind substantial entrepreneurship in the MENA region. The study utilizes the most recent literature review to formulate the survey's questions. Fifty participants were interviewed using Qualtrics online survey. The final results show that there are many challenges that could face entrepreneurs such as lack of individual skills, deterioration in the economy, government support, and social culture. These challenges have the highest impact in the MENA region. Despite the lack of entrepreneurial activities and the promotion programs in the region, we expect that most of the countries in the region are currently witnessing a new phase in the growth of the business sector, especially as it is witnessing a significant increase in the number of successful start-ups and the size of available investment finance. This study used the opinions of a small group of people, which might be a limitation. In the future, more data will be collected and analyzed by considering several countries to generalize the results in the region.

REFERENCES

References available upon request from (Maoloud Dabab, dabab@pdx.edu, my.dabab@gmail.com)