

Mohammed Bin Rashid Est.

For Young Business Leaders

DRIVERS OF ENTREPRENEURSHIP IN THE UNITED ARAB EMIRATES An Emirati Perspective



Global Entrepreneurship Monitor 2006
Mohammed Bin Rashid Establishment
and GEM United Arab Emirates

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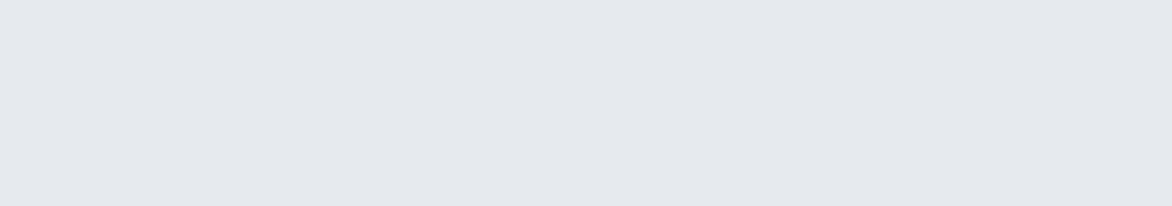
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**“Everyone dreams, but only the leader can change dreams
into reality”**

**His Highness Sheikh Mohammed Bin Rashid Al Maktoum
Vice President, Prime Minister of United Arab Emirates and Ruler of Dubai**





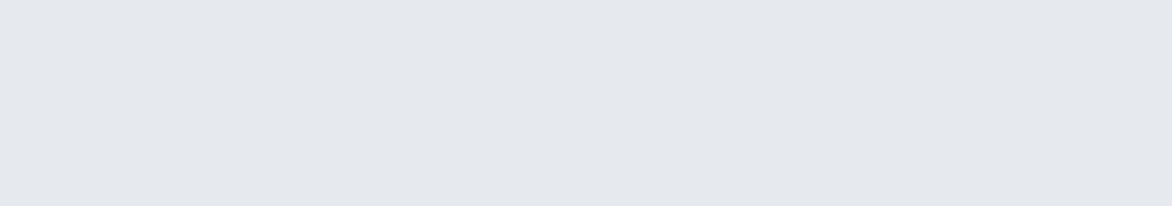
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President of the UAE and Ruler of Abu Dhabi



HH Sheikh Mohammed Bin Rashid Al Maktoum
Vice President and Prime Minister of the UAE
and Ruler of Dubai



HH Shiekh Hamdan Bin Mohammed Al Maktoum
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Chairman of Mohammed Bin Rashid Establishment
For Young Business Leaders





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This major and unique project would not have been possible without the generous sponsorship and commitment of the Mohammed Bin Rashid Establishment For Young Business Leaders. Their generous and unflagging support in the conduct of this study and the production of this report the authors hope will make a significant contribution to a better understanding of the current and future entrepreneur and the ventures they have or intend to create.

The support from the Key Informants in providing informed insights into the environment within which the entrepreneur operates is of immense value in completing this study. We thank them for their generous support. We also thank the over 3000 respondents who assisted by providing the data on which the analysis presented in this report is based.

This report aims to disseminate the results of a substantive national survey into the entrepreneurial activities of the population within the United Arab Emirates. The study comprised a random survey of slightly over two-thousand respondents from the population of the seven Emirates and an over-sampling of a further one-thousand from the national Emirati population. It is proposed to report on the findings of this study in two parts. The first publication will constitute the National Report for the purpose of informing public policy makers on the major issues in entrepreneurial activity within the UAE. The data presented in this initial report will also form the basis of the GEM Global Report that makes national comparisons of entrepreneurial activity at the global level. The GEM National Report requires that the survey sample constitutes a random sample of the population. The National Report database meets this requirement. The second and more extensive report to be published later will be an analysis of the Emirati population.

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Preface

Abdul Baset Al Janahi Chief Executive Officer Mohammed Bin Rashid Establishment For Young Business Leaders

The Global Entrepreneurship Monitor (GEM) is a leading research initiative that extensively explores the social and economic impact of entrepreneurship. Through its independent research, GEM has compiled comprehensive information that has enhanced the understanding of entrepreneurial activity in the region.

The Mohammed Bin Rashid Establishment For Young Business Leaders is proud to sponsor the UAE's first GEM research team led by Professor Kenneth J. Preiss of the School of Business Sciences, Zayed University. This significant initiative will help outline the future roadmap for entrepreneurship in the UAE by providing insights and practical solutions.

The GEM research comes at a time when there is an upsurge in the economic role that small and medium sized companies (SME) are playing, not only in the UAE, but across the world.

Millions of small operations around the world are responsible for the generation of more than 90 per cent of the world's GDP. SMEs have demonstrated an outstanding ability to change and rapidly adapt to market demand and economic pressures. They play a crucial role as drivers of success for local economies, as generators of job opportunities and centres to train and upgrade low-skill workers.

In line with its drive to diversify its economic resources, and realising the significance of this important segment, the UAE government has embarked upon a series of initiatives that support local entrepreneurial activities.

The Mohammed Bin Rashid Establishment For Young Business Leaders was one of the early initiatives in that regard. The Establishment came about as part of the futuristic vision of H.H. Sheikh Mohammed Bin Rashid Al Maktoum, the UAE Vice President and Prime Minister and Ruler of Dubai to promote local capabilities and increase UAE nationals' contribution to the economic development of the country.

Offering a wide range of enabling services including strategic consultancy, the Establishment has succeeded in encouraging many UAE nationals to launch their own businesses.

Since its inception in 2002, the Establishment has managed to enhance the local community's awareness about the value of entrepreneurship. It has also worked on empowering the local youth to focus on the private business sector.

At the directive of H.H. Sheikh Mohammed, the Establishment introduced the Government Procurement Programme (GPP), an initiative that ensures 5 per cent of Dubai government's procurements are dedicated to the GPP members. Total value added services provided by the Establishment to its members so far have exceeded AED 155 million.

Aware of SMEs essential role as a key driver for economic growth, the Establishment will continue to work on developing entrepreneurship levels through a vast range of services and initiatives. We strongly believe the GEM research will help us achieve this goal through its in-depth analysis of the entrepreneurship situation in the UAE.

Meanwhile, this invaluable document will serve as a useful resource for entrepreneurs looking to start their own businesses, as well as people who wish to understand the UAE's entrepreneurial scene.

It will also enhance the understanding of the local market as well as issues such as funding requirements and the impact of education. Most importantly, it will serve as a baseline for future research.

Conducted for the first time in the UAE, the research will be particularly useful to early stage owner-operated businesses (start-ups and young firms). It touches on the key challenges facing entrepreneurs in the UAE, including the fear of failure that has a tremendous cultural significance in the country.

I recommend this research as essential reading for any individual with aspirations of setting up new business.



Part 1

The Sample Framework

The GEM-United Arab Emirates Study - Project Overview

Since its inception in 1998, the Global Entrepreneurship Monitor (GEM) research program has collected data on an annual basis from member nations around the globe about the level of entrepreneurial activity and economic prosperity within their respective economies. The GEM consortium is made up of the member nations from which a governing committee is elected to review guiding principles and develop/enhance the prescribed protocols. Babson College in Wellesley Massachusetts, USA and London Business School (LBS) are the two principal academic institutions in the GEM consortium. The initial consortium in 1998 consisted of ten participating countries which has now grown to forty-two (and growing) member nations (refer Table 1). The United Arab Emirates (UAE) joined the GEM consortium for the 2006 survey.

Table 1 – GEM Participant Countries -2006

GEM Participating Country	
1. Argentina	22. Jamaica
2. Australia	23. Japan
3. Belgium	24. Latvia
4. Brazil	25. Malaysia
5. Canada	26. Mexico
6. Chile	27. Netherlands
7. China	28. Norway
8. Colombia	29. Peru
9. Croatia	30. Philippines
10. Czech Republic	31. Russia
11. Denmark	32. Singapore
12. Finland	33. Slovenia
13. France	34. South Africa
14. Germany	35. Spain
15. Greece	36. Sweden
16. Hungary	37. Thailand
17. Iceland	38. Turkey
18. India	39. United Arab Emirates
19. Indonesia	40. United Kingdom
20. Ireland	41. United States
21. Italy	42. Uruguay

The full GEM-UAE 2006 National Random survey published under separate cover comprised two parts as follows:

- The National Survey: a random sample of no less than 2,000 respondents from the national population (from all seven Emirates); and
- The Key Informant respondents: thirty-six experts in nine key fields of interest - knowledgeable about matters important to the growth of entrepreneurial activity;

In that major study, the opportunity was taken to over-sample for a minimum of another 1000 respondents of Emirati nationality. The final count was an additional 1406 respondents. A full analysis of this additional database has not as yet been completed, thus only a preliminary summary of responses to some of the questions asked of the Emirati respondents is presented here. It should be noted that the main national random study with a sample of over 2,000 respondents does also include Emirati respondents.



Part 2

Some Initial Insights

Issues discussed

The issues to which the analyses relates here is about the start-up of a business within the UAE and fit within the following categories:

1. Starting a new business, including as self-employment, selling goods or services;
2. Starting a new business for an employer as part of normal work;
3. Currently, or with others, as an owner of a company one helps to manage selling goods or services;
4. Having personally provided funds for a new business started by someone else, excluding stocks or mutual funds;
5. Alone, or with others, expecting to start a new business within the next three years;
6. You have, in the past 12 months, shut down, discontinued or quit a business selling goods or services;
7. You know someone who has started a business in the past 2 years;
8. The coming six months will offer good opportunities for starting a business;
9. You possess the knowledge and skills necessary to start a new business;
10. Fear of failure will prevent you from starting a business;
11. People in your country would prefer that everyone had a similar standard of living;
12. People consider starting a new business a desirable career move;
13. Those successful at starting a new business have a high level of status and respect;
14. Stories of success at starting a new business are seen in the public media.

Main Factors of Interest

Firstly, a factor analysis of the above 14 areas was conducted to identify the clusters of weightings of the above questions. Table 1 presents the four principal factors generated by the Principle Component Analysis all of which achieved an eigenvalue greater than 1.00. These four factors account for more than 56% of the variance within the model. The factor loadings for each variable are presented in Table 1. Please note that variables with a loading higher than 0.60 are highlighted for the purposes of clarity.

Factor 1 represents the start-up or operation of a business. Factor 2 represents the perception that current conditions are good for a start-up within the foreseeable future, but with some concern about failure as an inhibiting element in the decision to set-up a business. Factor 3 represents the acquaintance with someone who has started-up a business, with some reservations about oneself having the knowledge and skills to so do. And finally Factor 4 reflects the desire to start-up a business, but have not singularly acted as a Business Angel providing funds for others to so do.

Table 2. Principle Factors

Principle	Factors			
	1	2	3	4
Starting a new business, including as self-employment, selling goods or services	0.68	0.04	-0.01	0.05
Starting a new business for an employer as part of normal work	0.81	0.04	0.06	-0.02
Currently, or with others, as an owner of a company one helps to manage selling goods or services	0.75	-0.11	0.04	-0.04
Having personally provided funds for a new business started by someone else, excluding stocks or mutual funds	0.17	-0.05	0.08	-0.63
Alone, or with others, expecting to start a new business within the next three years	0.19	-0.02	0.09	0.75
You know someone who has started a business in the past 2 years	-0.01	0.07	0.74	-0.15
The coming six months will offer good opportunities for starting a business	-0.04	0.74	0.01	0.10
You possess the knowledge and skills necessary to start a new business	0.07	-0.02	0.74	0.15
Fear of failure will prevent you from starting a business	0.02	0.77	0.04	-0.07
<i>Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization</i>				

Drivers of Business Start-ups – Overall (Dependent variables)

Regression models were developed to explore the predictors of various aspects of entrepreneurial activity as follows:

- Autonomous start-up;
- Start-ups for an employer;
- Owner/manager of an entrepreneurial enterprise;
- Acting as a Business Angel within the last three years;
- Expectation of starting an entrepreneurial venture within next three years;



Autonomous start-up

The variable(s) that best predict the autonomous start-up of a business are presented here. The overall regression model did not achieve a level of significance, however, within this model the variable, 'Starting a new business is a good career choice' achieved a level of significance as a predictors of autonomous start-ups.

To further tease out possible predictors of starting a new business, the same model was re-run, but this time using the variable elimination option. When generating the model, this process eliminates those variables that do not add to the predictive capacity within the model and runs sequential models until the last (or few) variables remain in the model. This model achieved a level of significance at the ninety-five percent confidence level – as did all other following regression models except where stated otherwise. Again 'Starting a new business is a good career choice' was the principal contributor in the model. Thus, the driver of a business start-up for the Emirati population is the interest in making a good career choice.

Creating start-up for employer

Starting-up a business for one's employer has a slightly different dimension to the self-directed start-up. Again a step-wise regression model was run as described above. A similarity in the above results was found, that is, starting a new business is a good career choice; however, in this context working for an employer. The regression analysis also suggested that the respondent's desire to conduct a start-up for an employer is related to 'Fear of failure', thus, in the mind of the respondent a self-directed business start-up is not as risky as doing so for an employer. Furthermore, in taking on the task for an employer is also a reflection of the questioning of one's personal competency to so do oneself.

Owner - operator

For the company owner/manager who created the business, the start-up has been a combination of career choice and the belief that the skills/competencies necessary for success are possessed. Naturally, there is some hind-sight here in that having started down the road of creating a business, and still being 'alive' in the market place helps to understand why one is still operational.

Venture funds provider

For the funds provider to business start-ups the picture is less clear in that there is no one significant stand-out variable that clearly defines what drives the decision to invest in a business start-up investment decisions, other than the 'fear of failure' is associated with that decision, however, not at a level of significance. It should not be surprising that one may well choose to invest in an enterprise created by another, who is also charged with the responsibility of making it a profitable entity, than take on the challenge oneself.

Perceived conditions for starting a business venture

Business opportunity is the main driver for plans to create an enterprise within the coming three years. This is associated with the perception that people prefer a 'uniform' living standard. Thus, one may well be starting a business so as to raise their standard of living to a level the respondent sees as being more appropriate to their perceived business/social status and or aspirations.

Drivers of Business Start-ups – By Gender

A summary of causal differences between Emirati men and women in starting-up or operating their businesses is presented in Table 2.

Table 3. Gender differences in starting/operating a business

Predicted variable	Emirati Males	Emirati Females
Self-employed start-up	1. Starting a new business is a good career choice	1. People prefer uniform living standard
Employer driven start-up	2. Fear of failure prevents start-up effort. 3. Starting a new business is a good career choice. 4. Lots of good opportunities within coming six months.	2. Having the knowledge and skill to do a start-up.
Current owner/ manager of business selling goods/ services	5. Fear of failure prevents people from start-up effort 6. Starting a new business is a good career choice	3. Fear of failure prevents people from start-up effort 4. Having the knowledge and skill to do a start-up.
Providing start-up funds to a business	7. Starting a new business is a good career choice (but not for me!)	5. Starting a new business is a good career choice (but not for me!)
Expects to do a start-up within three years	8. People prefer a uniform living standard 9. Lots of good opportunities for start-up in 6 months	6. Stories of success get media coverage 7. People prefer a uniform living standard

Concern for a standard of living is evident in the female population, along with having the knowledge and skills to be successful. Similarly, fear of failure is also prevalent in the minds of the respondents. This difference between the male and female Emirati population is that the males are more opportunity driven.



Drivers of Business Closure

One variable that predicts a business closure is the non-receipt of a wage/salary/own payment from the enterprise for more than three months. Nearly sixty percent of the start-ups did not pay a wage or salary for more than three months. Thus, it is not surprising that the enterprise was shut-down. Other variables that are important are listed in Table 3. Table 3 data should be read with some caution as the number of closures (particularly for women) are small, therefore, the statistical analysis did not achieve a level of significance at the ninety-five percent confidence level, thus, should be read as indicative only.

Table 4. Causal factors for closing down a business

Predicted variable	Emirati Males	Emirati Females
Shut down business in past 12 months	<ol style="list-style-type: none">1. Receipt of wages/salary/ own payment from enterprise2. Start-up product/service was new to customers3. High level of competition for product/services4. A third of customers were outside the country.	<ol style="list-style-type: none">1. Having the knowledge and skill to do a start-up2. Receipt of wages/salary/ own payment from enterprise3. High level of competition for products/services

It can be noted (but with caution) that a high level of competition was common to both genders in the closure of a business entity as was the lack of receipt of wages or salary. The male focus also incorporated a more international perspective. However, this outcome may well be a statistical artefact of the small female sample.

Part 3

Conclusions

Creating a start-up business is generally seen as a good career choice, particularly for the male population. This is not surprising in that the corporate world may well not offer the promotional prospects within the time-frame desired by the employee and, as a consequence, one may well desire to generate one's business acumen via an activity outside the employer corporation.

Stories of business start-up success in the media is a motivator in the minds of the female population for creating a new enterprise. Furthermore, establishing a new venture start-up fits within the context of creating a more uniform living standard. Thus, a start-up may well be perceived as a mechanism for equalizing one's financial position within a perceived stratification of financial positions.

Fear of failure looms large in the minds of the respondents, particularly male respondents. Given the relatively small Emirati population, news of failure in an enterprise may well quickly permeate the close-knit national community, thus, avoiding the risk of failure by not creating a start-up enterprise appears to be the option of choice. Conversely, fear of failure could well be a reflection of one's perceived inadequacies in the skills/competencies necessary for successfully starting and operating a successful enterprise. At the same time, fear of personal failure as a start-up entrepreneur, may well be a causal factor for acting as an investor in the start-up enterprise of another where there may well be financial risk but less risk to one's public persona. More simply put, financial risk may well be more easily camouflaged than the personal risk of being the owner/operator.

The common reasons for closing an enterprise revolve around two core issues across the two genders as follows:

1. The capacity of the enterprise to provide a wage/salary/payment to the operator; and
2. High level of competition within the market place;

In addition, the female population are more concerned with having the knowledge/skills to create and operate the business. Whereas the male population were additionally concerned about the products of the start-up company being new to customers, whilst a third of their customers were outside the country, thus, increasing the complexity in operating the business entity.

Finally, we hope that this report assists in further understanding the reasons for the Emirati population starting-up and closing down enterprises within the UAE.



This Book

Over the past twelve months a research team from Zayed University sponsored by the Mohammed Bin Rashid Establishment For Young Business Leaders conducted the first ever study into entrepreneur activity within the United Arab Emirates.

The team formed part of the 2006 Global Entrepreneurship Monitor (GEM) consortium of forty-two nations investigating entrepreneur activity within their respective country. The data collected from these countries allowed for a comparison of UAE entrepreneurial activity at the international level.

A comparison between the UAE and the other nations is presented, along with the identification of enhancers and inhibitors of entrepreneurial activity within the UAE.

This report should be greatly helpful to the public policy makers, current and future entrepreneur, entrepreneur educators, as well as, any one singularly interested in Emirati entrepreneur activity within the UAE.

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