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The Unanticipated Challenges Facing Small-Business Owners in the UAE

Zahi K. Yaseen^{1*}

¹*School of Business, American University of Ras Al Khaimah, Ras Al Khaimah 10021, United Arab Emirates.*

Author's contribution

This whole work was carried out by the author ZKY.

Original Research Article

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ABSTRACT

Aims: The purpose of this research paper is to explore the most critical unanticipated challenges facing business people in the UAE and to explore ideas and strategies to overcome these problems.

Study Design: Semi-structured interview.

Place and Duration: UAE business organizations, between October 24th and November 5th 2013.

Methodology: The population was drawn from 870 organizations listed in the Etisalat Yellow Pages. A random sampling procedure was used to select 200 organizations from different types of industries. The respondents for this study comprised of 50 CEOs or owners, with a 25 percent response rate. The candidates who were contacted and responded to participate were from different industries and nationalities.

Results: Losing business to competitors was cited as the most important unanticipated challenge by 24% of respondents. The second most critical challenge is implicit overhead expenses, noted by 18% of participants. The third unanticipated challenge, mentioned by 14% of participants, was high employee turnover rate.

Conclusion: The paper provides rational remedies for a proposal to consider the unanticipated challenges facing entrepreneurs and implications of economic development in the UAE.

Keywords: *Entrepreneurs unanticipated challenges; UAE entrepreneurs; top ten entrepreneurs' challenges in the UAE; Middle East entrepreneurs.*

*Corresponding author: Email: zahi.yaseen@aurak.ae;

1. INTRODUCTION

Entrepreneurship has important implications at the global level in changing business environments. A global consensus on the crucial role of competitive markets and small businesses in economic growth has emerged in the past few decades. In emerging markets, the central problem that prevents economic development is not always a lack of capital, land, or labor. Rather, it is difficulty for active entrepreneurs to bring together the capital, land, and labor available to them and find markets that support their mission. Indeed, managing the changes that entrepreneurs face when they establish entrepreneurial projects tends to be very demanding in the 21st century ([1], p. 2). Under such circumstances, the UAE government has been observed as quite supportive to small business entrepreneurs ([2], p. 11-22). However, a critical evaluation of the current market reveals that entrepreneurs in the UAE have to face various challenges that are often unforeseen and unpredictable [3]. In this paper, we identify the most critical unanticipated challenges facing entrepreneurs in the UAE and try to suggest strategies to overcome them.

1.1 Problem Statement

Starting a new business is an achievement for the majority of entrepreneurs, but managing one is the biggest challenge. There are many well-known challenges that face every new business in the UAE whether they are small or medium. These include issues such as poor financial resources, lack of skill full workers, winning competitive advantage and so on. However, there are some challenges that are distinctive and unforeseen to entrepreneurs. Failure is a part of success, indeed, there are so many entrepreneurs who have failed, realized their mistakes and had succeeded again. However, failure is often comes with a pain and entrepreneurs feels that they have wasted their time and investment.

In business there will be always challenges around. However, with planning a head and follow up the execution most of the challenges can be overcome.

1.2 Significance of the Study

Entrepreneurs develop new businesses that stimulate the economy and create new jobs, pay taxes and fees, and contribute to the overall gross domestic products of the country.

Entrepreneurs play a vital role in the growth of the UAE economy. Mohammed Bin Rashid Establishment for Small and Medium Enterprises Development, an agency of the Department of Economic Development in the government of Dubai, supports the development of small and medium enterprises in the UAE by creating a risk free culture, long-term economic development, and employment creation [4].

1.3 Research Objectives

In order to support the entrepreneurship in the UAE, we need to know what challenges slow down entrepreneurs and how can entrepreneurs overcome these challenges. These findings will illuminate the key factors that contribute to the relative success of small and medium enterprises in the UAE.

2. LITERATURE REVIEW

An entrepreneur creates a new for-profit business in the face of risk and by identifying opportunities and assembling the necessary resources to capitalize on these opportunities ([5], p. 22). Entrepreneurship utilizes private initiatives to transform a business concept into a new venture or to grow and diversify an existing venture that has high potential for growth ([6], p. 5). In this case, entrepreneurs identify an innovation to create an opportunity and mobilize capital and management skills to open markets for new products and services.

Entrepreneurs face numerous barriers to achieve their goals, and some of these barriers are so strong that they prevent entrepreneurs from starting new ventures or can drive them out of a business. A study by [7] a professor at Harvard Business School, "adequate access to capital is one of the biggest hurdles to starting and growing a new business" ([7], p11).

On the other hand, [8] at Harvard Business School suggests that economic recessions "tend to spur innovation and "companies that survive the financial crises by identifying and exploiting innovation will act as economic growth engines in the future" ([8], p 9-127). Government policies and procedures to support entrepreneurs are a functional guide for conducting the operations of new or existing firms. Specifically, labor laws, immigration rules and regulations, wages and salaries, overtime payments, part-time jobs and other issues can change according to current economic and political trends [9].

One critical challenge for new business owners is to navigate government regulations to obtain a business license and operate freely in many countries. Because regulations can vary by city, by state, and by country, business owners must to apply to many different agencies obtain their license. However, business owners can often seek assistance to manage this concern. In the U.S for example, the Small Business Administration can help small business owners learn different government regulations. A business owner must be prepared for a variety of unexpected expenses, including loss of inventory, bad obligations from customers, loss of market segment, decreasing working capital, unpaid payroll and bills, and unexpected resignation and job turnover. As argued by [10] an urgent need can be identified among the national entrepreneurs in the GCC region concerning financial management to make better use of limited financial resources and mitigate the aforementioned challenges ([10], p. 96-102). Many training programs are designed to train entrepreneurs to prepare financial reports and manage their liquidity. Lack of the financial management is one of the "ten deadly mistakes" that can force any venture out of business ([5], p. 23).

An entrepreneur's task does not end when a team has been assembled; the entrepreneur's must also transfer his or her vision and passion to the team. Cultural divergences and recent changes in the Emirati society serve as an important challenge for the entrepreneurs [3]. Understanding the cultural dimensions and societal forces affecting the labor market and employees' motivations essential for skilled entrepreneurs in the UAE to managing their team more efficiently and avoid disloyalty and unexpected resignations [11].

When they study their competition, most small entrepreneurs do not understand that competition enables their business to be innovative and increasingly sustainable [2]. Entrepreneurs need to focus on quality and continuous innovation to ensure better efficiency in satisfying customers and to generate employee morale; this focus will ultimately obtain the desired competitive advantages ([11], p. 44-62).

Many business owners have to deal with bad debts and clients who default on their payments, even when the sums involved are small. Many business owners hire legal consultants who specialize in debt recovery and collection. In addition, credit rating agencies play a critical role in capital markets [12]. It's important to establish a good credit history in the UAE; this process will help creditors to classify their clients by credit score and will help them to make better credit decisions.

Although the business environment in the UAE is still conducive for business growth, many commercial banks and suppliers are reluctant to give business loans to setup new businesses or expand their existing ones [13]. It is difficult to find suppliers who can give twelve months of credit, as most of business transactions are fulfilled in cash.

According to a report by the [14] a well-designed education programs can make entrepreneurs sufficiently knowledgeable about small business industry, management skills, leadership skills, problem solving skills, time management[14].Additional positive outcomes included improved academic performance, school attendance, and educational attainment.

A well-designed training program stresses practical applicationsthat allow entrepreneurs to make their own choices about their own businesses [15].

New business requires existing marketplace opportunities with possibilities known to entrepreneurs and favorable odds for success. Opportunity can be defined as the "seed that might later grow into an innovation, and innovation can be defined as a new match between a need and a solution" ([6, p. 6).

The culture of a society is important to encourage or discourage entrepreneurial rates of new business ventures. Entrepreneurial capacity is the existence of people with entrepreneurial qualities and the willingness and motivation to initiate new ventures [16]. It is important for society, government agencies, nonprofit organizations, and private enterprises to support youth entrepreneurship across nationalities [16].

3. METHODOLOGY

The purpose of this research paper is to explore the most critical unanticipated challenges facing business people in the UAE and to explore ideas and strategies to overcome these problems. I employed the semi-structured interview technique to collect data from participants in interview sessions. This method was employed because itallows the interviewee to provide more information about the challenges they face in the UAE business environment and discusses possible ways to overcome these issues. The population was drawn from 870 organizations listed in the Etisalat Yellow Pages. A random sampling procedure was used to select 200 organizations from different types of industries. The respondents for this study comprised of 50 CEOs or owners, with a 25 percent response rate. The candidates who were contacted and responded to participate were from different industries and nationalities.

The interviews took place betweenOctober 24th and November 5th 2013 in the UAE. The structured interview was based on well-prepared questions to be asked during an in-person interview or by phone. Some people refused to be interviewed, even though it was explicitly stated that this information will be used for educational purposes only.

Predetermined questions were designed and prepared prior to the interviews, and were designed to elicit open-ended responses.

In regard to industry representation, a check of the SDI number based on the UAE business directory that classifies industries revealed that at least 8 out of possible 11 different types of industries responded to the interviews.

4. FINDINGS

A total of 50 responses were interviewed in this study. Table 1 provides descriptive statistics of the respondents. 100 percent of the respondents were the initiators of the business “CEOs” or “Owners”. The other part of Table 1 shows the types of industries.

Table 1. Illustrates the respondent’s position and the types of industry (N= 50)

Position	Types of Industry	50	%
CEO/Owner	Advertising	4	8
	Aluminum	3	6
	Automobiles	10	20
	Professionals	13	26
	Foods	4	8
	Financials	9	18
	Merchandisers	3	6
	Wholesalers	4	8

Fig. 1 shows the interview results. The respondents were asked to rank the unanticipated challenges facing their business ventures in the UAE.

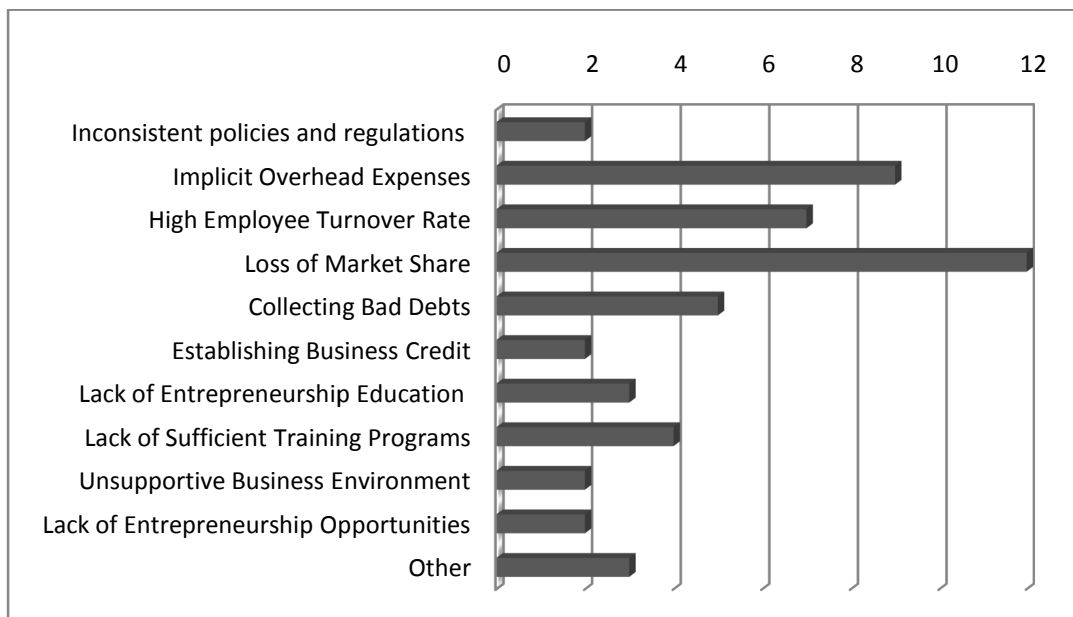


Fig. 1. Illustrates the unanticipated challenges facing entrepreneurs in the UAE (N= 50)

Losing business to competitors was cited as the most important unanticipated challenge by 24% of respondents. Many entrepreneurs stated that they fear losing business because they believe that the market is open to the "global world," so "you can expect anything to happen". The second most critical challenge is implicit overhead expenses, noted by 18% of participants, which "in most cases" leads businesses to be unable to pay current liabilities or "expenses such as payrolls." Many entrepreneurs were interested in training programs that would teach them to better understand financial statements and how to control their expenses, especially "implicit" ones. The third unanticipated challenge, mentioned by 14% of participants, was high employee turnover rate. Many participants stated that "it's an annoying process," referring to the constant hiring and training of new employees. Some participants also referred to the "high costs associated to the new recruitment process including orientation programs".

The fourth unanticipated issue, mentioned by 10% of respondents, is the complex procedure of collecting bad debts from the clients. Many participants commented that sending defaulters to jail is not a "solution" to the problem because doing so will not "return our money". Although tougher new laws should force debtors to think about how to pay their debts to avoid consequences, some of participants were not convinced these laws would act as a deterrent, saying, "They just flee the country if you push them too hard to repay their debts".

The fifth and the sixth of the unanticipated challenges facing entrepreneurs in the UAE (noted by 6% and 8% of participants) are the lack of entrepreneurship education and training programs, respectively. Many entrepreneurs stressed the need for "practical," "focused," and "oriented" education and training programs. Some participants commented that existing training centers are "ineffective," "not specialized," "expensive," "not familiar with local market".

The seventh, eighth, ninth and tenth of the unanticipated challenges, noted by 4% of respondents, are inconsistent policies and regulations, unsupportive business environment, the lack of entrepreneurship opportunities, and difficulty establishing business credits, respectively. Many respondents commented on the "unstable immigration rules," "wages and salaries and new policies," "Business license requirements changes all the time and fees always go up," and "Permits time is too long". Many females who were interviewed stressed the unsupportive environment in many emirates in the UAE. Many entrepreneurs who were interviewed commented on the lack of opportunities by "market saturation", "not easy to expand", "We need more capital for expansion". Some respondents commented on that it is difficult to establish credit or use checks to pay for goods and services, rather than cash which businesses do not always have on hand.

Finally, 6% of participants disclosed additional unanticipated challenges, including issues with UAE national sponsorship, quality standards, minimum wages, business corruption, and ethical trading.

5. CONCLUSION AND DISCUSSION

This paper aims to explore the unanticipated challenges facing the entrepreneurs in the UAE. It has been noted that even after continuous efforts and support from the UAE government, entrepreneurs still report many fundamental difficulties in managing their businesses and smoothly obtaining and allocating resources. In most cases, these challenges remain unanticipated to the entrepreneurs, imposing greater threat to the overall

sustainability of the organization compared to challenges that they are prepared to handle. Unanticipated challenges cannot be anticipated, so entrepreneurs must be prepared for a variety of challenges depending on their forecasting ability and proficiency in handling crisis situations.

The findings revealed that the top three unanticipated challenges facing the entrepreneurs in the UAE are loss of market share, implicit overhead expenses, and high employee turnover rate.

The UAE will keep supporting competition in its markets and entrepreneurs should focus on quality, customer satisfaction, employee satisfaction, and innovation to build competitive advantages in global markets. On the other hand, entrepreneurs should have more control over their financial operations and be able to track their accruals and liquidity to pay current liabilities.

Training centers around the country should respond positively to the needs of many entrepreneurs and develop specialized training programs that concentrate on practical cash control techniques and sales forecasting methods.

Careful consideration of these issues will contribute to the efficiency of entrepreneurs in managing their teams more efficiently to avoid disloyalty and the consequences brought on by unexpected resignation.

6. LIMITATION OF THE STUDY

Due to the limited number of respondents, the results of this study were also limited. Additional research is needed to clarify the mechanisms underlying these findings, taking into consideration the gender of entrepreneurs, culture, and business environment in the UAE.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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