



Factors Affecting Business Environment for Investments: A Survey of Bahraini Businessmen

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Abstract

This research study will analyze the factors affecting business environment of Kingdom of Bahrain in the context of attracting investments, and how the government of Bahrain can attract more foreign direct investment (FDI) to the country. Furthermore, what are the facilities provided by government of Bahrain to enable investors to open new business and attract new investments. In this study, the perceptions of 80 local businessmen have been collected to know what they exactly expect from government and other stakeholders to invest further in businesses based in Bahrain. Based on the findings, recommendations have been provided for government and investors. This study aims to investigate the perception of decision makers of the for-profit organizations or market players. The wide-ranging functions of market selection criteria are examined to determine the most demanding contemporary issues. The selection approaches that business could consider while short listing the place of the next internationalization step and the mode of entry are reviewed in this research.

1. BRIEF ABOUT KINGDOM OF BAHRAIN'S ECONOMY & BUSINESS

The economy of Kingdom of Bahrain is characterized with low inflation and a balance of trade surplus. Bahrain is one of the leading financial and banking centers in the Middle East with over 360 financial institutions. It is also a founding member of the World Trade Organization. It has gained a high classification by international credit

rating bodies, which reflects world confidence in the strength of the Bahraini economy. The economy of Bahrain is the most diversified as compared to a number of economies in the region, and it is the least reliant on oil. Bahrain has since the Sixties, adopted a strategy of economic diversification giving priority to non-oil sectors, which qualified it to attract FDI. Bahrain has determined six economic sectors with the greatest capability to attract direct foreign investment, namely tourism, finance, aluminum and downstream industries, logistics, healthcare, and education and training.

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1.1 About Kingdom of Bahrain ranking

Doing Business is exploring the regulations that improve business movement and limits. Doing Business grants quantitative indicators on business regulation and the protection of property rights that can be compared across the counties. Overall, Kingdom of Bahrain achieved excellent rank by coming on 4th in the Middle East (see ranking table on next page); this gives a very good sign that Bahrain is attractive for any types of foreign direct investment. (Source: <http://www.doingbusiness.org>).

1.2 Statement of the problem & objectives of the study

Oil is being depleted in Bahrain and currently the barrel price is close to \$65 as on 28th December 2014 and some research reports are suggesting that it will go further down till \$ 40. These situations can make Bahrain government difficult to implement new investment strategy due to lack of funds. No major development in infrastructure, construction or oil/gas is currently happening in Bahrain. With the recent instability due to the protests, new investors think twice before setting up or entering into this market. In case if Kingdom of Bahrain does not attract new investment, what are the steps should be taken by the top authorities of the country to attract investors to open their business in the Kingdom of Bahrain in order to enhance the economy of the country. The main question of this study is assessing the existing capability of Kingdom of Bahrain environment to attract new investments and foreign direct investment? And what are the criteria that attract investors to open new business in Bahrain? The study is mainly focusing on perception of local businessmen towards the business environments and their expectation. Also, it will focus on Bahrain Rules and regulations and how the impact of it on FDI. Moreover, what are the facilities provided by the country in order to push for more investments that will contribute directly to Kingdom of Bahrain GDP.

2. LITERATURE REVIEW

There are several studies that say the most important factor for FDI is cost saving in

any country (Yoon, 2007). Previously investors are attracted by country natural resources and cheap labor cost. Generally natural resource becomes weak if you compare it with other factor like market potential, and preferential tax policies.

Market screening is an abstract term; it means different things to different organizations, but generally in corporate literature, it is a technique of data collection and analysis used to funnel down the number of desirable markets and eliminating those judged to be less attractive. The same definition presented by many researchers (Adam, 2004; Ball, 2006). The understanding of information around different types of markets determines and clarifies the degree of entry success or failure (Day *et al.*, 2004).

A market entry strategy is the planned method of delivering goods or services to a target market and distributing them. Thus, the goal in selecting the international market entry strategy is to transfer and recombine resources across borders to leverage internal competencies in uncertain environments (Syed & Fernando, 2006). There are a number of theories relating to market entry strategies of firms and many authors have added to this issue. At one extreme, some theorists suggest that the entry process should be strongly rational. Further, this industrial organization view by Bain (1956), Williamson (1985) and Porter (1980) signify that enterprises should be concerned in persuading the assessment of external factors such as entry barriers while evaluating the market entry strategy.

Normally the countries with more stable in their rules and regulation especially in business filed are more attractive than other country. Therefore investor likes to invest in countries with minimum changes in their rules and regulations to avoid any future surprise which may affect the business operations.

Minogue (2005) stated that impact of change in country regulations may affect business over time. From the 1960s to the 1980s, there was a failure in some of the business due to interference of government in productivity especially in developing country, this can happen by extending public ownership of companies (World Bank, 1995).

Table 1: Ranking of countries

| Economy | Ease of doing business Rank | Filtered rank | Starting a business | Dealing with construction permits | Getting electricity | Registering property | Getting credit | Protecting minority investors | Paying taxes | Trading across borderers | Enforcing contracts | Resolving insolvency |
|-------------------------|--|--------------------------|--------------------------------|--|--------------------------------|---------------------------------|---------------------------|--|-------------------------|---|--------------------------------|---------------------------------|
| United Arab Emirates | 22 | 1 | 2 | 1 | 1 | 1 | 3 | 1 | 1 | 1 | 12 | 6 |
| Saudi Arabia | 49 | 2 | 8 | 4 | 2 | 4 | 1 | 4 | 3 | 10 | 8 | 17 |
| Qatar | 50 | 3 | 7 | 5 | 5 | 5 | 12 | 9 | 1 | 8 | 5 | 1 |
| Bahrain | 53 | 4 | 11 | 2 | 9 | 2 | 5 | 7 | 4 | 9 | 13 | 5 |
| Tunisia | 60 | 5 | 6 | 9 | 4 | 8 | 7 | 5 | 14 | 4 | 2 | 2 |
| Oman | 66 | 6 | 10 | 6 | 11 | 3 | 7 | 9 | 5 | 7 | 15 | 8 |
| Morocco | 71 | 7 | 1 | 7 | 13 | 15 | 5 | 9 | 12 | 2 | 3 | 9 |
| Kuwait | 86 | 8 | 17 | 10 | 14 | 7 | 7 | 1 | 6 | 13 | 16 | 11 |
| Malta | 94 | 9 | 12 | 11 | 17 | 9 | 14 | 3 | 7 | 3 | 7 | 4 |
| Lebanon | 104 | 10 | 9 | 16 | 7 | 12 | 7 | 8 | 8 | 11 | 9 | 12 |
| Egypt, Arab Rep | 112 | 11 | 4 | 14 | 15 | 10 | 1 | 13 | 18 | 12 | 18 | 10 |
| Jordan | 117 | 12 | 5 | 12 | 6 | 13 | 18 | 18 | 17 | 16 | 4 | 16 |
| Iran, Islamic Rep | 130 | 13 | 3 | 17 | 16 | 19 | 3 | 16 | 16 | 19 | 1 | 13 |
| Yemen, Rep | 137 | 14 | 13 | 8 | 18 | 6 | 18 | 18 | 17 | 16 | 4 | 16 |
| West bank and Gaza | 143 | 15 | 19 | 18 | 12 | 11 | 7 | 14 | 10 | 14 | 6 | 18 |
| Algeria | 154 | 16 | 14 | 13 | 19 | 18 | 14 | 12 | 20 | 15 | 11 | 7 |
| Djibouti | 155 | 17 | 20 | 15 | 20 | 17 | 16 | 18 | 13 | 6 | 19 | 3 |
| Iraq | 156 | 18 | 15 | 3 | 3 | 14 | 16 | 15 | 11 | 20 | 17 | 18 |
| Syrian Arab republic | 175 | 19 | 18 | 19 | 10 | 16 | 13 | 5 | 15 | 18 | 20 | 15 |
| Libya | 188 | 20 | 16 | 19 | 8 | 20 | 18 | 20 | 19 | 17 | 14 | 18 |

3. RESEARCH METHODOLOGY

This research will analyze the factors affecting business environment of Kingdom of Bahrain with respect to new investments. This objective will be achieved through formal interviews and questionnaire analysis. At first instance two interviews were conducted from senior officials from Ministry of Industry and Commerce and Labor Market Regulation Authority (LMRA) to unfold facts and opinions relating to business environment and what attracts business to the country. Then questionnaire was developed based on previous similar researches, observations and feedback of interviews and reviewed by four academicians.

The population for this study was active 80386 CRs (commercial registrations) (as on 20th July, 2014). The researchers used convenience sampling approach and questionnaire was distributed among 100 CR holders. 88 questionnaires were returned by the responded and the researchers found 80 questionnaires useful for the study. The turnout rate was 80% of total distributed questionnaire.

3.1 Hypothesis of the study

This research contains three hypotheses as follows:

H₀1: The economic environment of Kingdom of Bahrain doesn't have relationship in attracting investors.

H_a1: The economic environment of Kingdom of Bahrain has relationship in attracting investors.

H₀2: The change in regulations has no relationship with attracting investors.

H_a2: The change in regulations has relationship with attracting investors.

H₀3: The facilities provided by the country have no relationship with attracting investors.

H_a3: The facilities provided by the country have relationship with attracting investors.

4. DATA ANALYSIS AND FINDINGS

This section covers the research strategy adopted for conducting the quantitative analysis required to answer the research questions. The descriptive analysis and one sample t-tests were carried out separately for economic environment, regulations and facilities provided by the country.

Table 2: Reliability test of questionnaire result

| Factors | Cronbach's Alpha | No. of Items |
|------------------------------------|------------------|--------------|
| Economic environment | 0.688 | 4 |
| Regulations | 0.605 | 3 |
| Facilities provided by the country | 0.691 | 4 |

The above table provides the results of reliability analysis for economic environment, regulations and facilities provided by the country. The Cronbach's alpha values are well within the range of moderately reliable scale; therefore all factors are retained for further analysis.

4.1 One-sample T-tests

Collected data were tested using one-sample T Test at a 95% level of confidence. Whilst each factor is assessed in several questions, the average scores of them are computed for hypotheses testing. Tables presented in this section are separated for each variable that indicate the results of the hypotheses test.

Table 3: One-sample test of the 3 variables 'economic environment', 'regulations' and 'facilities provided by the country'

| One-sample test | | | | | | |
|-----------------|---|----|-----------------|------|---|-------|
| Factors | T | df | Sig. (2-tailed) | Mean | Test Value = 3 | |
| | | | | | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |

| Business environment | | | | | | |
|---|--------|----|-------|-------|------|------|
| Business environment is free. | 21.009 | 79 | 0.000 | 4.774 | 4.60 | 4.93 |
| Business environment is friendly. | 14.973 | 79 | 0.000 | 4.565 | 4.34 | 4.76 |
| Cost of doing business is reasonable. | 20.525 | 79 | 0.000 | 3.487 | 3.23 | 3.72 |
| Business finance is available through banks and/ or financial institutions | 23.335 | 79 | 0.000 | 3.123 | 4.92 | 3.28 |
| Regulations | | | | | | |
| Rules and regulation are fair | 25.048 | 79 | 0.000 | 3.254 | 3.07 | 3.43 |
| Rules will not significantly change in the next ten years | 9.880 | 79 | 0.000 | 3.639 | 3.11 | 3.17 |
| Mobility of employment affects businesses positively | 9.981 | 79 | 0.000 | 3.665 | 3.13 | 3.19 |
| Facilities provided by the country | | | | | | |
| Availability of Infrastructure in Bahrain attract investments | 20.89 | 79 | 0.000 | 3.303 | 3.08 | 3.52 |
| Tourism industry helps attracting new investments | 32.95 | 79 | 0.000 | 2.240 | 1.98 | 1.49 |
| Availability of financial support through subsidies such as food subsidies, petrol subsidies etc. | 22.27 | 79 | 0.000 | 3.277 | 3.07 | 3.48 |
| Incentive provided for investor | 19.20 | 79 | 0.000 | 3.489 | 3.23 | 3.75 |

The results presented in the above tables are calculated for the 3 factors, economic environment, regulations and facilities provided by the country. Interestingly, the result shows that all null hypothesis for all items except 'Tourism industry helps attracting new investments' are rejected, as each significant level is less than 0.05 and the mean is greater than 3, this can be stated that 'economic environment, regulations and facilities provided by the country' and their related variables have positive effect on business environment and investment opportunities in Bahrain. Therefore, we accept H_{a1} , H_{a2} and H_{a3} , and rejects H_{01} , H_{02} and H_{03} .

5. CONCLUSION & RECOMMENDATIONS

From the survey, the researchers were able to conclude that 'business environment of the Kingdom of Bahrain is free', and

'Business environment is friendly'. 'Cost of doing business is reasonable'. 'Business Finance is available through various sources (EDB, BDB, and Tamkeen') are moderately agreed by the respondents. The economic environment and related variables have positive effect on business environment and investment opportunities in Bahrain. In terms of Regulation, respondents agree to the rules will not significantly change in the near future', and 'Mobility of employment affects businesses positively. However for the 'Rules and regulation are fair', the respondents were only moderately agree. As far as facilities provided are concerned, the respondents only moderately agree to the sufficient availability of infrastructure to attract investments', 'availability of financial support', and 'incentive provided for investor'.

5.1 Recommendations

Based on the observations, data analysis, collected relevant knowledge and assessment of the business environment and market of the GCC countries researchers came up with the following recommendations:

The current fees charged by LMRA to expat labor are based on the number of expat employee and not on the basis of the job type being performed. For example the fees charged for Worker or fabricator is same for Nurses or Doctors. Therefore, we

recommend that the LMRA should categorize the job types in order to maintain and restructure the fees that are being charged especially for large organizations and firms.

Now a day's tourism has become an important sector that has an impact on economy of any country. The main benefits of tourism are creating income and generate new vacancies to the local workforce. Furthermore, tourism is an excellent potential as it is a promoter for the economic growth.

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