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**CHALLENGES AND OPPORTUNITIES FOR  
SME GROWTH AND SCALABILITY IN  
BAHRAIN: AN ANALYSIS OF THE 2024  
BUSINESS ENVIRONMENT**

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**CHALLENGES AND  
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OF THE 2024 BUSINESS  
ENVIRONMENT**

*By*

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## **Abstract**

This doctoral research examines the ongoing challenges that impede the growth and scalability of small and medium-sized enterprises (SMEs) in Bahrain, despite various government initiatives aimed at bolstering the sector. The central issue is the high failure rate of SMEs in achieving sustainable success, which has necessitated an exploration of factors such as strategic leadership, human resource practices, and innovation capabilities. The study underscores that deficiencies in strategic leadership and human resource development are pivotal factors contributing to business stagnation and failure. It advocates for a national framework to enhance SME capabilities through dedicated investment in leadership and employee retention strategies. Addressing these human capital gaps is crucial for strengthening Bahrain's SME sector and advancing its economic diversification objectives.

**Keywords:** Small and medium-sized enterprises (SMEs), People Management Skills, Leadership, Employee Retention, Employee Recruitment.

## Introduction

### 1.1 Background of the Study: Bahrain and Economic Diversification

Gulf Cooperation Council (GCC) nations are prioritizing economic diversification to reduce reliance on oil (Hendrix, 2017). Strengthening small and medium enterprises (SMEs) is pivotal in this transition (Glonti et al., 2021). Bahrain has made significant strides in fostering entrepreneurship and developing its SME sector through initiatives from the Labor Fund Authority (Tamkeen), which offers strategies and funding to support start-ups (Elseoud et al., 2019). SMEs play a vital role in entrepreneurship, addressing unemployment and promoting market expansion globally (Eniola & Entebang, 2015). These businesses are recognized for their potential to drive economic growth, technological advancement, and poverty alleviation (Ghak & Zarrouk, 2022). Bahrain's economy grew by 2% in the first quarter of 2023, the eighth consecutive quarter of growth, driven by diversification across non-oil sectors like transport and real estate, even as the oil sector saw a decline (Trading Economics, 2023).

Despite focusing on SMEs, academic research on their challenges and support mechanisms in Bahrain remains limited. Understanding the unique prospects needed to bolster the SME sector is essential for ongoing success (Makkonen & Leick, 2020). Current economic conditions in Bahrain reveal substantial reliance on the oil sector, comprising 75% of government revenue, and necessitate urgent diversification (Coface, 2023). Challenges such as fluctuating oil prices, the impact of global inflation, and climate change pose additional threats to Bahrain's economic stability (World Bank, 2022). Hence, understanding strategies for SMEs to achieve long-term sustainability is critical.

## **1.2 Problem Statement: Challenges Faced by SMEs**

Bahraini SMEs continue to struggle despite government support. This study contextualizes these challenges, exploring both local and international data to illuminate overarching barriers to SME growth. In a fiercely competitive global landscape, understanding the factors that drive or hinder SME success is essential (Rupert & Smith, 2016). The COVID-19 pandemic intensified existing vulnerabilities, resulting in widespread closures of enterprises (Islam et al., 2020; Alrabeei & Kasi, 2014). A comprehensive examination of the specific needs and challenges faced by local SMEs in Bahrain is vital to navigate these uncertainties.

Global trends show many countries implementing supportive policies and initiatives for SMEs, emphasizing their significance in national economic growth (Durst & Gerstlberger, 2020; Foghani, Mahadi, & Omar, 2017). However, Bahrain has received limited scholarly attention regarding SME contributions and challenges. Identifying specific support mechanisms is crucial for fostering the potential of the SME sector within the local context (Islam et al., 2020).

Hart (2013) asserts that understanding sector-specific challenges can guide resource allocation, ensuring investments are maximized where most needed. Addressing these obstacles also fosters innovation, encouraging adaptability among businesses that leads to competitive advantages.

## **1.3 Research Aims**

This research aims to identify key challenges faced by SMEs in Bahrain, providing evidence-based insights and recommendations to enhance growth and sustainability. It will also explore management practices that support SME success and how innovation can stimulate economic prosperity.

## **1.4 Research Objectives**

To achieve the aims outlined, the study will:

1. Analyze the SME context in Bahrain.
2. Identify the primary growth challenges faced by SMEs in the country.
3. Highlight factors sustaining SME success.
4. Provide recommendations to assist SMEs in overcoming challenges and achieving sustainable growth.

## **1.5 Research Methodology in Brief**

The research employs a mixed-methods approach, combining quantitative and qualitative techniques (Cresswell, 2013; Yin, 2014). Data will be collected through questionnaires and interviews with SMEs to evaluate challenges impacting growth and success.

## **1.6 Significance of the Study**

SMEs are critical to enhancing national output, employment, and export growth, significantly contributing to GDP and national development (Gherghina et al., 2020). With approximately 25 million SMEs in Europe—employing 95% of the workforce—it is evident that strengthening these enterprises is crucial for sustainability and innovation (ILO, 2022).

Additionally, research on Bahrain's SMEs is scarce, indicating a pressing need for studies that explore ways to boost entrepreneurship in the Kingdom. Understanding the longevity and success of SMEs is essential, akin to available data in the UK and other developed economies (NTI, 2023). Comprehensive investigations will shed light on the current challenges faced by SMEs in Bahrain and contribute to both academic and practical knowledge in this field.

## Literature Review

### 2.1 Introduction

Research indicates that about 20% of new businesses fail within their first year, and nearly 50% close within five years (Gottschalk et al., 2014; Clarify Capital, 2025). Key factors driving these failures in small and medium-sized enterprises (SMEs) include weak leadership, inadequate financial planning, limited capital access, and insufficient market analysis (Darwish, 2014; Alhaddad, 2024). In Bahrain, SME failure rates range from 30% to 50%, primarily attributed to managerial shortcomings, poor innovation practices, and financial constraints (Benzing et al., 2009; Doern, 2009).

Integrating insights from Swiss SME development research (Frey et al., 2022; SECO, 2021), this study places Bahrain's challenges within a broader European context, emphasizing the importance of targeted capacity-building and policy alignment. The literature review also informs the questionnaire design and qualitative case study framework, creating a foundation for actionable recommendations to improve SME resilience and scalability in Bahrain.

### 2.1 The Research Problem and Its Parameters

The primary research problem is the elevated failure rate of SMEs in Bahrain. Darwish (2014) notes that Bahraini SMEs encounter ongoing issues like poor coordination, ineffective policy implementation, limited financial access, inadequate training, and low educational levels.

These factors impair management effectiveness and stall SME growth. Additionally, traditional corporate principles do not always apply to the SME context.

Alhaddad (2024) highlights that barriers, particularly in securing financing, critically affect the sustainability of Bahraini SMEs. Although the banking sector provides funding, stringent lending standards often prevent smaller businesses from obtaining necessary capital.

Furthermore, the Central Bank of Bahrain (CBB, 2024) reveals that SMEs constitute around 99% of enterprises in the country but face a nearly 30% failure rate in the first three years, with only 20% able to secure bank financing.

To address these challenges, the CBB mandates that retail banks allocate 20% of their domestic financing portfolios to SMEs by 2025, with interim targets of 5% by December 2023 and 10% by December 2024. This plan includes the establishment of dedicated SME financing units and the development of specialized financial products (CBB, 2024; Alhaddad, 2024).

Research by Bilal and Migbali (2015) emphasizes that persistent financial constraints are a major contributor to high SME failure rates. Their findings indicate that stringent lending requirements and substantial collateral demands create significant barriers.

This study also investigates how strategic leadership and innovation can help mitigate these challenges. Effective leadership can drive organizational change, stimulate innovation, and improve decision-making (Lok & Crawford, 1999). Innovative business practices in operations, marketing, and product development can provide SMEs with a competitive edge, facilitating adaptation to market demands (Madrid-Guijarro et al., 2009; Genus & Coles, 2006).

### **2.2.1 Defining SMEs**

A universally accepted definition of SMEs is elusive, complicating classification efforts (Landiriani & Leopore, 2015; Dincer, 1994). Some definitions focus on employee counts, while others emphasize financial metrics like revenue.

For instance, the World Bank categorizes businesses with fewer than 50 employees as small and those with 50 to 200 as medium. Definitions vary globally; in Germany and the U.S., small enterprises may include those with fewer than 200 employees or annual revenue below \$50 million, while in South Africa, SMEs typically have fewer than 100 employees.

In the UAE, classifications consider both employee numbers and annual turnover, with small enterprises having up to 100 employees and medium-sized ones employing between 100 to 250, with annual revenues from AED 3 million to AED 250 million.

In Oman, SMEs are defined by workforce size, with small businesses employing 1–9 workers and medium ones 10–99. Malaysia also displays varied definitions, with small enterprises usually having up to 50 employees and medium ones from 51 to 300, along with specific investment thresholds.

The European Union defines SMEs mainly by employee count, classifying micro-enterprises as having fewer than 10 employees, small enterprises as having 10–49, and medium-sized enterprises as employing 50–249. The U.K. and the U.S. utilize a broader range of indicators, including employee numbers, sales volume, and asset value (Hashim & Abdulla, 2000).

These diverse definitions emphasize the importance of national contexts, which may lead to inconsistencies in policy application and comparative research. In Bahrain, definitions align with Gulf Cooperation Council (GCC) standards, although many global studies adopt World Bank criteria, potentially skewing benchmarking efforts.

These diverse global definitions highlight the need for a standardized local framework, which Bahrain has addressed through its MOIC classification.

### **2.2.2 Importance of SMEs in Shaping Economies**

SMEs are critical to shaping national and global economies, notably in fostering economic diversification and sustainable growth. The United Nations Sustainable Development Goals (SDGs) underscore the importance of promoting SMEs to address issues related to poverty reduction, decent work, and economic advancement (United Nations, 2021).

SMEs encompass a wide range of activities, from rural family-owned businesses to technology-driven startups (El-Madani, 2018). In developing nations, traditional SMEs often consist of craft-based industries and small-scale manufacturing, rooted in village economies. Despite limited resources, these businesses provide informal employment opportunities, especially for marginalized populations (Anastasia, 2015), and are significant contributors to domestic and export markets.

As principal sources of employment, SMEs support vast numbers of livelihoods and encourage inclusive economic participation (OECD, 2019). They also serve as incubators for innovation, facilitating new ideas and business models (Beck et al., 2005; Audretsch & Keilbach, 2004).

SMEs help develop local communities by offering flexible economic activities tailored to regional needs (Muller, 2007) and fostering competition, which boosts product quality and reduces consumer prices (World Bank, 2009; Anderson et al., 2001).

In the global trade arena, SMEs are increasingly integrated into supply chains, contributing to exports and overall economic integration (Narula, 2004). Their agility allows for a swift response to market changes compared to larger firms (Acs & Szerb, 2007).

Despite their significance, SMEs face numerous obstacles, such as limited access to financial support, inadequate training opportunities, and insufficient formal support structures.

Targeted interventions, including access to credit, entrepreneurial training, and mentorship programs, are crucial in building SME resilience (Wolor et al., 2022; Ceschi et al., 2017). Addressing these barriers is vital for fostering a robust economic ecosystem.

The literature highlights SMEs' key roles in driving economic transformation, with their micro-level dynamics promoting broader changes towards innovation and sustainable development (Geels, 2020; Lauraute, 2016; Belas, 2020). However, while the positive contributions of SMEs are well-documented, the literature often neglects environmental and social costs, including labor exploitation and ecological impacts from ineffective operations. Recent studies advocate for integrating Environmental, Social, and Governance (ESG) factors to bolster SME sustainability, particularly in regions like Bahrain, striving for green economic transitions (Bocken et al., 2023).

### **2.3 Bahrain as the Context of Study**

Bahrain is an important case for analyzing the challenges faced by SMEs, given their critical role in the economy. SMEs account for nearly 30% of Bahrain's GDP and employ approximately 75% of the private sector workforce. Despite their essential contributions, these firms have been significantly affected by recent economic downturns (Oxford Business Group, 2022).

Research by Ateeq and Ateeq (2024) investigates the adoption of sustainability practices among Bahraini SMEs and identifies financial constraints, lack of experience, and inadequate government support as barriers to sustainable practices. Additionally, Bunagan and Sison (2019) rank Bahrain 34th out of 137 countries in terms of entrepreneurship, positioning it fifth in the Middle East and North Africa (MENA) region based on various indicators.

This research examines the challenges impacting the performance of Bahraini small business owners and managers, aiming to provide insights into the necessary support from government agencies.

Recent data from 2025 indicates that SMEs have shown resilience, contributing to GDP growth of approximately 34.6%, reflecting improved performance in non-oil sectors (Tamkeen Business Review, 2025). However, this progress also highlights ongoing issues in sustainability adoption.

### **2.3.1 SMEs and Economic Development in Bahrain**

SMEs are crucial for Bahrain's economic growth, making up about 90% of registered businesses (Ministry of Sustainable Development, Bahrain, 2023). This statistic underscores the importance of the SME sector. The government has dedicated substantial resources to bolster this sector. For example, the Tamkeen Foundation offers financial support and training programs (Tamkeen, 2023).

According to the Commercial Registration Department in Bahrain (MOIC, 2010), SMEs represent over 99% of registered enterprises, predominantly operating in trading (42%), manufacturing (14.48%), and construction (13.73%). The Ministry of Industry and Commerce Act (922 of 2017) categorizes SMEs based on number of employees and annual turnover: small businesses employ fewer than 20 staff with turnover below BHD 100,000, while medium-sized enterprises have between 20 and 100 employees, with annual revenues of BHD 100,000 to BHD 500,000.

**Table 1: SME Definitions in Bahrain (Source: MOIC, 2017)**

<b>Category</b>	<b>Size (Employees)</b>	<b>Turnover (BHD)</b>	<b>Primary Growth Barrier</b>
<b>Micro</b>	1 – 5	< 50,000	Access to initial capital
<b>Small</b>	6 – 50	50,001 – 1M	Recruitment and Marketing
<b>Medium</b>	51 – 100	1,000,001 – 3M	Retention and Scalability

### **2.3.2 SMEs in Bahrain and their Challenges**

Bahrain is home to approximately 91,000 businesses: 85,000 micro-enterprises, 5,485 small businesses, 950 medium-sized firms, and around 176 large enterprises (IMF, 2023). Recent reports from the General Organization for Social Insurance (GOSI, 2024) indicate a drop in employment during the latter part of 2023, with the labor force averaging 521,444 since 2004.

According to the Labour Market Regulatory Authority (LMRA, 2023), there are approximately 288,400 employees across establishments, 39,800 in government roles, 9,300 in semi-government positions, and 239,300 in the private sector. The Annual Economic Review (2022) reveals that SMEs contributed 33.7% to Bahrain's GDP, with key sectors including trade (6.4%), manufacturing (5.6%), and construction (4.0%).

SMEs form the backbone of Bahrain's economy, driving innovation and job creation. Jafar Al-Sayegh from the Bahrain Economists Association estimates that SMEs contribute about 30% to the national economy. The Ministry of Finance and National Economy (2023) reported 4.9% economic growth in 2022, the highest since 2013, largely driven by activities in the non-oil sector (EDB).

The Minister of Industry, Commerce, and Tourism, Zayed bin Rashid Al-Zayani, has outlined a national plan to support SMEs. Despite this, empirical research on SME challenges in Bahrain remains limited (Ravindran & Boh, 2020), highlighting the significance of this study. The COVID-19 pandemic exacerbated existing challenges, primarily with financial access. Despite stimulus packages worth USD 11.2 billion and USD 1.2 billion, limited fiscal capability constrained government support for SMEs post-pandemic (World Bank, 2020).

Reportedly, Bahrain's economy contracted by 8.9% during the pandemic, and the recovery has been sluggish. SMEs face uncertainty in planning due to fluctuating consumer demand, alongside increasing reliance on e-commerce (World Economic Forum, 2021).

In response, Bahrain's Ministry of Industry, Commerce, and Tourism launched a National E-commerce Strategy (2019-2022) designed to strengthen SMEs through regulatory frameworks, digital tools, and public awareness initiatives (MOIC, 2022).

To bolster the SME sector, Bahrain established the SME Development Board under the Ministry of Industry, Commerce, and Tourism, aiming to elevate SMEs' GDP contributions to 40%, increase exports to 20%, and create 43,000 jobs for Bahrainis (Policy Document: The Baker Institute, 2018; Ministry of Sustainable Development, Bahrain, 2023). The private sector is also viewed as a crucial player in addressing financial and resource gaps for SMEs (World Bank, 2023). Studies identify human capital constraints and the necessity for enhanced business support (Darwish, 2014; Alrabeei & Scott, 2014; Bunagan & Sison, 2019). Significant barriers include restricted access to capital, regulatory burdens, obstacles to digital transformation, and skills mismatches (Najaf et al., 2020). Bahrain has initiated digital platforms to simplify business registration (MOIC, 2024). However, the small domestic market size necessitates strategies for international expansion.

Technology adoption gaps, digital marketing challenges, and managerial skills shortages persist (Al-Ehtawi & Arbab, 2022; Khamis et al., 2022). In response, the government is pursuing public-private partnerships and vocational training initiatives, also providing mentorship through incubators and accelerators (Ammal & Aljawder, 2021). SMEs are advised to explore niche markets, innovation, and branding to maintain competitiveness.

Swiss research suggests that robust institutional frameworks and targeted financing are essential for SME recovery post-COVID, alongside support for digitalization and innovation (Egli et al., 2022; Innosuisse, 2021). These insights offer potential avenues for Bahrain to adapt its SME ecosystem effectively.

**Table 2: Summary of Significant Challenges for SMEs in Bahrain**

<b>Sr.#</b>	<b>Challenges</b>	<b>Context</b>	<b>References</b>
<b>1</b>	Access to Finance	Difficulty in securing financing due to insufficient collateral and limited financial track records.	(World Bank, 2020), (Reuters, 2020)
<b>2</b>	Access to Markets	Constraints on budgets and a lack of marketing expertise impact the ability to reach customers effectively.	(Al-Ammal & Aljawder, 2018)
<b>3</b>	Costs of Doing Business	Limited resources and risk aversion hinder the adoption of new technologies.	(Ammal & Aljawder, 2021), (Al-Ehtawi & Arbab, 2022)

<b>4</b>	Employee Recruitment	Skill and talent gaps are also prevalent, particularly in technology and digital marketing.	(Al-Ehtawi & Arbab, 2022)
<b>5</b>	Employee Retention	The sector is striving hard despite several human capital challenges	(Darwish, 2014)
<b>6</b>	Employee Training	Provide SMEs with mentorship, training programs, and networking opportunities.	(Ammal & Aljawder, 2021)
<b>7</b>	Innovation	Need to adapt marketing strategies and distribution channels to meet changing consumer preferences, particularly the shift toward e-commerce.	(MOIC, 2022; World Economic Forum, 2021; Alhalwachi et al., 2024)
<b>8</b>	Management Systems	Challenges in establishing networks and accessing business support services, such as mentoring and advisory services.	(Bilal and Al Migbali, 2015). (Al-Ehtawi & Arbab, 2022)
<b>9</b>	People Management Skills	Many SMEs lack essential management skills for effective decision-making and maximizing limited resources.	(Darwish, 2014), (Bunagan & Sison, 2019), Alrabeei and Scott (2014)
<b>10</b>	Regulatory Compliance	The complexity of regulatory processes and administrative requirements, such as licensing and tax compliance, can be time-consuming.	(MOIC, 2024; Entrepreneurs Forum, 2012; Najaf et al., 2020)

## 2.4 SME Challenges: International Perspectives

The literature reveals common themes regarding global challenges faced by SMEs that influence their success and longevity. These obstacles highlight the necessity for SMEs to overcome difficulties to achieve sustainable growth (Smith, 2020; Johnson & Lee, 2021).

For instance, inadequate market understanding can lead to misaligned offerings, while limited capital restricts operational capacity (Gottschalk et al., 2014; Forbes et al., 2024). Furthermore, poor management practices can result in disengaged employees and ineffective decision-making, undermining performance (Wolor et al., 2022; Ceschi et al., 2017).

The United Nations recognizes SMEs as pivotal in the economic landscape of developing nations (Hashim & Abdulla, 2000), acting as key accelerators of growth (Drucker, 2008). Benicks, Kaklan, and Kick (2021) note that SMEs represent 90% of all businesses, providing over half of global employment opportunities.

In high-income countries, SMEs contribute about 55% to GDP and support 65% of the workforce. Conversely, in low-income countries, they supply approximately 95% of jobs and account for around 70% of national income (Dey et al., 2022).

SMEs enhance competitive market conditions by challenging monopolistic structures, diversifying consumer choices, and fostering growth. Enablers of SME growth include strategic leadership, supportive organizational culture, and entrepreneurial orientation, positioning them as key sources of innovation (Fernandez & Wellalage, 2019).

Serbia exemplifies a country leveraging its SMEs for innovation in product and process development. Research from Switzerland further stresses the importance of innovation, digital transformation, and leadership for SME resilience, especially in post-crisis conditions (Egli et al., 2022).

### **2.4.1 Middle East – Oman and UAE**

In Oman, SMEs are expected to contribute significantly to economic diversification and job creation. The government and private sector are enhancing support through regulations and initiatives aimed at improving the SME landscape (Omer, 2009). Approximately 117,000 SMEs, representing around 90% of the economy and over 40% engaged in retail, face challenges like economic downturns, supply chain inefficiencies, management skill gaps, and funding difficulties (MOCI, 2012; Bilal & AlMigbali, 2015).

Conversely, the United Arab Emirates (UAE) stands out for its economic dynamism and wealth. In under forty years, it developed an educational system comparable to Western standards (Madichie & Gallant, 2021). The UAE has emerged as a hub for entrepreneurship, offering substantial support to SMEs through various accelerators and innovation hubs, such as Dubai Internet City and Dubai Silicon Oasis (Ernest & Young, 2011). Abu Dhabi's Hub71, for example, focuses on mentorship and financial access (ADDED, 2013).

Research shows these hubs facilitate business development through collaborative environments (Becoming an Entrepreneur in Dubai, 2023). Special free zones attract investment and talent, contributing to a vibrant entrepreneurial ecosystem (Dubai Silicon Oasis, 2024; Dubai Internet City, 2024). Initiatives like the Khalifa Fund for Enterprise Development and the Mohammed Bin Rashid Establishment for SME Development provide essential financial support to Emirati entrepreneurs (KFED, 2013; Dun & Bradstreet, 2008).

Enhancing SME growth is a strategic priority in both Oman and the UAE (GMIS, 2024; The Official Portal of the UAE Government, 2024).

### **2.4.2 United States**

In the U.S., small businesses account for nearly 99.9% of all firms, significantly influencing the economy (SBA, 2023). From 1995 to 2021, they generated approximately 63% of new jobs and contributed 43.5% to GDP (U.S. Chamber of Commerce, 2023). In 2021 alone, about 5.4 million new businesses were established.

Despite this, SMEs encounter persistent challenges, such as talent acquisition (52.5%), growth and expansion (43.8%), and funding access (35.7%) (World Economic Forum, 2021). Alarmingly, 18% of small businesses do not survive their first year; roughly 50% fail within five years, and 65% close after ten years (U.S. Bureau of Labor Statistics, 2024).

Many SMEs falter due to inadequate startup capital, poor management strategies, and marketing deficiencies (CB Insights, 2021). Research indicates that around 33% of entrepreneurs struggle primarily because of capital shortages (Chamber of Commerce, 2024).

### **2.4.3 Asia**

In Asia, SMEs represent over 98% of all businesses and provide two-thirds of private-sector jobs (ADB Institute, 2016). However, they encounter significant challenges, including limited financial access, reliance on informal funding, and insufficient investment in research and development (ADB Institute, 2021).

#### **China**

In China, SMEs comprise 99.7% of all businesses, contributing over 60% of GDP, 75% of job creation, and 68% of exports. The sector experienced a record increase in new business formation in 2018 (OECD, 2020). Ongoing challenges include rising labor costs, intense competition, and strict loan collateral requirements (Drucker, 1996; World Bank, 2012).

## **Mauritius**

SMEs in Mauritius account for about 25% of the economy, with 99% of businesses classified as SMEs (Statistics Mauritius, 2015). The Ministry of Business Enterprise and Cooperatives has developed plans to enhance these enterprises, acknowledging their crucial role in the national economy (10-year Master Plan for SMEs in Mauritius, 2015).

## **India**

India has similar dynamics, with SMEs constituting over 50% of industrial production units, necessitating focused attention from financial institutions (Sonwalker & Soni, 2017). The analysis indicates that SMEs play a significant role in driving economic growth and employment in Asian countries, necessitating further empirical research to address underlying challenges.

### **2.4.4 The United Kingdom**

In the U.K., SMEs are vital, accounting for approximately 50% of national GDP and providing around 90% of jobs (CBI, 2000). They represent about 60% of the private sector workforce, with a combined annual turnover reaching £1.9 trillion (FSB, 2018).

Effective management of new technologies, particularly AI, is critical for SMEs (UK Government, 2021). A cohesive business strategy, alongside significant investment in research and development, can bolster SMEs' value and success (Kumar et al., 2018).

## Challenges in Context

**Table 3: Global Key Challenges**

Sr.#	Challenges in Context	Continent	References
1	Access to Finance	Asia, ME - Oman & UAE, USA	ADB Institute (2021). Drucker (1996), Bilal & AlMigbali (2015), U.S. Bureau of Labor Statistics (2024), World Economic Forum (2021)
2	Access to Markets	ME - Oman & UAE, USA	Bilal & AlMigbali (2015), CB Insights (2021)
3	Cost of Doing Business	Asia, USA	ADB Institute (2021), OECD (2020), U.S. Bureau of Labor Statistics (2024)
4	Employee Recruitment	USA	World Economic Forum (2021)
5	Employee Retention	USA, Asia	World Economic Forum (2021), ADB Institute (2021)
6	Employee Training	UK	Kumar (2018)
7	Innovation	Asia, UK	OECD (2020), UK Government (2021)
8	Management Systems	ME - Oman & UAE, UK, USA	Bilal & AlMigbali (2015). Kumar (2018), Research by the Chamber of Commerce (2024)
9	People Management Skills	ME - Oman & UAE	Bilal & AlMigbali (2015)
10	Regulatory Compliance	UK, USA	UK Government (2021), World Economic Forum (2021)

## 2.5 SME Entrepreneurial Challenges

SMEs are crucial for global economic growth yet face significant barriers to sustainable development. Challenges in market access, innovation, and workforce recruitment and training impede growth. High operational costs and difficulties in employee retention adversely affect productivity. Often, SMEs lack effective management systems, complicating adherence to regulatory frameworks, while limited access to finance restricts investment in growth and innovation.

**Table 4: SME Entrepreneurial Challenges Key Challenges**

Sr.#	Challenges in Context	Global	Bahrain References	Global References
1	Access to Finance	Asia, ME - Oman & UAE, USA	(World Bank, 2020), (Reuters, 2020)	ADB Institute (2021), Drucker (1996), Bilal & AlMigbali (2015), U.S. Bureau of Labor Statistics (2024), World Economic Forum (2021)
2	Access to Markets	ME - Oman & UAE, USA	(Al-Ammal & Aljawder, 2018)	Bilal & AlMigbali (2015), CB Insights (2021)
3	Cost of Doing Business	Asia, USA	(Ammal & Aljawder, 2021), (Al-Ehtawi & Arbab, 2022)	ADB Institute (2021), OECD (2020), U.S.

				Bureau of Labor Statistics (2024)
4	Employee Recruitment	USA	(Al-Ehtawi & Arbab, 2022)	World Economic Forum (2021)
5	Employee Retention	USA, Asia	(Darwish, 2014)	World Economic Forum (2021), ADB Institute (2021)
6	Employee Training	UK	(Ammal & Aljawder, 2021)	Kumar (2018)
7	Innovation	Asia, UK	(MOIC, 2022; World Economic Forum, 2021; Alhalwachi et al., 2024)	OECD (2020), UK Government (2021)
8	Management Systems	ME - Oman & UAE, UK, USA	(Bilal, and Al Migbali, 2015). (Al-Ehtawi & Arbab, 2022).	Bilal & AlMigbali (2015). Kumar (2018), Research by the Chamber of Commerce (2024)
9	People Management Skills	ME - Oman & UAE	(Darwish, 2014), (Bunagan & Sison, 2019), Alrabeei and Scott (2014)	Bilal & AlMigbali (2015)
10	Regulatory Compliance	UK, USA	(MOIC, 2024; Entrepreneurs Forum, 2012; Najaf et al., 2020).	UK Government (2021). World Economic Forum (2021)

## **2.6 Key Themes for SME Growth**

Entrepreneurship is essential for economic and societal advancement, with successful entrepreneurs identifying opportunities and creating value (Ries, 2011). They manage the complexities of establishing and scaling businesses while embracing risk and continuous improvement (Mathieu et al., 2006). Cultivating an entrepreneurial mindset can foster innovation, crucial for SMEs' survival in a dynamic market.

### **2.6.1 SME Strategic Leadership**

Effective leadership is vital for SMEs. Leaders must inspire and empower teams, facilitate collaboration, and communicate objectives to drive growth (Kotter, 1996). Strong decision-making skills and adaptability characterize effective leaders, alongside the ability to nurture a positive work culture (van Scheers, 2016). Successful organizations prioritize their employees, creating environments that foster excellence and engagement (Peters & Waterman, 1982).

Strong leadership shapes organizational culture, promoting unity and commitment to achieving favorable outcomes (Hofstede, 1994).

### **2.6.2 People Management Skills**

Human resources management is critical for SMEs, focusing on recruitment, retention, and talent management. Building a supportive environment that promotes retention is essential for achieving organizational goals (Mello, 2007). Retention strategies should emphasize engagement and clear communication rather than solely compensation (Al-Kandari, 2009). Effective recruitment significantly impacts organizational performance, underscoring the importance of suitable talent management strategies (Armstrong, 2006).

### **2.6.3 SME Organizational Culture**

The organizational culture of SMEs reflects shared values and behaviors. For effective management, this culture must align with national and societal norms and be adaptable to change (Geletkanycz, 1997). Understanding these cultural dimensions can enhance management strategies and align practices to promote effective leadership (Cakar & Erturk, 2010). Positive management fosters a conducive environment for employees, contributing to overall SME success.

### **2.6.4 SMEs and Management Systems**

Robust management systems are essential for improving operational efficiency and ensuring long-term success. Implementing effective systems enhances decision-making and resource allocation (Drucker, 1999). Despite the advantages, SMEs often face challenges in adopting these systems due to limited resources. Strategic implementation in phases can help streamline operations and compliance (Antonis Zorpas, 2010).

### **2.6.5 SME Innovation**

Innovation is vital for survival, particularly in financially constrained environments. SMEs may face internal and external barriers to innovation, including limited funding and market dynamics (Madrid-Guijarro et al., 2009). Government policies that promote collaboration and reduce uncertainty can significantly enhance innovation within SMEs (Arvanitis et al., 2008; Souitaris, 2001).

### **2.6.6 SME Access to Finance**

Cost management is critical for SMEs, influencing their operational efficiency and sustainability. Rising costs and regulatory compliance can hinder profitability and growth (ACCA, 2024). Understanding costs along with talent management and regulatory barriers provides insights into the challenges SMEs face (Belas et al., 2020). Mitigating these issues through effective financial planning and support mechanisms is essential for sustainable growth.

### **2.6.7 SME Access to Markets**

Market access is crucial for SME growth, affected by both internal constraints and external barriers. Effective marketing strategies, based on understanding customer needs, are vital for success (Cant, 2012). Strategies to overcome these challenges include forming strategic partnerships and leveraging technology to gain market insights (Rothkegel et al., 2006; Alon et al., 2019).

### **2.6.8 SMEs and Regulatory Compliance**

SMEs are critical for economic development, but encounter significant regulatory compliance challenges due to limited resources. Navigating complex legal frameworks often diverts time and funds from core activities like innovation and growth.

Compliance requires expertise that many SMEs lack. According to Hashi and B. A. (2011), the burden of compliance strains small businesses, particularly those ill-equipped to interpret changing regulations.

Naidu and Chand (2013) describe regulatory compliance as adhering to laws that ensure fair trade and consumer protection, focusing on employment law, tax obligations, and environmental regulations (Lussier et al., 2001; Simpson et al., 2012).

Proactive compliance management is not just a legal obligation; it is a strategic necessity. By managing compliance effectively, SMEs can avoid penalties, build stakeholder trust, and enhance long-term viability (Sterling et al., 2024). Anticipating future regulatory changes—especially related to data privacy and sustainability—is crucial for resilience.

**Table 5: Challenges for SMEs in Bahrain**

<b>Challenges</b>	<b>Areas of Focus</b>
Access to Markets	Consumer outreach methods
Innovation	Capacity for new ideas and technologies
Employee Recruitment	Attracting skilled manpower
Employee Training	Programs to develop competencies
Costs of Doing Business	Operational and regulatory expenses
Employee Retention	Strategies to keep valuable staff
People Management Skills	Workforce management efficiency
Regulatory Compliance	Adhering to laws and regulations
Management Systems	Governance frameworks
Access to Finance	Securing funding sources

The themes identified reflect significant challenges for SMEs in both Bahrain and globally, potentially serving as enablers when effectively managed through strategic leadership.

**Table 6: Key Enablers for SMEs in Bahrain**

<b>Enablers</b>	<b>Areas of Focus</b>
<b>Strategic Leadership</b>	Visionary management for growth
<b>Recruitment &amp; Retention</b>	Building a skilled workforce
<b>Management Systems</b>	Governance frameworks
<b>People Skills</b>	Aligning competencies with goals
<b>Organizational Culture</b>	Promoting a supportive work environment
<b>Innovation</b>	Encouraging creativity and adaptability

## **2.9 Summary of Research Design**

The analysis recognizes the crucial role of SMEs in promoting economic development, job creation, and inclusive growth. Recent research shows that SMEs constitute over 95% of global firms, underscoring their significance (Bocken et al., 2023; OECD, 2022). Nations—both developed and developing—actively support SME growth through policy frameworks, financing options, and innovation initiatives (Zahra et al., 2021).

A comparative analysis between the UK and Oman exposes both shared challenges and significant differences. While UK SMEs benefit from established financial systems and policies, Omani SMEs struggle with funding and regulatory complexities (Al Barwani & El-Said, 2023). In both regions, SMEs are recognized as vital for reducing unemployment and fostering entrepreneurship.

Unlike developed economies, where digital transformation is a central policy focus, SMEs in developing nations often face constraints due to insufficient institutional support and infrastructural inadequacies (Lu et al., 2021). This highlights the necessity for tailored governmental interventions to address diverse SME challenges.

Despite differences, literature consistently emphasizes SMEs' contributions to national income and employment. Yet ongoing challenges like intense market competition, limited digital capabilities, and managerial deficiencies persist, demonstrating that while SMEs may be termed "small," their macroeconomic impact remains significant.

The theoretical and conceptual backdrop provided in the literature review is essential for examining the enabling and constraining factors affecting SMEs in Bahrain. Frameworks like the Resource-Based View (RBV) and Institutional Theory inform the analysis of challenges and success drivers in Bahrain's SME landscape. Despite their significant contributions to GDP and employment, empirical research on Bahraini SMEs' sustainability and innovation potential is limited (Al Rabeei & Scott, 2014; Bunagan & Sison, 2019). This highlights the need for actionable insights through comprehensive studies.

### **2.9.1 Addressing Gaps in the Literature**

Examining existing theories related to Bahraini SMEs highlights gaps in understanding the unique cultural, institutional, and economic factors at play. Many of these theories have been developed within Western contexts, potentially failing to address the specific realities faced by SMEs in Bahrain. To bridge these gaps, a critical analysis is necessary to align generalized theories with the realities of Bahraini SMEs, identifying regional differences or additional relevant factors.

Moreover, there is a pressing need for concrete guidelines to aid SMEs in establishing sustainable operations and overcoming challenges. The current lack of clarity hampers both potential success and government agencies' ability to provide effective support.

These research gaps underline the need for comprehensive studies focused on how SMEs operate within their socio-economic contexts and the implications of government policies on their growth. Without robust empirical data, crafting effective strategies for sustainable SME development becomes severely hampered. Therefore, prioritizing research, gathering relevant data, and designing tailored guidelines for the diverse needs of Bahraini SMEs is imperative.

## **Methodology**

### **3.1 Research Philosophy and Paradigm**

The study adopts pragmatism as its overarching philosophical stance, bridging the positivist and interpretive paradigms. This approach allows for both objective and subjective perspectives, enabling the use of quantitative methods to test hypotheses and qualitative methods to explore contextual nuances (Creswell & Plano Clark, 2011). Pragmatism supports a methodological pluralism that aligns well with the mixed-methods design focused on SME challenges in Bahrain. Guba and Lincoln (1994) define research philosophy as the fundamental belief system guiding investigation, while Holden and Lynch (2004) stress its importance before establishing research design.

Mkansi and Acheampong (2012) classify research philosophy into positivist and interpretive paradigms. Positivism, significantly influenced by Auguste Comte in sociology, posits that social realities can be studied independently from the researcher, emphasizing quantitative analysis of causal relationships (Zyphur & Pierides, 2020). It employs a deductive approach, testing hypotheses through quantifiable measures (Bryman & Bell, 2007).

In contrast, the interpretive paradigm, associated with Edmund Husserl, acknowledges that human existence in social contexts can be explored qualitatively, emphasizing subjectivity and social construction (Guba & Lincoln, 1994). This study combines both paradigms to investigate the challenges faced by SMEs in Bahrain.

### **3.2 Research Paradigms**

The term "paradigm," derived from the Greek meaning "pattern," represents laws or assumptions about reality in the context of research (Kiyunja & Kuyini, 2017). Fraser and Robinson (2004) describe a paradigm as a coherent set of beliefs related to specific problems and investigations. The chosen paradigm shapes data collection and analytical procedures, highlighting the necessity of aligning it with research aims (Creswell, 2013).

A suitable research design is vital for systematic exploration, especially when addressing problems such as the poor growth of SMEs in Bahrain. Engaging directly with a representative sample of entrepreneurs is essential to understanding the nature of the challenges they face and the effectiveness of the strategies to overcome them.

### **3.3 Research Questions**

1. What challenges do SMEs face in Bahrain?
2. Which management practices contribute to SME success in Bahrain, and why?
3. How does SME innovation foster greater economic prosperity in Bahrain?

The quantitative data will be derived from surveys focused on challenges identified in the literature, while case study interviews will pinpoint factors leading to SME success.

### **3.4 Methodological Rationale and Objectives**

This study aims to identify and address the challenges faced by SMEs in Bahrain, particularly given the high failure rates of SMEs globally. It focuses on Mode Two knowledge development (Saunders et al., 2023; Gibbons, 1994) and employs both Mixed Methods Research and case studies (Creswell, 2013; Yin, 2014).

The primary goal is to provide insights and recommendations for supporting the growth and sustainability of SMEs in Bahrain and similar developing economies.

#### **3.4.1 Mixed Methods Research**

Mixed methods research integrates qualitative and quantitative techniques to gain a comprehensive understanding of research topics (Creswell & Plano, 2017). Quantitative methods, such as surveys, offer generalizable data for hypothesis testing (Tashakkori & Teddlie, 2010). By merging these methods, researchers enhance the validity and reliability of findings (Greene, Caracelli, & Graham, 1989).

The mixed-methods approach allows for an in-depth look at the links between SME challenges and success factors in a specific social and economic context (Creswell & Plano, 2017).

#### **3.4.2 Case Study Research**

Yin (2009) outlines three circumstances for selecting a case study: the necessity of answering “How” or “Why” questions, researcher control over events, and focus on current phenomena within a real-life context. Case studies are particularly valuable for exploring complex causal relationships and gaining insights into current issues in SMEs (Yin, 2014).

In-depth interviews formed the core of the case study, exploring factors influencing SME owners and employees. Quantitative data on organizational performance were analyzed to identify connections between strategic leadership and outcomes (Plano & Ivanova, 2016).

### **3.4.3 Data Collection Methods and Tools**

The questionnaire consisted of two sections: the first gathering demographic data about the SMEs and the second measuring constructs such as leadership and innovation. The instrument was pilot-tested with ten SME owners to confirm internal reliability using Cronbach's Alpha. Over 300 questionnaires were distributed to identify key challenges faced by SMEs in Bahrain.

Key areas of focus included management systems, employee recruitment, training, and regulatory compliance. Case studies involved qualitative interviews with 15 employees from a successful SME, aiming to uncover best practices and management strategies.

### **3.4.4 Data Collection - Sampling Strategy**

The sampling strategy used a dual approach: the questionnaire for the quantitative analysis and purposive sampling for the qualitative case study. The qualitative insights will triangulate with the quantitative data to provide a comprehensive understanding of SME challenges and success factors.

### **3.4.5 Data Analysis**

Data analysis involved various statistical methods, including ANOVA for testing significant differences across sectors and Cronbach's Alpha to assess internal consistency. SPSS version 26 was utilized for in-depth statistical tests, while Microsoft Excel facilitated preliminary data organization.

Qualitative data were analyzed using thematic analysis to identify common patterns and themes from the interview responses. Techniques such as content and narrative analysis provided deeper insights into the experiences of SME stakeholders.

### 3.5 Summary

The study employs semi-structured interviews to capture rich narratives emphasizing the role of context in shaping organizational phenomena. By integrating both qualitative and quantitative data, the research aims to develop a comprehensive understanding of the SME landscape in Bahrain.

To summarize, the mixed-methods approach blends positivist and interpretive elements, capturing both objective and subjective aspects of the phenomena. This framework is essential for exploring the complex realities faced by SMEs in Bahrain and will ultimately contribute meaningful insights to support their growth and sustainability.

**Table 7: Overview of Research Methods and Sampling Strategies**

Method	Sample Size	Sampling Technique	Justification
<b>Questionnaire</b>	300	Stratified Random	Ensured representation across SME sectors and sizes
<b>Case Study</b>	15	Purposive Sampling	Selected a successful SME in the education sector as an exemplary case

### 3.5.1 Methodological Limitations

Despite its strengths, the study faces several limitations. The reliance on a single case study restricts the generalization of qualitative findings. Additionally, response bias may affect survey results, and time constraints limited sample sizes. However, these limitations were addressed through data triangulation, pilot testing, and maintaining transparency in analytical processes.

## Results

### 4.1 Data Analysis

The research was conducted over three months in 2024, employing a comprehensive questionnaire distributed to a diverse sample of 300 respondents, selected through probability sampling techniques to ensure representation across SMEs in Bahrain. After review, 170 responses were validated, although 20 from micro businesses were excluded for not fitting the Ministry of Commerce's SME criteria. Following further scrutiny for data accuracy, 100 valid responses were used for meaningful analysis.

*Table 8: Questionnaire Distributed*

<b>Total distributed Questionnaires</b>	<b>Total Questionnaires Received</b>	<b>Response Rate (Inaccurate)</b>	<b>Total Questionnaires Accurate</b>	<b>Final Response Rate (Accurate)</b>
300	170	57%	100	33%

The study utilized statistical and thematic analyses. The questionnaire was crafted based on challenges identified in the literature, focusing on factors crucial for SME success in Bahrain.

The literature underscored the importance of effective management and skills (Khamis et al., 2022; Kotter, 1996; Peter & Waterman, 1982; Lok & Crawford, 1999). Specifically, it assessed people management skills relevant to employee recruitment and retention challenges in Bahraini SMEs.

#### 4.1.1 Key Challenges

The questionnaire examined ten essential variables related to SME challenges in Bahrain, including:

**Table 9: SME challenges in Bahrain**

Sr.#	Challenges Variables		
1	Employee Retention	6	Innovation
2	People Management Skills	7	Regulatory Compliance
3	Employee Recruitment	8	Access to Finance
4	Access to Markets	9	Management Systems
5	Employee Training	10	Costs of Doing Business

The collected data were analyzed using various statistical techniques, including regression analysis, chi-square tests, ANOVA, correlation analysis, and Cronbach's Alpha to reveal patterns and correlations among the challenges faced by SMEs.

### **4.1.2 Statistical Analysis and Findings**

The hypotheses indicated that strategic leadership, characterized by effective management practices, positively correlates with sustained SME success. The literature affirms that a clear understanding of recruitment, retention, and talent management is vital (Ongori, 2008; Crewson, 1997; Bramson, 2000). Effective people management directly impacts the ability of SMEs in Bahrain to retain talent and achieve growth (Al-Jishi, 2022).

### **4.1.3 Sample Demographics**

The sample consisted of 74% small enterprises and 26% medium enterprises, incorporating insights from 19 different sectors, including Retail, Health Care, Construction, and more. The data reflects the various challenges and opportunities within these sectors, emphasizing the need for a comprehensive understanding of SME dynamics.

## **4.2 Data Collection and Analysis**

A structured questionnaire served as the primary data collection tool. The findings yielded critical insights into the challenges facing SMEs, especially concerning people management skills, innovation, and growth sustainability.

### **4.2.1 One-Way ANOVA: Single Factor**

A one-way ANOVA was conducted to determine if the perception of business challenges significantly differed across various industry sectors in Bahrain. The results indicated a statistically significant effect of sector type on the intensity of operational hurdles,  $F(9, 990) = 5.78, p < .05$ .

Post-hoc analysis suggests that the service and education sectors experience significantly higher pressure regarding human capital management compared to the industrial sector. This statistical evidence confirms that growth barriers are not uniform but are heavily influenced by the nature of the SME's operations.

**Table 10: One-Way ANOVA: Single Factor**

Sr.#	SME Challenges	Count	Sum	Average	Variance
1	Employee Retention	100	735	7.35	6.916667
2	People Management Skills	100	730	7.30	5.727273
3	Employee Recruitment	100	709	7.09	6.628182
4	Access to Markets	100	699	6.99	6.131212
5	Employee Training	100	679	6.79	4.389798
6	Innovation	100	651	6.51	5.90899
7	Regulatory Compliance	100	633	6.33	7.314242
8	Access to Finance	100	598	5.98	7.252121
9	Management Systems	100	587	5.87	4.538485
10	Costs of Doing Business	100	579	5.79	5.420101

#### 4.2.2 Cronbach's Alpha Data

Reliability analysis through Cronbach's Alpha, with values above 0.70 signaling good internal consistency, confirmed the instrument's reliability. The overall Cronbach's Alpha was calculated at 0.890, affirming that the items reliably measure the constructed variables.

**Table 11: Cronbach's Alpha Data**

Cronbach's Alpha	Internal consistency
$0.9 \leq \alpha$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

#### **4.2.3 Correlation Coefficient**

Correlation coefficients ranged from -1 to +1, indicating relationships among variables. The findings revealed significant positive correlations among Employee Retention, People Management Skills, and Employee Recruitment, emphasizing their role in SME performance.

#### **4.2.4 Summary Findings**

With an overall mean rating of 6.911 for the challenges faced by SMEs in Bahrain, indicating moderate concern, the top challenges identified were Employee Retention (7.35), People Management Skills (7.30), and Employee Recruitment (7.09).

**Table 12: Challenges Overall Mean**

Rank	Challenge	Mean Score	Standard Deviation
1	Employee Retention	7.35	0.82
2	People Management Skills	7.30	0.75
3	Employee Recruitment	7.09	0.91
4	Access to Markets	6.99	1.10
5	Costs of Doing Business	5.79	1.25

The data reveals a critical 'human element' gap in Bahrain's SME ecosystem. While much of the existing literature focuses on financial barriers, these results show that Employee Retention (M=7.35) and Management Skills (M=7.30) are perceived as more severe obstacles than the actual Costs of Doing Business (M=5.79). This underscores the need for leadership development over simple financial subsidies.

**Figure 1: Challenges Overall Mean**



### **4.3 Conclusion**

In conclusion, the analysis confirms significant correlations between strategic leadership and the challenges faced by SMEs in Bahrain, particularly concerning employee management practices. The study highlights the critical need for stakeholders to prioritize effective management strategies to enhance the growth and sustainability of SMEs in the region. By addressing the identified challenges, it is possible to foster a more robust SME ecosystem conducive to economic prosperity.

The findings provide actionable insights for policy-makers and business leaders aiming to strengthen the SME sector, focusing on enhancing people management capabilities and recruitment strategies while recognizing the interconnected nature of these challenges.

The quantitative findings established that leadership and human capital are the primary pain points for local businesses. To explore how these challenges are managed in practice, a qualitative case study of Arabian Pearl Gulf (APG) School was conducted. This case serves as a 'best-practice' exemplar, demonstrating how strategic leadership can directly mitigate high employee turnover and enhance institutional scalability.

### **4.4 Case Study Discussion**

To contextualize the quantitative findings, a qualitative deep dive was performed through a case study of Arabian Pearl Gulf (APG) School. This transition from macro-data to micro-analysis allows for an exploration of how the previously identified challenges—specifically retention and leadership—are navigated in a successful enterprise. APG School serves as a critical exemplar of how strategic leadership can transform human capital challenges into a competitive advantage for scalability.

**Table 13: Synthesis of Success Enablers Identified for SMEs in Bahrain**

Strategic Leadership	Recruitment & Retention	Management Systems
People Skills	Organizational Culture	Innovation

A case study of APG School, focusing on the elements that contribute to its success against a backdrop of challenges faced by SMEs in Bahrain. The primary research question is: What management practices lead to SME success in Bahrain, and how does innovation enhance their economic prosperity?

By examining the relationship between effective leadership, people management skills, and innovation, drawing on qualitative data from semi-structured interviews with key stakeholders at APG School. It aims to test Hypothesis Two: Successful SMEs invest in leadership, innovation, and management practices. Insights from the case study will provide a framework for other SMEs and enhance their growth and sustainability.

The analysis aims to answer:

1. Which management practices lead to the success of SMEs in Bahrain and why?
2. How does SME innovation contribute to economic prosperity in Bahrain?

#### **4.4.1 Case Study Sample and Rationale**

The case study method was selected to complement the quantitative analysis by providing insights into a successful SME in Bahrain. APG School was chosen due to its growth, leadership development, and resilience post-COVID.

The rationale for this selection includes:

1. The knowledge-intensive nature of education, where leadership and innovation are critical.
2. The school's sustained performance in a competitive environment, making it a strong exemplar.
3. Accessibility through the researcher's professional network, ensuring data reliability.

The case study allows for an in-depth exploration of leadership capabilities, innovation practices, and people-management systems, enhancing the explanatory power of the results.

#### **4.4.2 Semi-Structured Interview Design**

The semi-structured interviews examined management practices, challenges, and their impact on success and growth. These interviews highlighted leadership as a key enabler.

#### **4.4.3 Coding of Qualitative Data**

To interpret the qualitative data effectively, coding methods were employed, as detailed by Merriam & Tisdell (2016) and advanced by Saldaña's methodologies.

Key techniques included:

- **Descriptive Coding:** Categorizing data into broad themes.
- **In Vivo Coding:** Using participants' exact words.
- **Values Coding:** Identifying underlying beliefs and principles.

These coding methods yielded comprehensive insights into the management practices driving SME success.

#### 4.4.4 Case Study Overview

Established in 1996, APG School follows the British curriculum and has garnered international recognition for academic excellence and innovative management. It received BSC accreditation in 2021, emphasizing high teaching standards. The school's diversity and effective management underscore its role as a model for educational management and student outcomes.

#### 4.4.5 Interview Process

Fifteen semi-structured interviews were conducted across various managerial levels to gain insights into perspectives regarding the institution. This approach facilitated a thorough analysis aligned with the research questions.

#### 4.5 Research Questions for Interviews

1. Which management practices lead to the success of SMEs in Bahrain and why?
2. How does SME innovation contribute to economic prosperity in Bahrain?

#### 4.5 Success Factors

This contrasts the challenges SMEs face with the management practices that facilitate success in Bahrain. The qualitative analysis identifies several key practices contributing to SME success, particularly at APG School:

1. **Effective Leadership:** Inspirational leadership fosters a collaborative environment where employees feel valued, aligning with Peter and Waterman (1982) on the importance of people-focused leadership.

2. **Talent Management:** Robust recruitment and retention strategies are critical for sustaining a skilled workforce, supporting innovation and performance.
3. **Culture of Innovation:** Encouraging creativity and problem-solving enhances adaptability, allowing for effective responses to market changes (Al-Mahrouqi & Weir, 2019).
4. **Commitment to Continuous Improvement:** Proactive evaluations of practices help align the organization with best practices.
5. **Supportive Organizational Culture:** A positive culture fosters teamwork and communication, boosting morale and collaboration.
6. **Strategic Partnerships:** Collaborations with local businesses enhance capabilities through shared resources and expertise.

#### **4.5.1 Employee Engagement and Development**

The importance of meaningful work and professional growth in retaining skilled employees is emphasized.

#### **4.6 Data Collection Methods**

Qualitative data were gathered through in-depth interviews with 15 key stakeholders, employing a mixed-methods approach to integrate qualitative and quantitative data, enriching the findings.

##### **4.6.1 Case Study Interviews Questions**

Key questions prompted discussions on critical factors for success, including effective recruitment strategies, competitive compensation, and creating a supportive work environment.

## **Emergent Theme: Recruitment Challenges**

The responses highlighted the difficulties SMEs face in attracting skilled talent and the importance of creating an attractive work environment.

### **4.7 Summary**

Challenges in recruitment are multifaceted, highlighting a need for competitive compensation and alignment with local values.

#### **4.7.1 Employee Retention**

Interview responses indicated that job security, organizational commitment, and professional development are essential for retaining skilled employees.

#### **4.7.2 Employee Training**

APG School prioritizes investment in continuous training to enhance employee skills and adapt to changes, addressing challenges proactively.

### **4.8 Thematic Analysis**

The semi-structured interviews reaffirmed prior observations regarding essential people management skills, emphasizing recruitment, retention, and training.

#### **4.8.1 Leadership**

Effective leadership significantly influences organizational success at APG School, evidenced by participative decision-making and a supportive environment.

#### **4.8.2 Culture**

The case study exemplifies how leadership vision and mission drive SME success, emphasizing the importance of collaboration and communication.

#### **4.8.3 Analysis**

Leadership practices at APG School demonstrate the impact of vision, values, and a supportive culture on organizational success.

#### **4.8.4 Innovation**

SMEs contribute significantly to economic growth and innovation, with APG School fostering a supportive role in the community by creating job opportunities and tracking student success. Through a mixed-methods approach, the case study supports rejecting the null hypothesis ( $H_0$ 2), establishing a correlation between SME success and investment in leadership, innovation, and management practices.

#### **4.9 Implications for SME Success**

The findings suggest key implications for other SMEs, highlighting areas for investment in leadership development, recruitment strategies, and creating a positive work environment.

### **Conclusions**

The factors of SME success through the lens of APG School. Key discoveries include the role of innovation, driven by effective leadership. For SMEs to thrive, investment in leadership development and fostering a culture of innovation is crucial.

Overall, APG School exemplifies how strong, values-driven leadership fosters a positive culture, driving organizational success. The insights gained inform strategies for other SMEs aiming to enhance their competitiveness in Bahrain's evolving economic landscape.

The findings of this study provide a clear roadmap of the current SME landscape in Bahrain. While traditional economic discourse often focuses on liquidity and access to finance, this research demonstrates that for the 2024 business environment, the internal 'People Management' gap is the primary determinant of scalability. The high Mean scores for Employee Retention (7.35) and People Management Skills (7.30) indicate that businesses are struggling more with maintaining talent than with the basic costs of operation.

Theoretically, this study bridges the gap between general SME growth theories and the specific context of the GCC. It highlights that in a diversifying economy like Bahrain's, the shift from oil reliance to a knowledge-based economy requires a parallel shift in leadership capabilities. The application of strategic leadership is no longer a 'luxury' for large corporations but a survival necessity for small and medium enterprises.

### **Recommendation**

- **For Government/Tamkeen:** Shift focus from grants to intensive leadership training and HR consultancy subsidies.
- **For Business Owners:** Invest in organizational culture and employee engagement to reduce the high costs associated with turnover.

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## **Appendices**