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ASTON UNIVERSITY BIRMINGHAM UNITED KINGDOM

This paper is from the BAM2019 Conference Proceedings

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BAM 2019

Examining the Role of Business Incubators in the Saudi Arabia
Entrepreneurial Ecosystem

(2000+- words excluding abstract, references and appendix)

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Abstract

Business incubation (BI) takes place in different connected institutional environments that are elements of the entrepreneurial ecosystem (EE). Despite the growing interest in business incubation programmes and their role in encouraging the entrepreneurial ecosystem in a region, there is still a lack of research on the effect of institutions on business incubators within the entrepreneurial ecosystem, an area which needs further investigation, particularly in emerging markets. This study therefore investigates the institutional challenges faced by business incubators in Saudi Arabia within the entrepreneurial ecosystem dynamics. To tap into this information, the study utilizes a qualitative approach to collect data, using face-to-face, semi-structured interviews carried out with participants in Saudi Arabia. The paper throws light on the current state of business incubators in the kingdom and discusses how the incubation industry is influenced by institutional factors within the entrepreneurial ecosystem.

Keywords: Business incubators, Entrepreneurship, Ecosystem, Start-ups, institutions, Saudi Arabia, institutional theory

1. Introduction

Entrepreneurial ecosystems are composed of interrelated attributes (Spigel, 2015) including government, leadership, culture, success stories, human capital and entrepreneurial organizations, such as business incubators, financial institutions, education institutions, infrastructure, economic clusters, networks, support services and customers (Fernández *et al.*, 2015). Government organizations, for example, are important for ecosystems, providing strategies, infrastructure and resources. Some attributes, such as business incubators, are considered as crucial determinants of entrepreneurial ecosystem success (Fernández *et al.*, 2015; Theodoraki *et al.*, 2017). Theodoraki and colleagues argue that business incubators are the catalysts for a number of actors, such as schools, universities and chambers of commerce to promote entrepreneurial programmes and support the entrepreneurial ecosystem.

A growing body of literature documents the role of institutions in entrepreneurial activities (Aidis *et al.*, 2008; Estrin *et al.*, 2013; Pinho, 2017), and as part of the entrepreneurial ecosystem, the research community has long been interested in doing research on business incubators (Neck *et al.*, 2004; Bøllingtoft and Ulhøi, 2005; Aerts *et al.*, 2007; Chandra, 2007; Al-mubarak and Busler, 2012; Bruneel *et al.*, 2012; Salem, 2014a; Corsi and Berardino, 2014; Al-Mubarak *et al.*, 2015; Fernández *et al.*, 2015; Dutt *et al.*, 2016; Mrkajic, 2017).

Despite the amount of research on business incubators, the institutional forces that shape business incubators in transition economies such as Saudi Arabia are not well documented. This sparked our interest in exploring the institutional forces that might shape the business incubators in Saudi Arabia. In Saudi Arabia, business incubation programmes are still evolving, and are considered a crucial part of the 2030 Vision for entrepreneurship development. Accordingly, given the popularity of business incubation, and due to the importance of business incubators in prompting the Saudi entrepreneurial ecosystem, this

paper aims to identify the main institutional challenges faced by business incubators in Saudi Arabia, and to show how these impact on their effectiveness.

Hence, our *first research question* is: “How do business incubators in Saudi Arabia interact with other institutional actors within the entrepreneurial ecosystem, and how does this interaction impact entrepreneurship in this context?” The *second question* is: “What are the institutional challenges for business incubators in KSA, and how do they impact on entrepreneurship support and success?”

This paper therefore uses the context of Saudi Arabia to analyze business incubators in relation to institutional factors and actors. It will rely on institutional theory perspective (regulative - laws and legislations, normative - norms and values, and culture and cognitive - individuals’ beliefs and perceptions) when examining business incubators in KSA and their role in the entrepreneurial ecosystem.

2. Theoretical background

Different pieces of entrepreneurship literature have emphasized the role of institutions as a productive way to clarify and give a wide-ranging explanation of various entrepreneurship related concepts (e.g. Busenitz *et al.*, 2000; Kim and Li, 2014; Dahms and Kingkaew, 2016).

Colombo *et al.* (2017) report that entrepreneurial ecosystems are linked and characterized by the interrelation and collaboration of agents and institutions. Other scholars argue that entrepreneurial ecosystems are complex socioeconomic structures resulting from the interaction between individuals and institutions (Sussan and Acs, 2017). Institutions, for the purpose of this study, include laws and legislations – regulative; norms and values – normative; and cultural and individual beliefs and perceptions - cognitive (Scott, 2014). Institutional theory consists of three dimensions: regulative, normative and cognitive (Bruton *et al.*, 2010; Scott, 2014). Institutional theory has been proven to be a useful tool in entrepreneurship research (Bruton *et al.*, 2010). Furthermore, institutional theory plays a significant role in shaping the forces that influence entrepreneurial success (Bruton *et al.*, 2010).

Scott (2014) summarizes the three dimensions of institutional theory as:

- (1) *The regulative pillar* includes components of rules and governmental regulations or legislations and standards
- (2) *The normative pillar* includes norms and values
- (3) *The cognitive pillar* is based on individual beliefs and perceptions.

Even though a large number of entrepreneurship studies highlight that entrepreneurial activities are influenced by institutional forces, there is still a paucity of research employing institutional theory (Bruton *et al.*, 2010) to clearly explain how entrepreneurial activities are different between regions (Alvedalen and Boschma, 2017). Up till now, understanding entrepreneurial ecosystems from institutional theory perspective has not been sufficiently studied. The connections between the institutional theory and entrepreneurship literature still remains implicit than explicit (David and Sine, 2011). Institutional theory does not explicitly address entrepreneurship. Rather, it is a theory that can be applied in different areas including entrepreneurial ecosystems. Thus, a more explicit articulation of the integration between institutional theory and entrepreneurial ecosystem would offer more benefit to both literatures. Although entrepreneurial ecosystems include institutional actors and factors (Spigel, 2015; Stam, 2015; Alvedalen and Boschma, 2017; Audretsch and Belitski, 2017;

Bruns *et al.*, 2017), that are very similar to the institutional theory, the connection between the two theories has not been clearly acknowledged. In addition, Alvedalen and Boschma (2017) argue that entrepreneurial ecosystem literature has not sufficiently examined the institutional context of the interactions between entrepreneurial ecosystem components. Therefore, one can argue that since entrepreneurial ecosystems include institutions, employing institutional theory is critical. According to Bruton *et al.* (2010), “if institutions matter, then institutional theory should be employed as part of the analytical framework.”

Therefore, building on Scott’s “institutional theory” we aim to explore the institutions that may influence business incubators in Saudi Arabia. Institutional theory might be a useful theoretical lens which entrepreneurial ecosystem researchers can use to enhance their understanding of the interactions among the EE components.

3. Entrepreneurial ecosystems and business incubators: The case of Saudi Arabia

The literature on business incubators has been widely studied to support regional entrepreneurship activities (Mrkajic, 2017), and has attracted the interests of different academic researchers in both developed and developing countries (Salem, 2014). Most of the early research during the period 1984-1987 was aimed at defining the concept of business incubation, raising such questions as what an incubator was and how it could be developed. Researchers’ definitions of business incubators since then have focused on different common aspects. Bruneel *et al.* (2012) summarize the commonalities among the definitions by describing business incubators as “property-based initiatives providing their tenants with a mix of services encompassing infrastructure, business support services and networking”. Isenberg (2011) argues that business incubators are support structures that only work if (1) there is entrepreneurship, and (2) they are part of an entire ecosystem. Drawing on this research stream, we define business incubators as institutions within the entrepreneurial ecosystem which stand as support systems interacting with external actors of different institutions (e.g. government, public agencies, investors, universities) to fulfill the needs of incubated firms, providing services such as space, finance services, legal services, marketing, human resources, networks, technology, consultancy and mentorship, hence creating an environmental context favourable for entrepreneurship activities. Business services provided by business incubators are part of the entrepreneurial ecosystem and cannot be defined as a cause of entrepreneurship, as they are interdependent. This indicates that business incubators are a crucial component of the entrepreneurship ecosystem. Hackett and Dilts (2004) argue that most published studies are descriptive and do not use a consistent theoretical lens. However, other researchers have started to build conceptual frameworks concerning incubatee selection criteria and incubator-incubation success factors (e.g. Al-mubarak and Busler, 2012; Corsi and Berardino, 2014; César *et al.*, 2019).

There has been an increasing effort by the Gulf Corporation Council (GCC) to improve entrepreneurship in their countries through the establishment of business incubators (Al-mubarak and Busler, 2010). The Kingdom of Saudi Arabia began to support its entrepreneurial ecosystem in the last decade, with different governmental initiatives and the involvement of the private sector. Such initiatives include the Saudi Business Incubator Network initiative (Salem, 2014). Another business incubator that has been established nationally to promote technology and innovation is BADIR technology business incubator (Khorsheed *et al.*, 2014). This indicates that the Government of Saudi Arabia and entrepreneurship policymakers acknowledge the need to integrate business incubators in the economic policy reforms (Salem, 2014).

Today, different types of business incubators are applied in Saudi Arabia to support various business activities in the country, from university-based business incubators and university science and technology parks to mixed use manufacturing and technology-based incubators. According to a recent “Wamda” report - <https://www.wamda.com/2017/06/big-opportunities-startups-ksa-report> on entrepreneurship in KSA, the number of support organizations including business incubators, co-working spaces and funding organizations tripled between the period 2006-2010 and 2011-2015 (Rahal, 2017).

In addition, the Government aims to increase the number of incubation programmes by the establishment of *Munsha'at*, the Small and Medium Enterprise Authority, launched as part of the 2030 Vision to improve the quality of business services. One of the *Munsha'at* objectives is to establish more business incubation programmes across the kingdom. Recently, *Monsha'at* launched a training programme specializing in mentoring, aiming to support the capacity and capability of mentorship in the country [Monshaat | SMEA](#).

4. Research Methodology

This study adopted a qualitative approach to collect data by way of semi-structured interviews to gain in-depth knowledge and understanding of the institutional challenges and prospects of business incubators in the Kingdom of Saudi Arabia. The data was collected during face-to-face interviews with participants in three main regions in Saudi Arabia (Riyadh, Jeddah and Eastern Province). The qualitative research methodology was chosen because of the need to gain a deep understanding and local contextualization of the topic.

.1. Sample

We sought to involve a broad set of entrepreneurial actors in Saudi Arabia, in order to gain a deep understanding of the institutional challenges that impact business incubators. Thus, we selected informants from different levels of the ecosystem, including governmental authorities and policy representatives, business incubator managers, incubated start-ups, and incubator graduates.

.2. Data Collection and Analysis

The three analytical levels (regulative, normative and cognitive) derived from our theoretical lens, institutional theory, guided our data in terms of the formulation of our interview guides. The semi-structured interviews allowed us to discover in depth the degree of interaction between BIs and other EE elements.

5. Results and Discussions

The themes below are interpreted to address the research questions of how business incubators in Saudi Arabia interact with other institutional actors within the entrepreneurial ecosystem, how this interaction impacts entrepreneurship in the context, what the institutional challenges are for business incubators in KSA, and how they impact on entrepreneurship support and success.

5.1. Regulatory - policy and management challenges

The regulative pillar includes components of the rules and governmental regulations or legislations and standards (Scott, 2014; Pinho, 2017) acting as a guide for new entrepreneurial organizations (Bruton *et al.*, 2010). Governments tend to encourage entrepreneurship activities through institutional structures and policies (Dutt *et al.*, 2016). Among the best known examples of such structures and policies are business incubators

(Minniti, 2008). Nonetheless, entrepreneurship policies including business incubation vary across countries. In the context of this study, the Saudi Arabian Government is working closely with industries and universities to support the incubation industry and entrepreneurial ecosystem. Part of the country's 2030 Vision is to improve economic enablers, such as business incubators and accelerators, thereby increasing non-oil government revenue from SAR 163 billion to SAR 1 trillion <https://vision2030.gov.sa/en>. However, even though the Government is trying to boost entrepreneurial activities, the respondents' responses revealed that government policies regarding entrepreneurship are changing, and legislator entities are still not sufficiently developed, which challenges business incubator managers when supporting entrepreneurs at a regulatory level. (see the appendix for illustrative quotes).

5.2. Normative - social challenges

The normative dimension of institutional theory consists of social norms, values and beliefs that shape individual behaviour (Scott, 2014) and impact the level of entrepreneurial activities (Bruton *et al.*, 2010). Studies have shown that social reference groups, such as family and friends have influence on individual intentions to take part in entrepreneurial activities (Stenholm *et al.*, 2013). Here, we argue that social networks, trust and knowledge transfer are affected by the social norms and values of a particular culture, which in turn impact the entrepreneurial activities within that culture. For instance, in a culture where there is a strong social tie with reference groups such as family and friends, the relational trust is high, and therefore facilitates the flow of information, resulting in a high level of knowledge exchange (Bauke *et al.*, 2016). In addition, other researchers claim that social factors, such as network building may differ from one country to another, which would impact the network services provided by different business incubators located in different regions or countries (Dahms and Kingkaew, 2016).

In the context of Saudi Arabia, the results from our initial interviews indicate that family and friends and other social factors, such as trust, networks, education system and access to finance have a strong influence on entrepreneurial activities and entrepreneurs joining business incubators, as emphasized in the respondents' quotes. For example, our initial findings are consistent with A GEM 2017-2018 report findings which indicate that the education system is still weak in the kingdom concerning entrepreneurship (Dokhan *et al.*, 2017). In addition, based on our data, we found that entrepreneurs seeking to broaden their networks, and looking for financial support see business incubators as supportive institutions (see appendix).

5.3. Cognitive - individual challenges

The cognitive dimension relates to similarities in perceptions and interpretations of people who share common goals or culture (Theodoraki *et al.*, 2017). Our results show that people in Saudi Arabia still have a fear of loss. Another challenge is that business incubators are trying to provide adequate services for their clients such as mentorship and programming, but still there are lack of mentorship and technical skills.

6. Conclusion and future research

As Saudi Arabia seeks to develop the incubation industry as a means of supporting its entrepreneurial ecosystems, it is important to note that business incubators should not be

evaluated in isolation of other institutional factors. By addressing institutional factors using the lens of institutional theory, entrepreneurship policy makers would be better equipped to understand how entrepreneurial ecosystem elements interplay with one another to support or hinder the ecosystem.

This study may contextually contribute towards entrepreneurial ecosystem development in Saudi Arabia by assisting policy makers and business incubator managers in determining the major institutional forces and challenges in the country. Theoretically, the study may contribute to enhance the entrepreneurial ecosystem and incubation literature, as well as the institutional theory, by focusing on the role of the business incubator in entrepreneurship from a new perspective: the intersection between entrepreneurial ecosystem and institutional theory.

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APPENDIX

Illustrative quotes

5.1. Regulatory challenges

As stated by one business incubator manager: “The entrepreneurship policies are clear, but they keep on being updated on a regular basis. With the vision we have a lot of economic transformations that are happening and with that come some challenges regarding updating the policies and regulations. I am aware of the policies, but I am expecting changes at any time” (Business incubator manager 01).

Another respondent, who was a public official, said: "To my knowledge policies to governance and to manage, there is not actually, I cannot remember there is defined policies. So *Munshaaat* SMEs Authority should be the main government entity that develop these policies and try to force these policies and everything, but they are also young. They are one year and six months" (Public official 02).

From the entrepreneurs' perspective, one of the entrepreneurs who is incubated in public business incubator said: “*Munshaaat* is now the umbrella for start-ups and small and medium enterprises, but I would say that they are still not mature and not effective” (Entrepreneur 03).

One entrepreneur argued: “We do not have an umbrella that can support us when we need. I know there is a new authority for SMEs, and they say that they support the start-ups, but I do not see any support. The Ministry of Commerce also has not provided any support. It is just a name and prestigious positions. We entrepreneurs need competent committees to go back to if we face any obstacles and challenges” (Entrepreneur 01).

Another entrepreneur complained: “The problem is that our idea is very new, and the government was not ready for it. When I wanted to choose from the types of businesses listed in the government documents to register my business, I could not find the type of business or business activity that suits our business, so I had to choose the closest type. All government procedures are done online, but for start-ups the fees are super-expensive” (Entrepreneur 02).

Based on the quotes, the entrepreneurship policies and procedures in Saudi Arabia are producing challenges which affect business incubators and start-ups.

5.2. Normative and social challenges

(We use subthemes to highlight the relevant normative factors)

5.2.1. *Family background*

“I was born in a family that own businesses in different industries. I am glad that my family have business backgrounds and helped me reaching consultants. I did not seek business

incubators for these services. Also, my family have their own business lawyer who I trust and consult when I need” (Entrepreneur 01).

“I personally face rejections from my family. My mum was against all that and said why you want to kill yourself while you have a secured job. My brother said why do not you change your business to more traditional one like a restaurant. I did not like the idea and their negativity towards what I am doing. I did not get any financial support from my family because the concept of starting a tech business is not understood and also, I am not a person who comes from a business-oriented family. All my family are employed and do not have any business background or business experience. This is the reason why I joined Badir incubation programme” (Entrepreneur 03).

5.2.2. Networks and access to finance

“It is worth to note that Badir connections and collaborations are great help for entrepreneurs joining their programme. For me, I have benefited from their collaboration with Paytabs, which is a payment solution for internet business. There should be a monthly fee to get the Paytabs services, but because you are in the incubation programme at Badir, all the fees shall be cancelled. Another collaboration with STC, the Saudi Telecom Company, where entrepreneurs joined Badir incubation programme, they receive great deals up to 50%. Also, their collaboration with marketing agencies help a lot in giving us discounts for SMS marketing” (Entrepreneur 04).

“It is quite difficult to get financing and some investors are rather illogical in their requirements. We received financial, legal, media, office space support from the incubator” (Entrepreneur 06).

This suggests that entrepreneurs seeking to broaden their networks, and looking for financial support, may see business incubators as supportive institutions.

5.2.3. Education system

“I remember when I was a student, there was only one course about entrepreneurship, and it was theoretical based. I did not understand the concept until I have the real experience. So, I think we are not well taught about entrepreneurship and start-ups” (Entrepreneur 03).

“We tried many times to build collaborations with universities to visit their events and look for potential entrepreneurs to be incubated but unfortunately, most of the students have projects for their graduation with only few who really would like to turn their project idea into real businesses” (Business incubator manager 03)

This indicates that the education system in terms of entrepreneurship still immature in Saudi Arabia, but it is slowly improving. Our initial findings are consistent with A GEM 2017-2018

report findings which indicate that the education system is still weak in the kingdom concerning entrepreneurship (Dokhan *et al.*, 2017).

5.3. Cognitive forces

As illustrated by one of the business incubators managers: “The problem is that not everyone can be an entrepreneur because in our culture, risk taking is low, so people usually have the fear of failure. Everyone should take risk to accept failure” (Business incubator manager 01).

Another respondent said that entrepreneurs still do not have the talent and technical skills to support their digital start-ups, claiming: “The concept of digital start-ups in Saudi has been spreading among the entrepreneurs, but when it comes to the part of programming or coding, the back end is disaster. It is very weak”.

This suggests that individual factors may impact the quality of services provided by business incubators in Saudi Arabia.