



VAASAN AMMATTIKORKEAKOULU
VASA YRKESHÖGSKOLA
UNIVERSITY OF APPLIED SCIENCES

Elvyra Raginaite

FOREIGN INVESTMENT IN BAHRAIN

Case company:

A Private Entrepreneur from Lithuania

Business Economics and Tourism

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VAASAN AMMATTIKORKEAKOULU,
UNIVERSITY OF APPLIED SCIENCES
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ABSTRACT

Author	Elvyra Raginaite
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There exist various methods for business establishments to enter into a new market using the internationalization process. In practice, the internationalization process could be viewed as a big challenge for both small and medium-size (SME) companies. One of the ways to enter a foreign market is to make a foreign investment, on which the main focus of the research is based on.

The aim of this study was to provide the management of the case company with detailed information that will enable them to make informed decision on the Bahrain market. In order to accomplish this task, challenges and opportunities which can occur while entering into Bahrain's market were present, by making a SWOT analysis as well as taking a close look at the business climate and cultural differences which exist between Bahrain and the Western world. This thesis also provides information on the various market entry modes that are available, as well as the factors which are capable of influencing the choice of such a mode of entry. Furthermore, the research examine the threats and opportunities that the case company might encounter in its bid to enter into the Bahrain's market environment bearing in mind the cultural, political, economic, social, technological, legal and environmental factors of the country.

The empirical study was performed by conducting an interview with the owner of the case company. Information collected in the interview as well as secondary information collected in theoretical part was used to make a SWOT (strengths, weaknesses, opportunities, and threats) analysis for a case company to enter Bahrain market, which reveals answers to the research questions.

The research findings provided the company with information such as cultural highlights and ethical norms in Bahrain, possible entry entities according to the law of the country as well as various aspects of macro- environmental issues which influence market entry.

Keywords:

Market entry, Bahrain, Bahrain's culture

VAASAN AMMATTIKORKEAKOULU
International Business

TIIVISTELMÄ

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Kansainvälistymistä voidaan käyttää metodina kun liikelaitokset siirtyvät uusille markkinoille. Käytännössä kansainvälistymistä voidaan pitää suurena haasteena pienille ja keskisuurille yrityksille. Yksi keino siirtyä ulkomaisille markkinoille on tehdä ulkomainen investointi. Juuri siihen tässä tutkimuksessa keskitytään.

Tämän tutkielman päämääränä on tarjota tutkimusyrietyksellemme yksityiskohtaista informaatiota joka auttaa tekemään faktoihin perustuvia päätöksiä Bahrainin markkinoista. Kuvailemme niitä haasteita ja mahdollisuuksia joita kohtaamme siirtyessämme Bahrainin markkinoille käyttämällä SWOT analyysiä samoin kuin tarkastelemalla lähempää liikeympäristöä kuten myös kulttuurieroja Bahrainin ja länsimaiden välillä.

Tämä tutkielma myös tarjoaa informaatiota niistä eri markkinointitavoista joita on saatavilla samoin kuin tekijöistä, jotka voivat vaikuttaa markkinointitavan valinnassa. Lisäksi tutkielma käsittelee uhkia ja mahdollisuuksia joita tapausyritksemme kohtaa astuessaan Bahrainin markkinaympäristöön kun otetaan huomioon kulttuuriset, poliittiset, taloudelliset, teknologiset, juridiset sekä ympäristötekijät.

Empiirinen osa toteutettiin haastatteleamalla tutkimusyritystä jolla on riittävästi painoarvoa tutkimuksellemme. Tutkimustulokset antoivat yritykselle tietoa kulttuurisista ja eettisistä normeista Bahrainissa koskien maan lakeja sekä erilaisia aspekteja makroympäristökysymyksissä jotka vaikuttavat markkinoille pääsyyn.

Loppuluvussa katsaus tutkimukseen mahdollisista vaihtoehdoista Bahrainin markkinoille pääsemiseen tapausyritksemme kohdalla tuotiin esille. Niin haasteet kuin kohtaamamme rajoituksetkin tutkimusta kirjoitettaessa mainitaan myös. Lopuksi tutkimuksen tekijän mielipide on, että jatkotutkimukselle tällä saralla on tilaa muillekin alaa lähellä oleville aiheille.

Avainsanat:

Markkinoille astuminen, Bahrain, Bahrainin kulttuuri

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ABBREVIATIONS

BC	Before Christ
BD	Bahraini Dinar
BHD	Bahraini Dinar
B.S.C.	Bahrain Shareholding Company
CET	Common External Tariff
CIA	Central Intelligence Agency
DFI	Direct Foreign Investment
EDB	Economic Development Board
FTA	Free Trade Agreement
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
MFN	Most Favourite Nation
SME	Small & Medium size enterprises
USD	United States Dollar
WTO	World Trade Organization

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1 INTRODUCTION

As a result of increasing globalization it is evident that the business environment is going through a process of radical change and increased volatility. Consequently, today's companies are becoming better able to attain international status via factors such as fading trade barriers and faster technological innovations. Companies now see new profitable possibilities in entering new markets. The concept of globalization has made it essential for companies to take part in international business activities in return for maximizing profits.

Internationalization could be defined as an avenue which affords local business firms to broaden their operations platform abroad in countries other than their own. To gain a better understanding of this, it is pertinent to consider discussing the three crucial assumptions that govern the subject of internationalization. The first aspect concerns demand along with the interplay between consumer behaviour and marketing platforms at the macro level; the second concerns supply and competition, with the recognizable shift from local industries functioning in national markets to global companies operating in international markets; while the third projects the potential for cost reduction occasioned by the globalization of service/product offerings (Usunier & Lee, 2013, 131-132).

International business today is facilitated by the increase in global demand for goods or services and this has given rise to the need for enhanced production on a global scale. This situation makes it possible for local companies to expand their businesses abroad and go international. (Daniels & Radebaugh, 2001, 14).

Since companies are constantly seeking for ways to lower their production costs, enhance sales, maximize profits and ultimately increase market share, it becomes important for such companies to embrace new challenges while giving consideration to the possibilities of doing business globally. Internationalization is one possibility which offers a remarkable avenue for indigenous companies to expand their respective business activities into other countries and there are several ways of doing this. They include investing in foreign markets, exporting goods/services as well as exploring diverse contractual modes.

1.1 Background

Today the world is increasingly globalized as a result of exciting and interesting international business opportunities which abound at an unprecedented rate, never seen before in the history of human existence. Credible factors such as the development of trade along the Pacific Rim, the huge shift of economies which were once under the control of Eastern and Central Europe, the collapse of the former U.S.S.R., alongside China to more market-oriented economies have given multiple opportunities for business owners intending to commence new business enterprises in a foreign market as well as offer remarkable expansion options for existing companies to grow globally (Hisrich 2010, 7).

With more and more economies becoming market-oriented and highly economically developed, organizations are constantly seeking for diverse means to redefine themselves at any given opportunity in becoming truly global. As such, it is getting increasingly difficult to distinguish between local markets and their foreign counterparts since what was once considered a locally produced item can now be produced internationally, sometimes even at a cheaper and at more competitive costs to the gain of the manufacturing company. The urge to go international is increasing as a result of variety of external events. Research suggests that this blurring of national identities will be on the increase as more products/services become introduced beyond local boundaries. For instance, a country like China which was once considered to be a developing country is today an economic leader and huge player on the global stage. However, such huge success does not come without a price since there are diverse challenges which impacts on how companies choose how to enter new markets. This thesis attempts to explain some of these challenges and show the various approaches that foreign companies can adopt to overcome them with emphasis on entering the Bahrain market. (Hisrich 2010, 7)

1.2 Research problem and objectives

The research problem can be defined as an attempt to describe how foreign companies enter into the Bahrain market by making a foreign investment. Using a Lithuanian company which plans to make a foreign investment in Bahrain as a case company, the objectives of this research are:

- to gain a good understanding of the Bahrain business climate,
- to determine the possible options that are available to enter the market,
- to examine the threats and opportunities that could be encountered while seeking to do so.

This will be achieved by looking at issues such as the possible modes of entry into the Bahrain market, the various factors influencing the choice of such entry modes, as well as taking a critical look at the influence of cultural and environmental factors on the overall decision-making process.

In addition, by using a PESTLE analysis, “which monitors macro- environmental factors that have an impact on an organization”. (Cambridge Professional Academy Ltd., 2014) The impacts of the political, economical, social, technological, legal and environmental dimensions of Bahrain will be considered as it concerns the concept with a bid to providing more information regarding the topic.

A SWOT analysis is used to evaluate the case company’s strengths and weaknesses, which are important factors in entering a new market. PESTLE analysis helps to encounter opportunities and threats which will occur as external factors having a big influence on the case company.

1.3 Structure

This research is strategically divided into five major sections, each of which seeks to address key concerns that will help in understanding the topic. These sections are explained accordingly as follows: First, the introduction gives an overall picture of internationalization and globalization of entrepreneurship. In this segment

also the research problem, objectives of the research as well as its structure are briefly explained.

Second, the theoretical study of the thesis begins with a brief explanation of what internationalization entails. This will be closely followed by taking a look at possible entry modes which business establishments adopt when entering into foreign markets. Such entry modes are generally classified into three distinct types: export, contractual and investment entry modes respectively. Investment (FI) entry modes will be emphasised. In this study, the external and internal factors affecting the choice of the entry mode will be considered and an in-depth look into how companies build their business market entry strategy will be taken. Also, a brief look into how such companies conduct their decision-making process with respect to their chosen market entry will be included in the thesis. To conclude this segment, the country profile of Bahrain we will be examined. This segment consists of information about the business culture and macro environmental factors (PESTLE analysis) of Bahrain.

Third, the methodology will be examined. This section provides useful information regarding the research method which has been used in this thesis and also seeks to explain the reason(s) for selecting such a method.

Empirical framework comprises at the case company's profile, the interview, which was done with an owner of the case company as well as a SWOT analysis and also some comprehensive explanations regarding the actual research with its findings.

The last, conclusion section will attempt to summarize the entire thesis work and also offer practical suggestions and recommendations to the case company on how to achieve its market entry objectives significantly with respect to entering the Bahrain market by using the findings obtained from both the theoretical and empirical aspects of the research. Limitations of the project as well as recommendations for further study are given in this section.

2 THEORETICAL FRAMEWORK

2.1 Globalization and Internationalization

The world had never been a better place for internationalization as it is today. Most countries of the world are much more market-oriented. The distinction between domestic and foreign markets is shrinking. Products that used to be produced only domestically are now produced internationally (Hisrich, 2010, 7-9).

Michel Camdessus, a former managing director of IMF (International Monetary Fund) cited in Walker (Walker & Schmitz, 2003) was of the opinion that the term “globalization” as we know it today, “was actually a continuation of a trend which had been in existence for over fifty years and was merely a move by companies toward greater international economic integration”. One striking contrast, however, was how capital moves in today’s markets at a speed and in volumes which would have been deemed to be inconceivable only a few decades ago. This he associated with the fact that today’s markets are more complex, larger, and more closely-knit than ever before.

Globalization, a multifaceted concept, is of foremost priority in the business world today, requiring the time, energy, resources of multiple corporations as well as their employees. Over the turn of the twentieth century it has been considered to be one of the most powerful and pervasive influences on communities, nations, businesses, communities, workplaces and human lives.

The concept of globalization can be defined in several ways with respect to our area of focus. It can be considered in terms of the whole world, a specific country, a unique industry, a particular company or even a distinguished line of function within a business. At a global level, globalization can be considered to mean the growing interdependence amongst economies as seen in the increasing cross-border flow of goods, know-how, capital and services. On specific country-based level, it can be viewed as the extent of how linked a country’s economy is with the rest of the world while at specific industry basis, it can be considered to be the extent to which a business’ competitive position within that industry in a home-

country is independent when compared to same in another country. (Walker, Walker & Schmitz 2003, 2-3)

Globalization of entrepreneurship benefits countries and individuals around the globe. It creates wealth and employment, growth and development. Entrepreneurs are more likely to take risks and move to wider markets in order to gain bigger profits. The changed business environment and fast-eroding differences which were once upon a time clearly noticeable between domestic and international markets are considerably associated to the spread of democracy, technology as well as the existence of an open market system and their corresponding cultural influences. In contrast the new business environment is marked by the exchange of ideas, people, intellectual property, financial markets, technology systems, expertise and it is generally characterized by high fluidity. (Walker, Walker & Schmitz 2003, 2-3)

Transnational companies that manage internationally and implement locally play a significant role in the growth and evolution of globalization, their unwavering commitment to DFIs (Direct Foreign Investments) helps to sustain the trend for the development of the global business network in the twentieth century and beyond. (ibid)

In the 1980s and before, the following characteristics were considered to be responsible for shaping the business environment: continuity, planning, adjustment, diversification, management, instruction, individuals, knowledge, national boundaries, uniformed customers as well as scale and security. However, in 1990s and beyond, the following factors became the key determinants that shaped the business environment: change, freedom of movement, coping with the unexpected, competence, demanding customers, learning, facilitation, focus and segmentation, transformation, project groups and teams, flexibility, responsiveness, and speed. This dimension of 'freedom of movement' encourages globalization (ibid, 4).

Walker, Walker & Schmitz (2003) mention the drivers of globalization as well as some forces responsible for it. Short, while some key forces behind globalization

include: *customers* (use and demand of alternative, time-saving distribution channels); *competition* (open trading systems, regional trading groups, collaborative structures such as mergers and acquisitions); *governments* (trade policy implementation, licensing, import/export regulations); *technology* (increased consumer voice and interdependence among economies); and *markets* (emerging markets with new challenges and opportunities, oversaturated domestic markets forces the creation of new markets), the following have been identified as some of the drivers of globalization:

- Increased international market drivers
- Enhanced competitiveness of global corporations
- Cost productivity and efficiency of doing business internationally
- Development of FDI's (Foreign Direct Investments)
- Increased computer literacy and advancement in technology
- Convergence and similarities of global lifestyles, attitudes and values
- Maximized globalization of capital markets, services and flows
- Evolution of the knowledge and enhance information dissemination

Unarguably the significant movement toward enhanced globalization initiatives has considerable importance beyond economics which over a period of time, happens to be the only aspect of expansion regarding the human perspective. Despite the sad terrorist attack episode of September 11, 2001 on The United States of America, the tide of globalization has not been reversed as consumers prefer to have a panoramic choice of goods and services, even at drastically reduced cost. To a large extent, this desire has been fuelled by technological advancements especially in the area of information technology and telecommunication which promote the use of the internet. (ibid)

As a result companies that are keen on embarking on the internationalization process must ensure that they operate with a global mind set in addition to being aware of the dynamics of the international marketplace, since failure to do otherwise could prove to be highly deleterious to the commercial fortunes, productivity as well as the overall profitability of such a company (Walker, Walker & Schmitz 2003, 7).

2.2 Entry strategy

There are many methods that business establishments can use to enter foreign markets. In order to achieve long-term sustainable growth in the world markets, a company needs an entry strategy that is flexible and proven to withstand prolonged challenges on the way to success. In order for companies to create successful market entry strategies, crucial decisions must be made at critical turning points in the life history of such a company.

Franklin Root (1987) in his book revealed some key elements that a company needs to pay attention to in its quest to make decisions which bother on how to create a successful market entry strategy. These elements can be summarized as follows: First, there should be a clear definition of the target product/market. Having this clarification will go a long way in steering the affairs of the company by ensuring that its resources are adequately utilized in achieving its set objectives and goal of going global.

Secondly, the company's objectives and goals in the target market have to be selected and effectively communicated across the diverse operational levels which exist within the company. Doing this will ultimately guarantee that all the employees and stakeholders are well informed on the activities of the company as well as knowing the direction in which the company is going. (Root, 1987)

Thirdly, the need to determine a suitable, effective and cost-efficient entry mode to penetrate into the target country has to be made by key decision makers of the company such as its management or board of directors. This must be closely fol-

lowed by a concise drafting and proper communication of the company's marketing plan which must be designed and engineered to accommodate the needs of a specific county and unique product to be made. Such tailor-made approach will ensure that the company pays keen attention towards determining the specific needs of prospective customers in the new market and, furthermore, position the management of such a company to ration its resources in a manner that guarantees complete optimization of the company's resources towards meeting the needs that have already been identified. (Root, 1987)

Finally, in order to monitor the performance of the company in the target market with respect to its objective and goals, there is need for the company to establish an effective control system which must be designed and implemented in a manner that ensures smooth timely reports, feedback and sustainable development in the long-term. By putting in place such a viable mechanism, those who manage global companies are better equipped to successfully combat the diverse challenges that are associated with doing business globally in a timely manner. (ibid)

Small and medium-size company (SME) managers play a huge role in the identification and planning of market entry strategies of their respective companies even though some school of thought wrongly view this process as a complex body of qualitative information/data which only specialists in big companies can handle and achieve. (ibid)

More realistically the most important thing in the market-entry planning process is having an idea on how to plan such an entry. Since developing such an entry strategies could go a long way towards determining how successful a company's market entry would be in the long run. However, SMEs must thread with caution at all times since such a company has limited recourses to pursue its endeavours (as is often the case). Explanations that a company cannot afford to put in place effective planning of its market-entry strategy, should be seen in part as the company's inability to be creative and its unwillingness to think systematically regarding its future existence and competitiveness on the global stage among world markets (Roots 1987, 3).

As mentioned previously, in order to design an effective/efficient market-entry strategy, a company needs to consider these five factors, amongst other things: target product/market, objectives and goals, entry mode, marketing plan and control system. For example, it is obvious that in order for a company to commence its international operations, it needs to decide on what product to sell/buy and carefully select which country to enter into. In addition, setting of goals and objectives by entering into a target market has to take a place. After choosing a correct entry mode it needs to make a marketing plan accordingly to country market and establish control system in order, not to lose track of operations and performances of the firm.

Roots (1987), classified fourteen entry modes into three broad groups as follows:

1. Export modes
2. Contractual modes
3. Investment modes

These three groups will be considered, taking Investment modes into consideration in greater detail in the subsequent sections below.

2.2.1 Export modes

Exporting is the most common way to penetrate into a foreign market for the first time. It is a great learning tool for entrepreneurs to acquire international experience and gain competence in doing business internationally. One main thing which differentiates export entry modes from other entry modes is that a company's final product is made outside the target country and afterwards transferred into it. This could be related to factors such as production-cost implications, lowered tax regimes or availability of cheap labour, as the case may be (Roots 1987, 7).

In order to get their products to the target market, a foreign company can use one or more separate export modes or channels which it finds most convenient, as shown in Figure 1:

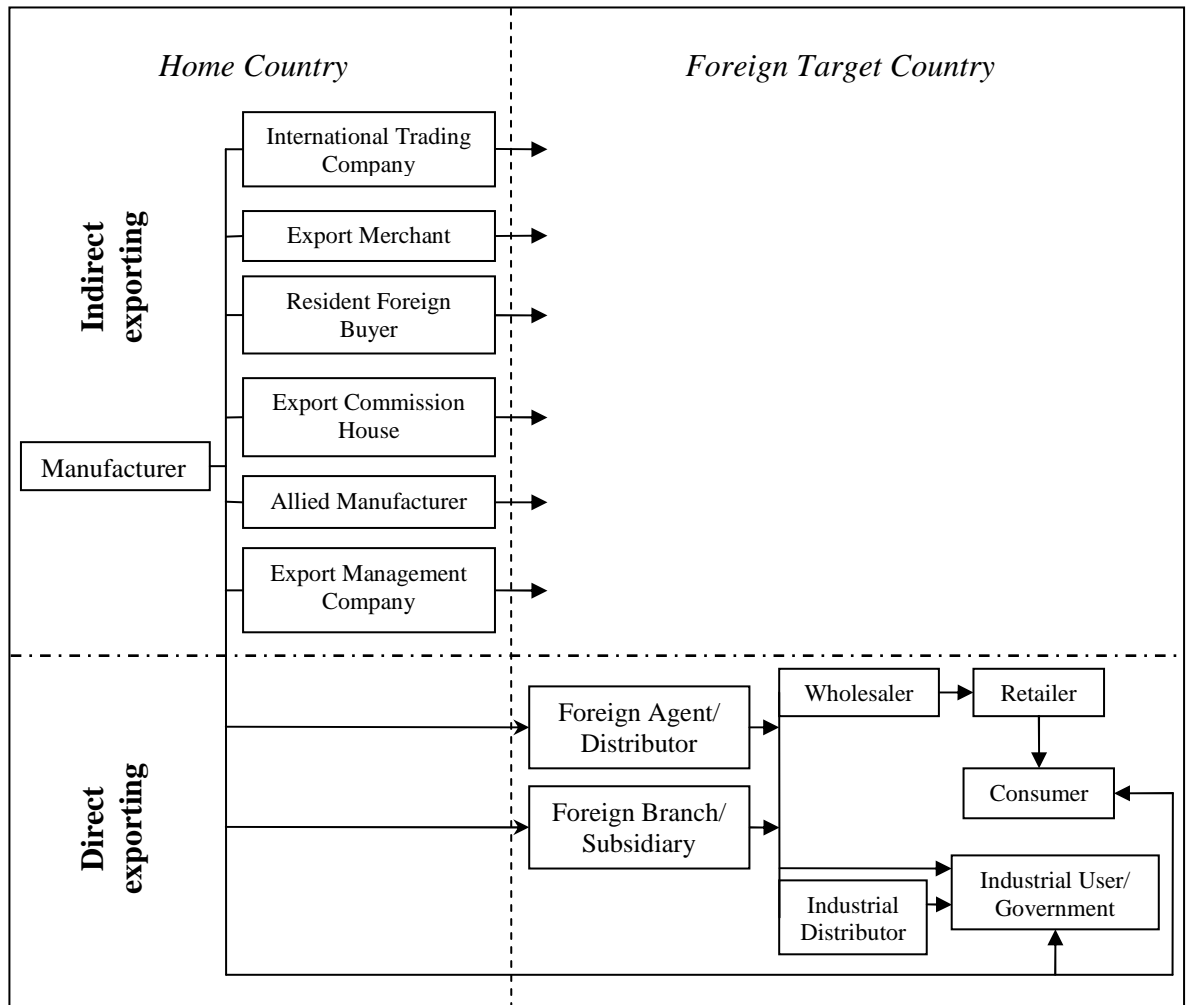


Figure 1 Principal Indirect and Direct Export Channels (Roots, 1987, 56)

Exporting can be either indirect or direct. Indirect export uses domestic intermediaries. A manufacturing company is not exporting on its own, and has minimal role in marketing its products inside a foreign market. However, in contrast to direct export, where (1) the producer may have partial/full control over the foreign marketing plan (2) more and quicker information feedback from the target market (3) concentrate the marketing effort on the producer's manufacturing line (4) enhance

the security and protection of trademarks, patents, goodwill and other intangible intellectual property; Direct exporting fundamentally relies on three functional channels, namely:

- foreign distributor / agent channel
- foreign subsidiary / branch channel and
- direct contact relationship between the manufacturer and final consumers.

Essentially, a direct export channel can be defined ‘‘as the chain of marketing agencies that links a domestic manufacturing company to the final buyers of its products in the foreign target market.’’ This form of export therefore requires a business company to learn the procedures and export documentations often associated with shipments and international payment arrangements. In comparison to indirect exporting, some characteristics of this form of export include greater information requirements, higher start-up cost, as well as higher risks (Roots 1987, 56-59).

In conclusion, export is the best way for a company to enter into a foreign market for the first time; and as such, it can become a great learning experience for such a company. On the other hand, indirect exporting allows company to enter into a foreign market through domestic intermediaries without putting too much money or effort into the process of managing the marketing process and associated risks. Direct export gives a chance of an active penetration of foreign markets even though it requires a good working knowledge of export operations such as: determining the documentary requirements, price quotations, and payment terms arrangements. As mentioned previously, as a result of increasing technology, it becomes easy today to find information about export and foreign markets. And companies can contact as many sources as they require in order getting help in export. Such sources may include The Department of Commerce operating within the firms’ location, WTO (World Trade Organization), export management companies and many others. (ibid, 80-81)

2.2.2 Contractual modes

This refers to the “long-term, non-equity associations between an international company and an entity in a foreign target country that involves the transfer of technology or human skills from the former to the latter”. (Roots 1987, 7)

Contractual modes can be defined as variety of contractual agreements as the following:

- Licensing
- Franchising
- Other contractual agreements: Technical agreements, Service contracts, Management contracts, Construction contracts, Contract manufacture, Co-production agreements, etc.

The term “International licensing” includes a variety of contractual agreements/contracts through which a native company (also known as licensor) make available its intangible (non-physical) assets (trade secrets, know-how, patents, trademarks, and company name) to a foreign company (also known as licensee) in return for royalties, benefits and/or other forms of payment. (ibid, 85)

Usually technical services are transferred also, in order to guarantee the proper use of assets. In case of franchising, general management as well as marketing and other relevant technical assistance are included. However, it is pertinent to mention here that the core of a licensing agreement is the transfer of non-physical (intangible) property rights from a licensor to a licensee. It is this transfer that distinguishes licensing from other contractual agreements such as management and technical-assistance agreements, which make available only professional services to the recipient’s firm.

The biggest advantage of licensing is that a company does not have to care about import and export barriers that include tariffs and quotas, which increases costs and limits quantity of the products to be transferred. (Root, 1987)

Franchising as a form of licensing is often chosen when a product cannot be imported in a target country, a firm does not have an interest make a foreign investment, but production process can be easily transferred to an individual party inside the target country. (ibid)

2.2.3 Investment modes

Also known as direct foreign investment or foreign direct investment, this type of entry mode refers to international company's ownership of manufacturing plants or other production units such as assembly/production plants in the target country. Usually these subsidiaries are the ones that are highly dependent on the parent company's support in other countries than the parent company. Root (1987) mentions three major groups of investors; and these distinct groups have been classified based on their respective reasons for making direct foreign investments, namely:

- *Extractive investors*: These are those investors who enter a foreign market in order to exploit natural resources such as oil, aluminium or steel. Usually just a small amount of these raw materials are sold inside the host country, since most of the production is exported to the rest of the world.
- *Sourcing investors*: These are the investors who establish foreign subsidiaries to manufacture products. Essentially, their main purpose is to get lower-cost finished goods while maximizing production. They might do so by taking advantage of cheap labour, energy, quicker/cheaper supplies of raw materials/components or spare parts. In the end, the finished goods are mainly exported to home country or to third countries.
- *Market investors*: This group of investors is the most popular one. They enter the market to penetrate it from within using a production base inside the country (Roots, 1987, 123).

In this thesis the Market Investors group will be analysed in detail. There are three major ways for a foreign Market Investor to penetrate target country market: new establishments, joint ventures and acquisitions. By looking at the existing regulations and possible business types for foreigners to use while seeking to enter into Bahrain, the above mentioned market investors group are described as follows:

1. New establishments

These are new business companies that have been established and fully owned by foreign nationals without any form of partnership agreements with local citizens. The 100% ownership allows for such a company to be controlled by its foreign owner. One major advantage of this is that it allows for the setting up of new companies with foreign innovation and creation of additional job opportunities for the people of Bahrain as well as its economy. (Root, 1987)

However, at this point it is worth mentioning that not all forms of business entities can be established by non-Bahraini citizens in the kingdom of Bahrain. The country is the only Arab country in the Gulf that allows 100% company ownership by foreigners. The following are the forms of new establishments which allow for complete company ownership in Bahrain by foreign nationals:

- Limited liability companies

By definition this is a company with less than fifty persons or partners, and it functions in such a way that in the event the company is liquidated, these partners are responsible only to the extent of their shareholding capital in the business. Furthermore, a limited liability company amongst other things cannot engage in insurance and banking activities, may not issue public shares nor negotiable warrants or debentures. However, should the number of partners fall below two, by law, the company must be converted into a single-person company and unless the company fails to fulfil this condition within thirty days, the company must be dissolved. (Ernst & Young, 2011)

- Proprietorship or Single person companies

A single person or sole proprietor company refers to a business establishment that is fully owned by an individual or a corporate entity and whose economic activity is largely determined by where the capital is invested. As mentioned previously in the limited liability company ownership, in event of liquidation, the sole proprietor of a company is not liable except to the extent of the capital that they have invested in the company. Also, financial activities such as insurance and banking are not allowed. (Ernst & Young, 2011)

2. *Joint venture*

- General partnership companies

A general partnership company is a business establishment formed between two or more persons under a specific name, and in which the partners assume joint responsibility, to the extent of all of their investment and funds, for the partnership's obligations. By law, in line with an order issued by the Minister of Commerce and Industry different types of partnership companies may be established by Bahraini or non-Bahraini partners, in respect of practicing self-employed professions, in accordance with the statutory conditions and requirements prescribed by The Honourable Minister. This means that although banking and insurance activities are not allowed, depending on the category, 100% foreign ownership is possible and a local sponsor is not required. (Ernst & Young, 2011)

- Simple limited partnership companies

By definition a simple limited partnership company is established between two broad categories of partners: first, the joint partners and second, the limited partners. Joint partners are collectively and individually responsible, to the extent of all their funds or capital investment, for the company's obligations. The limited partners are those persons who invest capital in the company but do not undertake management roles in the day-to-day operations of the company. In addition, they

are not held responsible for the company's obligations except to the extent of their respective share in the capital. (Ernst & Young, 2011)

- Limited partnership by shares

Simply put, a limited partnership by Shares Company is formed between two distinct categories of partners, joint and limited partners. The joint partners are collectively responsible, to the extent of all their individual funds, for the company's obligations. On the other hand, the limited partners (shareholders) are not liable for the company's obligations in the event that a liquidation of the company becomes necessary, except to the extent of their equity (shares) in the capital. Financial activities such as banking and insurance activities are not allowed for this kind of a company. In most cases a local sponsor is not required and by law, a 100 % foreign ownership of such companies is possible. (Ernst & Young, 2011)

- Public joint stock company (Bahrain Shareholding Company – B.S.C. [Public])

A public joint stock company is made up of a number of partners who subscribe to the company through negotiable shares that have been made available by the company. Here, in the event of liquidation, the shareholders are not liable for the company's debts and liabilities except to the amount of the value of their shares. Financial activities such as banking and insurance are prohibited and local sponsorship is not required. (Ernst & Young, 2011)

- Closed joint stock company (Bahrain shareholding company – B.S.C. [Closed])

A closed joint stock company consists of at least two persons who subscribe into such a company for negotiable shares. By law these shares are not offered to members of the public for subscription since such a company has limited liability. Financial activities such as banking and insurance activities are allowed and a legal sponsor is not required. (Ernst & Young, 2011)

3. Acquisition

- Holding companies

According to Ernst & Young report (2011), a holding company by definition is a company founded for at least one of the following reasons:

1. To own shares in Bahrain or foreign joint stock companies; or
2. to own shares or holdings in Bahraini or foreign limited liability companies; or
3. to establish, manage and provide loans and securities to these forms of companies along with third parties; or
4. to purchase an existing company in Bahrain

Practically, this procedure is a bit more distinguished and straightforward since it does not require lodging huge investment/start-up capital. Neither does it require having a sponsor or local partner. The process of purchasing an existing company in Bahrain is simple since all you need to do is secure a vacant business space, negotiate and agree on a final price and finally, complete the ownership transfer paperwork and documentation. The local Chamber of Commerce in Bahrain is a good place to start should a company desire to get relevant and valid information with respect to this. (Ernst & Young, 2011)

2.3 Factors affecting the entry mode decision

Usually exporting generates additional sales for any company even though this process requires lots of shipping, paperwork and after-sales services in addition to financial, legal, and accounting demands in one's domestic market. John Westwood (2012, 62-63), proposed that in deciding which entry strategy is right for a company, such a company should (among other things) endeavour to take the following into consideration:

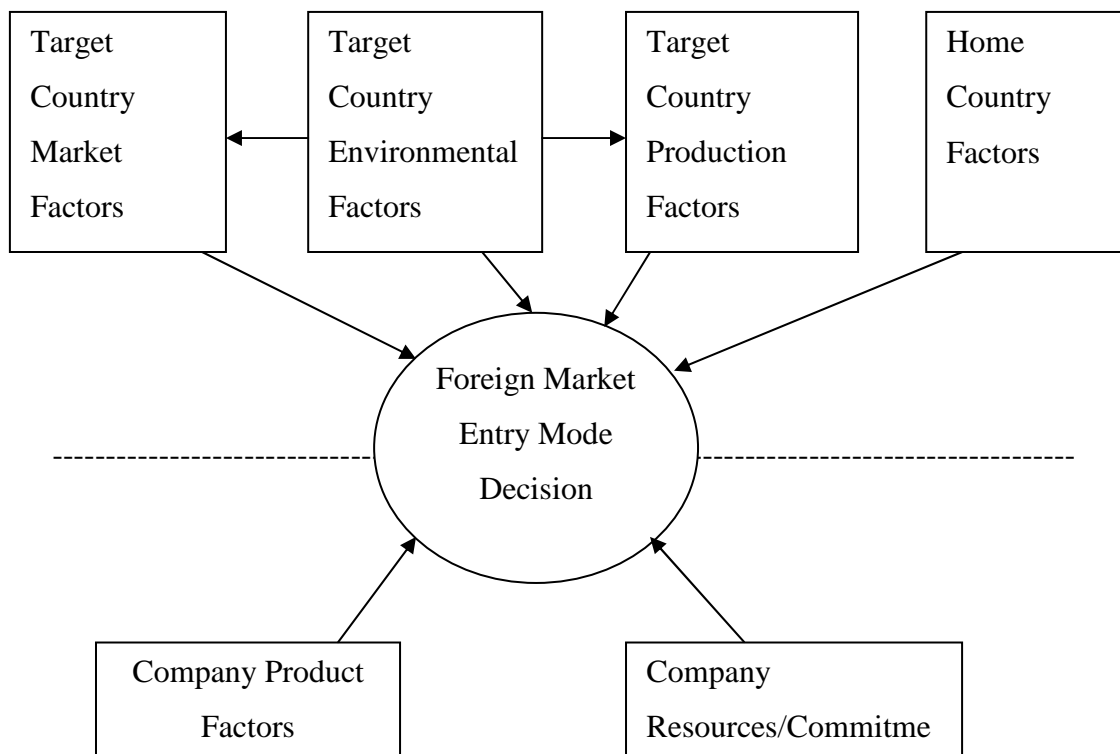
- Determine if one possesses the necessary skills and language capacity to make contacts and generate sales in the long run.
- Does it possess the time and financial capacity to establish, maintain a local office abroad?
- Are there existing restrictions with the potential to limit the way such how a company can own/operate in its target market abroad?
- Is it possible to determine the usual distribution channels in the target market for similar products to those that are being manufactured by the company?
- Can you tell if your primary competitors are already in your target market? If so, how do they conduct their operations?

Carefully providing answers to these questions will enable a company to remain focused bearing in mind that one needs to know whether it is more important to keep costs down to a bearable minimum or to have control over the selling process since deploying the services of an intermediary will most likely have its own priorities which may or may not ultimately differ from that of the company.

A business's choice of entry mode for a given target market is the resultant effect of several, and often conflicting forces. The entry mode decision is a complex process due to the fact that the variety of forces, difficulty in measuring their unique and combined strength as well as the need to envisage their direction in the long run, all contribute to lubricating the process with numerous trade-offs amongst practical alternative entry modes. (Root, 1987)

In order to effectively handle this complexity, companies require an analytical model that is capable of facilitating systematic comparisons among various entry modes, in summary these can be grouped into external and internal factors which can respectively influence the choice of the entry mode as shown in Figure 2.

External Factors



Internal Factors

Figure 2 Factors in the entry mode decision (after Root, 1987)

2.3.1 External Factors

External factors concern those parameters which are seldom affected by a company's management decisions and are considered by many to either encourage or discourage a particular mode of entry. They include the factors of production, the environment as well as the market in both the home and target countries respectively. (Roots, 1987)

The target country market factors concern the current and estimated size of the target country market which has important influence on the mode of entry. It is a known fact that smaller markets tend to favour entry modes of entry with low

break even sales turnover volumes. Consequently, larger sized markets seem to be characterized by high breakeven sales. Worthy of mention is also the competitive structure of the target market. It ranges within atomistic, oligopolistic and monopolistic types of target market. (Root, 1987)

The atomistic market deals with many non-dominant competitors and is usually more favourable to export entry than the other two. The oligopolistic type deals with a market that has few dominant competitors while the monopolistic deals with a single firm. Both the oligopolistic and monopolistic market types often require entry through equity investment in production in order to equip the company to compete against the forces of more dominant companies operating within the same market space. (ibid)

The target country production factors deal with the quality and cost of raw materials, quantity, as well as other productive parameters in the target country including the cost and quality of the economic infrastructure there. Lower costs of production in the target country will promote localized production against exporting and evidently, the high costs will minimize probability of local manufacturing. (ibid)

Target Country Environmental Factors concerns the political, economic, socio-cultural character of the target country that could play a huge role in the choice of entry mode. Government policies aimed at restricting importation such as high tariffs, tight export duties and quotas as well as other preventive entry barriers, all play significant roles and obviously discourage an export entry mode in favour of other ones. (Root, 1984)

Other environmental factors include geographical distance, the target country's economy, the growth rate of gross national product and personal income, size of the economy, dynamics of the target market's economy, changes in employment, to mention just a few.

2.3.2 Internal Factors

Internal factors as mentioned in Roots (1987) are also known as *company product* as well as *company resource/commitment* factors. These play a crucial role towards how a business enterprise responds to the external factors mentioned above in selecting an entry mode.

The company product factors can influence entry mode decision by defining whether a company's product is highly differentiated or not. Highly differentiated products are those that give a company the ability to be more flexible on price even though high transportation cost and import duties can still occur, product can still be competitive in a market. On the other hand, non-differentiated or weakly differentiated products are more sensitive to price and in order for companies to compete in a market; such a company often needs to establish some form of local production which could be the basis for leveraging the market's potential. (Root, 1987)

As a result, low differentiation has the capability to push a company to use one of contractual entry modes (for instance, contract manufacture) or some form of investment entry modes, whereas high differentiation favours export entry mode. (Root, 1987)

Another crucial factor is how much pre- and post-purchase services are required for the product. While many industrial products are service-oriented or service-intensive, it becomes increasingly difficult for the company to market such products from a distance. In such a case local production or at least branch/subsidiary exporting can be viewed as a credible substitute (Root, 1987).

In connection with the last point, assuming the product itself is a service; the company must find a way to carry out such a service in the target country since services cannot be exported. One way of achieving this might be through franchising (training local companies to perform service); penetrating the market with branches and subsidiaries; as well as directly selling service under contract - for instance via technical agreements and construction contracts (Root, 1987).

Furthermore, some products such as technologically intensive products are better off by being licensed rather than using other entry modes, since this can be considered to be safe and more effective. Considering the legal and environmental ramifications, such products may require adaptation or re-modification prior to being sold into a foreign market. As such, selecting entry modes which allow companies to be in closeness with their target market (branch/subsidiary exporting, investment) should be considered and selected over the choice of using other entry modes (Root, 1987).

At this point, it is expedient to mention that a company's resources such as experienced management, production skills, adequate capital, technology and effective marketing skills, open up more options to various market entry modes and furthermore, the company's size plays a huge role in selecting them. However, these resources cannot completely explain the choice of entry mode adopted by the company since such resources must be reinforced with commitment even though other factors play a significant role in this process also. As a caution, the final choice must be such that it safeguards the company's business objectives as well as protecting its overall business strategy while maximizing profitability and huge returns on investment.

It is a known fact that high commitment indicates that managers are often looking at a wider range of entry modes to be considered while seeking to enter into the target market, in comparison to managers with low commitment. Surprisingly, Roots (1987) suggests that "despite the company size, highly committed managers are most willing to use investment entry modes". The level of commitment to the internationalization process can be defined by the attitudes of business managers, and even more by the corporate strategy of an organization provided these have been spelt out clearly.

On the other hand, previous managerial experiences can encourage or discourage the company to be committed to international business. (ibid) As shown in figure 3 below, based on the degree of control that a company has on the business activity, different entry modes bring different level of commitment to the company.

If a company fails to define the level of control that it has over its business activities in a target market, chances are that it will lower its degree of commitment in the venture. Such a decision could go a long way towards determining how well a company allocates its resources in the short and long-term.

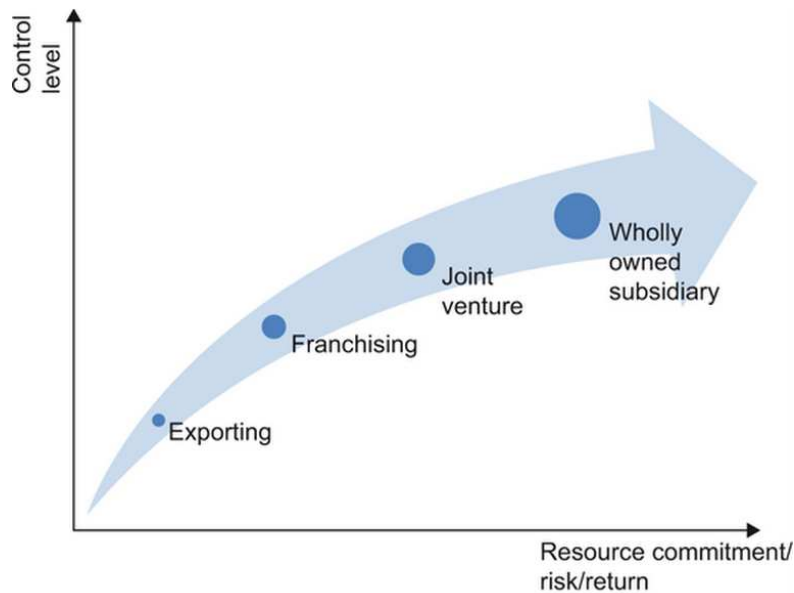


Figure 3 Resource commitments (after Sternquist, 2007)

Overall, the amount of commitment that a company gives into adopting an entry mode is highly characterized by the quality and degree of control that it stands to acquire from such an action. Put simply, there exist an inverse relationship between the two factors since, to a large extent, one depends on the other.

2.4 Target market: Bahrain in brief



Figure 4 Map of Bahrain (Globe Media Ltd, 2014)

As we can see in the map above, Bahrain is a small island country located near the western shores of the Persian Gulf with an estimated population of circa 1.3million persons (this figure includes foreign nationals as well as expatriates). The country's land mass area is about seven hundred and six square kilometres - 706 km². It consists of 33 islands and it remains the only island-state in the Arab world. (Robinson & Greenway, 2000)

Bahrain is considered to be the first "post-oil" economy in the Persian Gulf since its economy does not heavily depend on income from oil trade. Hence, the banking and tourism sectors have been primary important sectors that have been considered for the investments. The country's capital is Manama and although its official language is Arabic, the English language is widely spoken and compulsory as a second language at schools. The official currency is the Bahraini dinar, (officially 0.376 Bahraini dinars = 1 US dollar). The exchange rate which is pegged to dollar controls inflation and protects the external value of the Bahraini official currency. (Central Bank of Bahrain, 2007)

In Arabic, the name Bahrain is translated to mean “two seas” because the country occupies a strategic position on the great trade routes. As such, it presents a great gateway to the Arab countries since it is the friendliest country in the Gulf that is easy to visit and access to the foreign expatriates. (Spencer, 2000)

Climate

Bahrain can be extremely hot and humid between May and September, with average temperature of 36 degrees centigrade, even though exceptionally in twelve days of the year temperatures could exceed forty degrees centigrade. The average temperature and humidity during the winter period within December and February is 18 degrees centigrade and 77%; while in summer that is between June and August, the figures could be 35 degrees centigrade and 59% respectively. During the summer, dust storms and hot winds characterize the climate and could worsen matters. The rains come normally between December and late April. (Robinson & Greenway, 2000)

Education

Bahraini's government provides free education for its citizens. Education is mandatory for children between the ages of six to fifteen. The literacy level is 94.6%. In the Bahraini's government budget; education occupies the third largest expenditure behind security and defence. (Robinson & Greenway, 2000), (World Factbook, 2013-14)

Trade

The highest Bahrain exports consist of Refined Petroleum (26%), Iron Ore (17%), Aluminium Bars (7.8%), Raw Aluminium (7.3%), and Aluminium Plating (5.5%) while the top export destinations include Saudi Arabia, Qatar, India, Japan, and United States. (Simoes, 2011)

On the other hand, the top five import products in Bahrain are Iron Ore (15%), Aluminium Bars (7.4%), Raw Aluminium (6.9%), Planes, Helicopters, and/or Spacecraft (4.1%), and Aluminium Plating (3.9%). The source countries from

where these goods are imported into Bahrain are Saudi Arabia, Brazil, China, India, and Australia. (Simoes, 2011)

2.4.1 Some highlights of Bahrain's culture

Since the third century BC, Bahrain has been a strategic trading centre in the Persian Gulf region (Hotel Travel, 2014). Since then, Bahrainis have been conducting trading activities with foreigners. Collectively these foreigners seem to have the basic understanding of non-Islamic practices. The Bahrainis have been known over the years to be liberal towards foreigners. The similarities in the choice of clothing style adopted by Bahraini women (who can choose to be completely covered or not) and Western women, make Bahrain an even more comfortable place for foreigners to be. This singular factor, amongst many others, plays a huge role in determining the number of foreign expatriates who choose to move to the country with their entire family members. (Foster, 2002)

At this point, the cultural aspects of Arabs and its attendant effect(s) on foreigners or Westerners have to be considered; since to a large extent, this will affect the overall effectiveness of daily communication. Numerous misunderstandings occur in communication as a result of culture. This can often be associated with negative stereotyping of each other's cultural variance and such an action in turn leaves no space for cultural tolerance or accepting the culture of the other party. Generally, it is safe to assume that over the years, the Arab world has been known to be extremely proud of the historical aspects of its culture, which once upon a time, governed a substantial part of the world, alongside its main religion – Islam, which they believe to be their pride, power and God-given mission. As such, it is not out of place to conclude that speaking about any of Arab Gulf country, Islam, its traditions and customs have a big share of the cultural aspect of these nations. (Foster, 2002)

Religion

Citing the Central Intelligence Agency (CIA), The World Factbook (2010) estimates shows that 70.3% of total population of Bahrain is mainly Muslims, 14.5% Christians, 9.8% Hindu, while the remaining 5.4% belong to other religions.

Although the Bahraini national constitution allows religious freedom, in reality there exists more discrimination within the Muslims compared to any other religious groups. This means that almost 70% of the Bahrain Muslim community is Shi'a Muslims, while the minority Sunni account for the remaining 30%. Since the Khalifa's family belongs to Sunni minority, immense discrimination towards Shi'a Muslims widely exists because of the royal family rules. In most Government schools, it has been reported that the school district authorities have been discouraged from teaching Shi'a related doctrines while most high political-level positions are given only to Sunni community appointees. (Berckley Centre, 2014) This kind of practice has further widened the gap that exists between the Shi'a Muslims and their Sunni minority counterparts.

In practice, regardless of whether they belong to the Shia or Sunni denominations all Muslims are charged with the task of ensuring that as individuals they hold up to five pillars of faith expected of every true Muslim:

- Glorifying the domination of one God - Allah, above all the others.
- Praying five times in a day to Allah.
- Celebrating Ramadan, which is the Holy month of fasting in Islam that is celebrated in the ninth month of Islamic calendar. It acts as a constant reminder of the first time that God revealed his word to His holy prophet Muhammad. During the Ramadan, Muslims are encouraged to give alms and financial donations to the poor and needy in the society.
- Fulfil the Hajj, at least once in a lifetime, by visiting Mecca in Saudi Arabia, if you are financially and physically capable to do so. (Foster, 2002)

Since Islam is practiced by majority of the Bahraini population and the Islamic law is an integral part of its legislation, it contributes a huge part into the culture and lifestyle of the citizens. Unlike Western countries, the nationals of Bahrain (as well as other big Muslim countries) usually observe every Friday in the week as a holy day and all forms of business activities are closed since both Fridays and Saturdays are taken as weekends, while Sundays-Thursdays are considered to be full working days. (Kwintessential Limited, 2012)

Special customs are practiced during holy month of Ramadan and to a large extent; such customs have been known over the years to be characteristic of the entire period of Ramadan. In the Holy Month, Muslims fast from sunrise till sunset. The fasting includes drinking no water or any other form of liquid, chewing gum, and smoking. Essentially, nothing is expected to be swallowed as food or nutritious supplements since nothing is expected to go inside your mouth. Although non-Muslims are not required to fast, they are not allowed to eat, drink or smoke in public places during the day at this period. Each evening, families and friends gather together to break the fasting, this celebration continues till late at night. During the Ramadan period, everything appears to happen much slower than in other months. Some important shops might open and close at strange times, everything operates on reduced pace and schedule, since Muslims are allowed to work only six hours a day. (Kwintessential Limited, 2012)

Family

The immediate family, extended family and tribe are considered to be very important factors in Bahrain and loyalty to one's family is paramount and therefore, comes before everything else, even business interests. Favouritism for close relatives in business and political appointment to prominent positions in the society are taken positively, since trust plays a crucial role in business or political relationships. Over-inquisitiveness or excessive curiosity should be avoided at all times, since this can be viewed to be offensive to the concerned party. (Kwintessential Limited, 2012)

Women

The women in Bahrain are often more free to express themselves openly in public compared to their counterparts in other Arab countries. In general complete veiling of the female body in public is not compulsory. In Bahrain, a huge percentage of women are highly educated and correspondingly they hold various influential positions outside household. In addition, women in Bahrain are allowed to vote and they actively participate in elections and other duties expected of citizens. (Kwintessential Limited, 2012)

Although women are allowed to dress the way that appears comfortable for them and they are better placed in the society in Bahrain than in other Arab countries, there exist certain rules which should be applicable for a woman within the business circle. First of all, it is a known fact that conservative dressing is compulsory and it shows respect for others. Secondly, physical contacts or show of public affection with male colleagues as well as spending a free time (lunch) in public is not acceptable. In general being too friendly with a male can be seen as a taboo and could have a tendency of being misunderstood by members of the public, so it is advisable to keep certain distance with their male counterparts, especially in public places. (InterNations, 2007-2014)

Basic etiquette

Generally, greeting styles varies between genders in the community; however a common way to greet a person with the same gender person is by using the popular phrase used in exchanging pleasant greeting known as “Salaamu Aleikum” (which translated into the English language, means “peace be upon you”). In response, the other party should answer “Wa'aleikum as-salamma”, which means, “and peace may be upon you also”. This is usually accompanied by a warm handshake by man (to other men, and this is always done using right hand) and soft kisses on each cheek by women (to fellow women). Social interactions among members of the opposite sex, especially if they are not related are not common, and as such, no handshakes are encouraged between a man and a woman during exchange of greetings. (Culture crossing, 2014)

With regards to public communication, interactions and business negotiations, it is excessively rare to hear a “no” from discrete persons, since “saving face” is considered to be a very important aspect in society. In Bahrain, the communication style appears to be more indirect, than being direct. It is also very important to keep attention to one’s voice tone while speaking in public, as well as adhering to the non-verbal communication aspects is very important. Hence, being tactful in public is appreciated. Furthermore, eye contact is favourable with the members of same gender while indirect eye contact shows respect for an elder person. It is also recommended to avoid staring at the eyes of the opposite gender person. (Culture crossing, 2014)

Gift giving is also part which is not good to miss. Bahrainis are friendly and social people. It is important to bring small present, as a houseplant, box of imported sweets or a small gift from your home country, if you are invited to Bahrainis home. Gift have to be dedicated to the host, not hostess and it will not be opened immediately. Gift have to be given with two hands. Few more tips if you are invited in Bahrainis home includes: taking off shoes if host is not wearing them, greeting elders first, not including business topics on social occasion, accept all what is offered, because rejection of food or drink means rejection of the person. If eating on the floor, do not touch food mat with a feet, try everything what is served and leave some food in the plate, which will show that host was generous and abundant. Conservative dressing and punctuality is highly appreciated. (Kwintessential Limited, 2012)

Business culture

Bahrainis prefer to do business with people who they know. Introductions from mutual friends can mean a lot and build trust. Getting to know each other can take loads of time, which Bahrainis are not counting. Patience is seen as a good manner. Rumours splits very fast in a small community, so bad behaviour can become public knowledge. It is expected to communicate indirectly and tell what others want to hear; otherwise someone might feel uncomfortable. It is advisable to confirm agreements made in public in private, so you will be sure that it wasn’t only said for saving face. Showing different attention for the eldest person means re-

spect. Business follows hierarchical structure. Slapping on the back, pointing fingers and looking at the watch shows great disrespect. (Kwintessential Limited, 2012)

Meetings usually start with a small talk about personal life. Bahrainis are going to ask some personal questions and expects you to have interest in their life too. It is seen embarrassing to ask about female family members if you are not very close to them. Small talks are compulsory, since they build trust and relationships, which are vital aspects in business. (InterNations, 2007-2014)

Open-doors policy is a part of traditions in Bahrain. Anyone can come and intrude the meeting, the host will welcome the person with the same respect as meeting members, and otherwise it would be seen as a rude behaviour. Sometimes it will take a while till you will be able to come back to the topic of the meeting, but being patient is appreciated and rushing things up can even brake business relationship. High-pressure sales tactics are not acceptable. All the documents have to be kept simple and easy to understand. (Kwintessential Limited, 2012)

First impression is important, so good, conservative dressing will leave positive impression. It is crucial to use titles. Political, academic titles or simply Mister (Mr.) and a first name would be polite. It is also good to call elder man 'Sheikh' or 'Hajji', if he has done religious obligation. It is not acceptable to use only first name, if not asked to do so. Business cards are important, handed with two hands, given to everyone you meet. It is good to translate one side to Arabic and show that side by giving it to the person. It is expected to read business cards before placing them to the card holder. (Kwintessential Limited, 2012)

In the following chapters PESTLE analysis is presented, it helps to study macro-environment, which has an impact on decisions entering a new market. PESTLE environments will be analyzed in Bahrain country profile: political, economical, social, technological, legal and environmental factors respectively.

2.4.2 Political factors

According to The CIA (Central Intelligence Agency), Government type in the Kingdom of Bahrain is a Constitutional Monarchy.

In Bahrain, the Chief of State is King Hamad bin Isa Al-Khalifa. He has been ruling The Kingdom since March, 1999. His son Salman bin Hamad Al-Khalifa, is the Crown Prince. The ruling cabinet is always appointed by the monarch. (CIA, 2014)

In Bahrain, the governmental structure comprises the following key officers:

- a) Head of government
- b) Prime Minister: Khalifa bin Salman Al-Khalifa (since 1971)
- c) First Deputy Prime Minister: Salman bin Hamad AlKhalifa (since March 2013)
- d) Deputy Prime Ministers: Ali bin Khalifa bin Salman Al-Khalifa, Jawad bin Salim al-Araidh, Khalid bin Abdallah Al Khalifa, Muhammad bin Mubarak Al-Khalifa. (CIA, 2014)

Critical political factors to consider while conducting business in Bahrain include bureaucracy and corruption. The King is the overall authority in the Kingdom and he has the final say over most of the affairs that are brought to his attention. Another factor to be considered is corruption, which compared to most countries in the region, is relatively not so high.

The World Heritage Organization 2014 report shows that Bahrain's economic freedom score is 75.1, making the country's economy the 13th freest in the world as at the year under review. This figure is an overall decrease by 0.4 point due to factors such as slight deteriorations in labour freedom, trade freedom, and freedom from corruption. Although this trend exists, the country of Bahrain continues to be the freest economy in the North Africa/Middle East region, since its economic freedom score is well above the world average. In the world it stands in

between of United Kingdom and United States of America. (The Heritage Foundation, 2014)

Furthermore, Freedom of the Press continues to be a serious issue of concern, since virtually all activities of the press are completely run by the government. In Bahrain six of the seven major newspapers are completely controlled by associates of the government or royal family. The independence and impartiality of the media is, at the very least, compromised. The Bahraini government continues to obstruct the work of journalists and in extreme case proceed to arrest, imprison and prosecute news reportage as well as its providers; this act has been viewed by global observers to be in violation of the international undertakings as stipulated by The UN Human Rights Council in 2012. It is a serious threat for a freedom of information. It was promised to include new media law since 2012, but law has not yet been adopted and nobody knows what provisions in might contain. (Reporters without borders, 2013)

Political Instability is a major consideration for foreign and local business investors. The news reporting agency (Reuters) have on several occasions mentioned that the Bahraini government and its opposition groups (Shi'a and Sunni's as mentioned previously) are constantly sliding into an increasingly epileptic and dogged confrontation amid rising fears over violence. In response, the Bahraini authorities have responded by using raids and arrests, while introducing strict laws against activists seeking to engage in any form of political reform. (El Gamal, 2013)

Surprisingly, diplomats and analysts suggest that the diverse efforts by the international community to reconcile the government and all the opposition groups seem ever more difficult and somewhat unattainable at the moment. (ibid)

To support this assertion, there have been reported cases of car bombing in the capital. This led to a huge security crackdown, involving raids and arrests, leading to the introduction of tough anti-protest laws and strict sentencing. To a large extent, this singular act boosted the Sunni-led Muslim monarchy's control, even though mutual mistrust was also deepened. (El Gamal, 2013)

Experts expect the political stalemate in Bahrain to continue. The parliamentary elections which have been scheduled for October 2014 could trigger protests and civil unrests, leading to some additional flare-ups of violence, although some analysts have added that they do not expect a significant deterioration in the security situation. (Sambidge, 2014)

Political unrest began in 2011, and from there the government has had several clashes with mainly Shi'ite-led pro-democracy protesters. In every sense, this action has hurt Bahrain's status as a regional financial hub while increasing pressure on the state-run budget. (Sambidge, 2014)

Other relevant factors to be considered at this point include Tariffs and Tax Policy.

Taxation in Bahrain

As standard global practice, a company's accounting period should normally follow the calendar year of 12 months respectively. Corporate taxation is mainly applied to large corporations. For multinational oil companies, the tax rate is set at 46% of net profits for each accounting period. Overall, a projected income tax declaration must be filed on or before the 15th day of the third month of the tax year. Provided the declaration has been filed, the tax can be paid in 12 equal instalments starting on the 15th day of the month after the declaration has been filed. Where there is need for amendments or corrections, the amended estimate declarations must be made every quarter. (HSBC, 2012)

However, the payment instalments must take into account any changes in declarations. Since there are no specific tax rules for financial instruments; general tax and accounting principles apply instead, even though there are no specific tax rules regarding interest and financing costs. Furthermore, there are no specific tax rules for foreign exchange differences in cross border transactions. There is no advance tax ruling in Bahrain and the Religious wealth tax (zakat) is not levied in Bahrain since there is no capital gains tax. Consequently, there exist no withholding taxes in Bahrain. (HSBC, 2012)

Currently, Bahrain has 27 tax treaties; these include those with UK, Singapore, France, China, Malaysia, and the Netherlands. Although, Bahrain is not reported to have signed tax information exchange agreements with any other country, it does not have thin capitalization rules as well as no specific transfer pricing legislation. With regards to property ownership, the stamp duty is levied on property transfers on the basis of the property value as followed:

- 1.5% up to BHD 70,000
- 2% from BHD 70,001 to BHD 120,000
- 3% for amounts greater than BHD 120,001. (ibid)

According to HSBC bank (2012), presently, other business taxes in Bahrain can be seen in the following tax forms:

- The municipal tax of 10%, which is applicable on the rental unfurnished residential and commercial properties respectively, as well as the 7.5% tax on furnished residential properties.
- With regards to cash pooling, The Kingdom of Bahrain has no specific tax rules for such arrangements.
- There is a sales tax of 12% on gasoline and a 5% tax where applicable on the use of hotel facilities.
- No specific financial transactions/banking services taxes exist in the Kingdom of Bahrain.
- For employees in Bahrain, such employers usually pay 9% of payroll while their employees contribute 6% of their earnings for social security covering which is intended to cater for their wellbeing at old age, disability and even in death.

- Employers are required by law to pay 3% of all its employees' payroll as a contribution for the employment injury insurance even though this rate can be reduced to 1% if the employer is able to provide proof of benefits and medical cover at the employer-owned hospitals. Expatriates who have resided in the country for less than 12 months and employed on training duties by a company or by official organizations may be exempted from paying this tax.
- Furthermore, it is mandatory in Bahrain for all public and private sector employees (including expatriates) to pay 1% of their monthly salary as unemployment insurance to the state, and companies with more than 50 employees on their respective payroll must either provide an approved training scheme to the tax authorities or pay a training levy of 1% of their Bahraini employees' salary, and 3% for foreign employees' salaries.

Bilateral Economic Relations

As a result of its relatively limited energy reserves, the kingdom of Bahrain has been making remarkable achievement towards the diversification of its economy away from oil and gas production in an attempt that has been viewed by observers to be a bold step towards attracting foreign investment and businesses. (Bureau of Public Affairs, 2014)

One of such commendable feats is the United States - Bahrain Free Trade Agreement which commenced on August 1, 2006. This arrangement was aimed at generating (as well as) increasing U.S. commercial interest in the Kingdom of Bahrain. Over the years, the bilateral trade between the United States of America and Bahrain has increased remarkably since the signing of the Free Trade Agreement. It has been reported that this singular collaboration has been accountable for generating revenues exceeding \$1.9 billion USD in 2012. (Bureau of Public Affairs, 2014)

The U.S. export products to Bahrain include machinery, vehicles, aircraft and agricultural products. The United States imports products such as fertilizers, textiles, aluminium, apparel, and organic chemicals from Bahrain. (ibid)

Bahrain's Membership of International Organizations

As at 2013, among other regional and international organizations, Bahrain is presently a member of the United Nations, International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO). (Bureau of Public Affairs, 2014)

Trade policy instruments

Since 1 January 2003, the Kingdom of Bahrain has applied the GCC Common External Tariff (CET) in all its territories. The country's simple average applied Most Favourable Nation (MFN) was 5.1% in 2013. The MFN can simply be defined as “a level of status given to one country by another country and enforced by the World Trade Organization. In practice, one country grants this clause to another country if it is interested in increasing trade with that other nation. In summary, a country that achieves most favoured nation status is usually given specific trade advantages such as reduced tariffs on imported goods. (Investopedia US, 2014)

Similarly, all rates are ad valorem (except on tobacco), and there are no tariff quotas, no nuisance rates, and no other duties and taxes on imports. By definition, ad valorem is a tax imposed on the difference between a commodity's price before taxes and its cost of production. (ibid)

In Bahrain, exceptions to the GCC CET are implemented on products such as alcohol (125%) and tobacco. With respect to tobacco, the product is subject to an alternate tariff, with an ad valorem component of 100%). On the basis of the definition provided by the World Trade Organization, the tariffs average 7.5% in agriculture and 4.6% on other non-agricultural products. The least tariff-protected sector in Bahrain is the agricultural sector which has 3%, and this was closely followed by mining and quarrying (4.9%) and finally by the manufacturing sector with 5.2%. (WTO Secretariat, 2014)

On aggregate, tariffs in the Kingdom of Bahrain display positive projection, from initial-stage processed products, with an average tariff of 3.9% to semi-finished items, with an average rate of 4.8%, and fully processed goods, on which tariffs average 5.5%. (WTO Secretariat, 2014)

The Kingdom of Bahrain has bound 70.6% of its tariff lines in recent times. Currently, most bound tariffs are at a ceiling rate of 35%. However, for tobacco and alcohol-related goods (24 lines), tariffs are bound at 100% and 200% respectively, leaving ample margins for applied tariff increments. So far, the country has never taken any anti-dumping, countervailing or safeguard actions and its duty concessions may be granted (including on a selective basis) as part of various investment incentives to attract investors. (ibid)

2.4.3 Economical factors

In 2013, Bahrain's inflation rate on consumer prices stood at 3.1%, whereas its GDP (purchasing power parity) stood at \$34.96 billion. Past figures show \$33.48 billion (2012 estimate.) and \$31.95 billion (2011 estimate.) respectively. The real growth rate figures reveal 4.4% (2013 est.), 4.8% (2012 est.) and 2.1% (2011 estimate.) respectively. The GDP - per capita (PPP) figures show that the figures stood at \$29,800 (2013 est.) \$29,100 (2012 est.) and \$28,300 (2011 est.) respectively. (World Factbook, 2013-14)

The 2013 estimate for Bahrain's Labour force shows that the country has 716,500 persons in its workforce. This comprises 44% of the population in the 15-64 years old age bracket, most of who are foreigners and non-nationals. Regarding unemployment, as at 2005, Bahrain's unemployment rate stood at 15%. (World Factbook, 2013-14)

With regards to the exchange rate, such a rate is usually a conventional pegged arrangement performed by the nation's foremost financial regulatory agency, The Central Bank. The BHD is pegged to the USD at a rate of BHD 1 per USD 2.659. (HSBC, 2012)

2.4.4 Social factors

The Social factors considered in the PESTLE analysis can be summarised under the following points. However, bearing the limited scope of this research, our focus will remain on key issues here, some of which have already been discussed in detail above: (ENISA, 2005-2014)

- demographics
- law changes affecting social factors
- brand, company, technology image
- consumer buying patterns
- fashion and role models
- major events and influences
- buying access and trends
- ethnic/religious factors
- advertising and publicity
- ethical issues

A good example of how the religious factor as a PESTLE component affects the way business is conducted in Bahrain can be seen in the country's massive dependence on the Islamic calendar. Since the country is vastly Muslim, it is governed mostly by the laws and tenets of the Islamic calendar. For instance, during the Holy month of Ramadan, Muslims are expected to adhere strictly to certain religious norms. During the Holy month, business firms, shops and other lucrative enterprises often experience a decline in their business activity involvement. Overall, this reduces sales and profits, even though the regular expenditures such as rent, electricity and salaries are still being incurred. In conclusion, in Bahrain, like in the rest of the Gulf countries, commercial activities are often slow when

Muslims engage in the mandatory soul-cleansing fasting period that comes with the Holy month of Ramadan.

Many social factors have increased the flow of migrant workers into Bahrain. Most migrants moved to Bahrain to work as expatriates in order to improve their standard of living. Without immigration in Bahrain, the labour force would be dwindling and shrinking. There are also specific vocational areas where the Bahrain has a skills shortage and usually these vacancies are filled by immigrant workers who are skilled workers that have trained in their home nations. Without them, the range of care provision in Bahrain would be less.

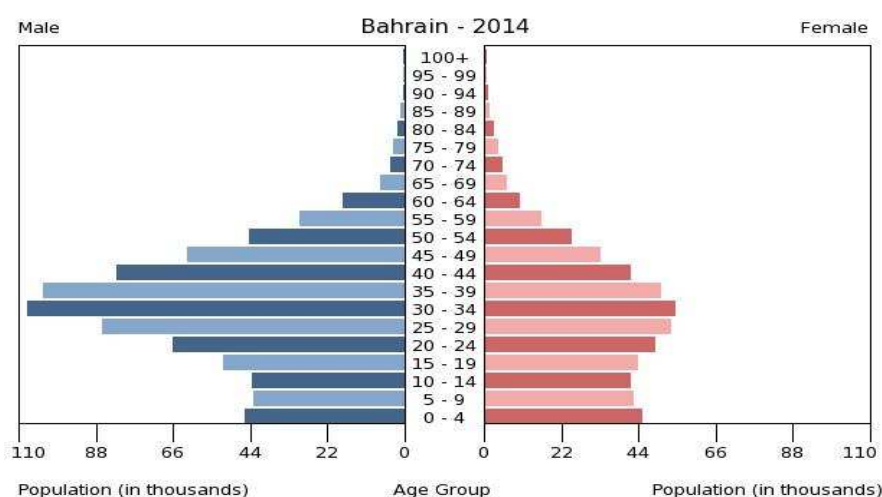


Figure 5: Bahrain population chart (CIA, 2014)

The bar chart below presents a summary of the population of the country. It shows clearly that most of the population fall within the working class and as such, the country enjoys a growing workforce population. This means that the government can generate more money from taxes in order to support its commitment to the provision of basic social amenities such as good roads, hospitals, portable drinking water, good sanitation and education.

It is important to mention here also that education is the third largest expenditure of the government of Bahrain. (World Factbook, 2013-14) As such, in Bahrain the rate of illiteracy is low compared to most other countries of the world because the quality of education here is high and attending school is mandatory, even for fe-

males. Currently, the Kingdom of Bahrain is ranked first by qualified labour force amongst the GCC. (Bahrain Economic Development board, 2014)

2.4.5 Technological factors

The technological factors in the PESTLE analysis that were used for Bahrain are categorised and presented in the figure below:

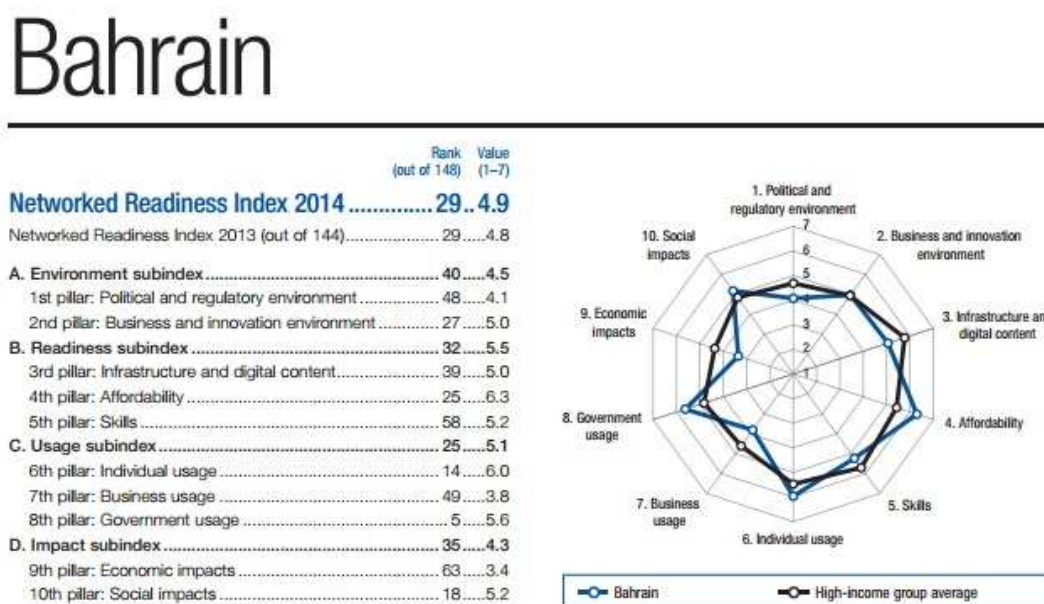


Figure 6 Some Technological factors of Bahrain (World economic forum & IN-SEAD, 2014)

Clearly, the level of technological advancement in a country can positively or negatively affect the opportunities available for a business in such an environment. The advancement of mobile technology, wireless internet, access to electricity, internet access and transportation networks all in one way or the other; influence the ease of doing business in any community.

A region with a strong technological foundation such as Bahrain enables multiple companies to leverage diverse tools like mobile technology to streamline operations, eliminate existing bottlenecks and provide their all manner of workforce with effective collaborative knowledge management systems.

World Bank Group estimates that 88% of Bahrain population has access to worldwide network (per 100 people). Which is a huge amount, it gives opportunity freely use internet services for the companies.

2.4.6 Legal factors

There are two kinds of Legal Systems in Bahrain: The Common law (originates from the United Kingdom) and The Sharia law, an Islamic law. (CIA, 2014)

One prominent topic that currently enjoys wider discussion amongst the citizens in Bahrain is the introduction of the New Bahrain Labour Law. This law came into effect on September 2, 2012. Thus repealing and replacing the old Labour Law which governed mostly the private sector. The New Labour Law conforms more closely to global standards, and it aligns Bahrain's domestic law with that of several Arab countries alongside other international labour treaties and conventions to which it is a joint signatory. Consequently, these laws have been in effect since the introduction of the old Labour Law in 1976. (Oxford business group, 2014)

The long-awaited New Labour Law in Bahrain has been met with mixed reactions and views; employers and companies are finding that the new changes among other things incur additional costs, which includes more entitlements and time-off for employees. However, employees are pleased with the changes because their rights have been broadened. (Oxford Business Group, 2014).

On the other hand, the New Labour Law has brought some positive changes, which includes further recognition of women's rights, strict anti-discrimination rules and an effective framework for the quick resolution of labour disputes. (ibid)

In summary, the New Labour Law in Bahrain has also introduced a set of compensation calculations for unjustified and unfair terminations, which are streamlined and also vary depending on the type of employment contract. Such provision is expected to yield fewer labour related disputes, and overall, this should also re-

duce the number of unnecessary litigation cases that are filed by disgruntled employees. (Oxford business group, 2014)

According to Bahrain Economic Development board (2014) in order to open any form of the business entity in Bahrain, investor is required to do following procedures:

- Obtain Lease agreement to prove the company's location, which takes at least one working day and has no cost.
- Draft Memorandum of Association and obtain preliminary approval from the Ministry of Commerce at the Bahrain Investment Centre's One-stop shop, one day, no charge attached
- Obtain Approval from the Municipality, three days, no fees attached
- Notarize Memorandum of Association, one day, 27 BHD
- Open an account at a local bank and obtain proof of deposit capital, one day , no charge
- Obtain Certificate of Registration from Ministry of Commerce, one day, 30 BHD
- Register the company and employees with the General Organization for Social Insurance (GOSI), one day, no fee charged.

Followed by the essential statutory requirements for setting up different business entities various and, according to Ernst & Young (2011) are listed below:

1. Limited liability companies include:

- ▶ the minimum start-up capital of the company must be two hundred fifty thousand Bahrain dinars (BD 250,000)
- ▶ the start-up capital of the company must be divided in such a way that each shares ratio has equal value of not less than fifty Bahraini dinars (BD 50) respectively. Furthermore, all shares are known to be indivisible and non- negotiable
- ▶ the new company must have at least one financial auditor
- ▶ the new company must establish a local office in Bahrain
- ▶ the company must have a minimum of two partners/promoters as well as at least two directors; and
- ▶ a core prerequisite is that the company must be managed by either a board of directors or a managing director

2. Proprietorship companies include:

- ▶ a minimum start-up capital of fifty thousand Bahraini dinars (BD 50,000)
- ▶ this minimum start-up capital must be paid up in full since the proprietor of the company is liable only to the extent of the capital invested into the company.
- ▶ statutory regulations require that the company will not acquire a corporate personality until thirty days after the date of publication of the company's establishment or creation.
- ▶ a financial auditor must be appointed for the company
- ▶ On a yearly basis, the company's audited financial statements must be submitted to Bahrain's Directorate of Company Affairs.

- ▶ At the company's expense, the news regarding the establishment of the company has to be published in the national official gazette, and also in one of the local daily news tabloids
- ▶ in extreme cases, the company might fold up following the death of the owner, insolvency or bankruptcy
- ▶ the company is required by law to set up a local office presence in Bahrain; and
- ▶ the company can have only one partner or promoter and at least one director

3. General partnership companies include:

- ▶ the general partners must assume joint and personal responsibility, to the extent of all their funds, for the partnership's obligations
- ▶ general partners in the partnership company must acquire the capacity of a trader
- ▶ within such company, there must be at least two partners/promoters and at least two directors
- ▶ the company must set up a local office in Bahrain; and
- ▶ currently, there exists no minimum share capital

4. Simple limited partnership company include:

- ▶ It is mandatory that the joint partners must be Bahraini nationals
- ▶ the overall share of the Bahraini partner's capital must be at least 51% of the total share capital amount
- ▶ the company must set up a local office in Bahrain

- ▶ Statutory requirement states that there must be at least two partners/promoters.

5. Limited Partnership by Shares companies in Bahrain include:

- ▶ It is compulsory that there must be at least four partners/promoters of this type of company and a minimum of two directors
- ▶ all joint partners belonging to the company must be Bahraini nationals
- ▶ the overall percentage of the joint partner's capital should not be less than 51% of the company's total capital amount
- ▶ the company must have one or more independent financial auditors
- ▶ the minimum set-up capital is Twenty thousand Bahraini dinars (BD 20,000)
- ▶ Overall, it is important that the capital of the company shall be divided into negotiable, indivisible shares, each having equal financial value; and
- ▶ the company must set up a local office in Bahrain

6. The essential prerequisites for establishing Bahrain shareholding companies – B.S.C. [Public] include:

- ▶ the overall start-up capital must reflect the company's objectives. The minimum share capital will be one million Bahraini dinars (BD 1,000,000)
- ▶ the new company must have an issued capital since the authorized capital for the brand new company must not exceed the issued capital by a factor of more than ten. This also requires that the issued capital must be fully subscribed.
- ▶ the shares must be indivisible, even though two or more persons may jointly own a share or a number of shares, provided that they are represented by a single

individual. All distinguished partners in the share or shares shall be collectively liable for the obligations entailed by this ownership as engrained in the law

- ▶ all the shares of this form of company are nominal and negotiable
- ▶ the company must have at least one financial auditor
- ▶ there should exist at least 7 partners/promoters and at least 5 directors; and
- ▶ the company must set up a local office in Bahrain

7. Essential prerequisites for setting up a Bahrain shareholding company – B.S.C. [Closed] include:

- ▶ having a minimum capital of Two Hundred fifty thousand Bahrain dinars (BD 250,000)
- ▶ the company must have at least one financially independent auditor
- ▶ it is possible that a 100% of the capital of the company may be owned by foreigners
- ▶ this type of company must have at least two partners/promoters and at least three directors; and
- ▶ the company must set up a local office in Bahrain

8. Holding companies include the fact that holding companies must take one of the following forms:

- ▶ they can exist as either public or closed joint stock companies; or
- ▶ they can exist as limited liability companies; or
- ▶ they can exist as a single person company

Furthermore, such affiliated companies must take one of the following forms:

- ▶ It must be a Bahraini or foreign joint stock company; or
- ▶ It must be a Bahraini or foreign limited liability company
- ▶ and by law, such a holding company must own greater than half the capital of the affiliated company.

2.4.7 Environmental factors

The current environmental issues involving Bahrain include desertification arising from the degradation of limited arable land, periods of seasonal drought, dust storms; coastal degradation (which ultimately leads to the damage of coastlines, coral reefs, and sea vegetation), these phenomenon result from oil spills and other industrial discharges from large tankers, oil refineries, and distribution stations. (The World Factbook, 2013-14)

Geographically, Bahrain described to be a flat archipelago comprising 33 small islands. Unfortunately, only about 1% of these islands are presently arable and useful for agricultural purposes while 92% is covered essentially by deserts. To-day, desertification remains one of the biggest environmental issues that Bahrain faces because of the small percentage of farmable land. Another environmental issue of great concern which is considered of great importance to mention here is phenomenon of coastal degradation which results from oil spills, and industrial wastes. (Al-Hekma International School, 2012)

The climatic condition of Bahrain, which many experts conclude as the worst factor for water scarcity, is hot and generally humid since the country enjoys only two seasons: summer and winter. Whereas summer is extremely hot and rarely humid, winter is relatively mild and gentle. Regular temperatures during summer periods can reach as much as 50° C combined with high humidity. This combined factor makes it out rightly uncomfortable to endure and poses serious negative

effect on the water precipitation and rainfall in the area. (Al-Hekma International School, 2012)

Although winter varies around 20° C maximum, the humidity generally remains the same. In the past, the climate was reported to be cooler and that used to generate more rainfall which created additional underground freshwater deposits that was adequate to cater for the needs of the people and Bahrain relied on this source of freshwater to a large extent. However, with the drastic change of climate, rainfall reduced significantly and this action eventually led to the decrease of precipitation (Bahrain records a very low amount of rainfall, about 72 millimetres of rainfall annually), most of which occur during the short winter spell. Ultimately, this makes the problem even more difficult due to the lack of permanent rivers, fresh water bodies or flowing streams. (ibid)

In the past, the Kingdom of Bahrain never had any difficulties concerning water scarcity, its usage, or distribution. However, after urbanization, the change in climatic conditions together with the rapid increase in population all contributed to creating the difficulties mentioned above that were never existent once upon a time (Al-Hekma International School, 2012)

Climate Impacts in the GCC

Generally, the GCC countries face multi-environmental challenges some of which include water scarcity, desertification, and biodiversity loss. Moreover, due to the arid climatic nature of this specific region, high temperatures resulting in seriously degraded and eroded topsoil as well as recognizable land damage plus salt intrusion in the aquifers all have drastic and negative impact on the scale and productivity of agricultural lands in the region. This further enhances the food security threat of the region to a whole new level. Collectively, all of the above geographical threats have therefore increased and activated the participation of GCC states in international negotiations recently as additional evidence are uncovered and the overall impacts of this trend is being felt on the ground level. (Al-Olaimy, 2013)

Sea level Rise (SLR): The sea level rise on coastal areas of all Arab Gulf states is one of the main impacts mentioned here in this report. This incorporates many of the large and small islands in the Gulf region that are consistently vulnerable to the impacts of sea level rise. A good example of such islands would be the low-lying geology of Bahrain's combined islands, which when coupled with high land reclamation and extensive industrial, commercial, and residential activity in coastal zones respectively, highlight the island's clear-cut vulnerability to climatic change induced sea level rise. (Al-Olaimy, 2013)

A substantial portion of the total land area would be inundated under the various climate change scenarios as reported by the Bahrain Supreme Council for the Environment. It is estimated that the low SLR scenario has the potential to result in a complete inundation of about five per cent (36 km²) of the total land area of Bahrain by 2100. In the worst case scenario, this level could increase to about 11% of the total land area (69 km²). If this were to happen, such inundation could unevenly affect Bahrain's vulnerable infrastructure in the five main islands and could in turn adversely affect social infrastructures, cities, roads, agricultural areas, as well as recreational beaches and salt marshes. (Al-Olaimy, 2013)

Water: The constant depletion of Bahrain's groundwater through urbanization has led to huge loss of its fertile lands and freshwater springs, for which the country was once known for. (Al-Olaimy, 2013)

Among many factors, pertinent to mention here is the impact of the continued use of non-renewable water as being a major contributing factor that leads to the depletion of groundwater reserves. Such a condition puts all the Gulf countries like Bahrain at severe risk of the negative consequences that are often associated with climate change as well as global warming. (Al-Olaimy, 2013)

3 METHODOLOGY

Methodology refers to an approach which is used by a researcher in order to investigate a subject of the research. (White, 2000) In this section, research strategy, data collection methods, and primary as well as secondary sources used in this study will be explained.

3.1 Research design

The qualitative research method is used in this research because of the aim of the research, which was essentially specialised and a more practical approach is analysing the findings of the research. The case study had an 'unstructured' problem, where the use of a qualitative research offered the much needed flexibility and exploration. As such, this method of research offers the opportunity to get to the insights and distinct explanations.

3.2 Data collection

In this research both the primary and secondary data are used. The secondary data provided better understanding of the research problem as well as assists in giving important additional information to achieve the aims of the research. (Ghauri, Gronhaug, 2010)

Furthermore, the secondary information is dedicated to serve different purposes, so it was carefully selected in order to get the most reliable and accurate information. The secondary data sources used in this research include: Business books, articles, country reports from well-known organizations such as (The CIA, WTO), information provided by universities (Oxford, Cambridge), and reports from previous researches about entering the Bahrain market (Ernst & Young, RSM).

As a research student, it was my intention to find the latest information concerning Bahrain, especially as it concerns entry modes into its business environment in order to provide on time information about the current situation inside the country.

On the other hand, the primary data was collected using a qualitative research method. A semi-structured interview was chosen as data collection technique. The interview was conducted with the owner of the case company in order to get accurate insight into the current situation, and to the plans and preferences of the company in order to enter Bahrainis market.

The interview was conducted via Skype through a video call. Brief company information was received from the respondent and answers to the questions as well as short discussions took place during the interview. Notes were taken in the course of the interview. It is important to mention here that the interview was held in the Lithuanian language and carefully translated into English.

Next, primary and secondary information are combined in the SWOT analysis and conclusions will be drawn based on the results.

4 EMPIRICAL FRAMEWORK

In this chapter the primary sources of information will be analysed and combined with the theoretical study (secondary sources) in order to fulfil the purpose of the research. The case company's presentation is also provided in order to gain a broad understanding of the case company. In this section, a SWOT analysis is discussed in order to assist in providing the relevant answers to the required questions of the research.

4.1 Interview results

The interview results were carefully analysed by drawing practical conclusions from the interview. The following list shows the questions with the corresponding answers:

Interview: the owner of the case company in Lithuania

1. What are your reason(s) for deciding to open a business in a new market?

It is getting more and more difficult to get raw amber in Lithuania. We purchased the newest technology mechanisms to work with amber and we want to introduce it to a foreign market. The amber market in Europe is shrinking, and companies are folding up. Our export volumes have decreased over the years, so we are searching for new ways to actualize our potential while maximizing our profits.

2. Why did you select Bahrain?

Since 1995 our company has been participating in an exhibition called "Jewellery Arabia", which is the biggest and most prestigious jewellery exhibition in Middle East, held in Manama, Bahrain. It gave us an opportunity to get to know people better; and we have already existing wholesale clients. The market research showed that there were currently no direct competitors in Bahrain and the country was endowed with many business opportunities since people migration is very high as a result of a liberal environment and the free movement of people in the

neighbouring countries. The Kingdom of Bahrain is full of tourists from surrounding and adjacent areas. Also, there are many sporting and social events, for instance the yearly Formula 1 race, which attracts many visitors. Of course, no sales taxes and an open business environment are some of the many factors that had a remarkable influence for our choice.

3. Do you have enough resources to do so? (financial capital, human resource, managerial skills and competences)

As a company, we have over 20 year's field experience and this provides us with huge experience alongside strong financial capital. Export activities and our participation in international exhibitions have helped to build skills to work with different people.

4. How well do you know the Bahrain market?

We believe that our 19 years of participation in the "Jewellery Arabia" exhibition, has given us great outlook of conducting business with Arabs and particularly Bahrainis. This knowledge will surely go a long way in ensuring that we conduct our business in a manner that is legitimate and productive while maximizing profits. We also recognize that along the way there will be room for occasional improvements.

5. Do you consider the business environment to be safe for investment?

There are many successful foreign business examples. Political instability and continuous riots are making the country to look unsafe for investment. However, our company is planning to open its first shop in one of the biggest shopping malls in the capital city Manama, where safety can be mostly guaranteed. Bahrainis are very hospitable and welcoming to foreign investors.

6. What are some of the challenges/barriers you are likely to face while entering the market?

Cultural awareness issues, language barriers, and new legal environment are just a few of them. However, our company sees the Bahrain business environment to present more opportunities than challenges. Our company also considers using foreign investment advisory firms and legal authorities' services.

7. Is there a huge demand for your product in the Bahrain market?

As I mentioned previously, our first shop will be opened in huge shopping mall where on the weekends there are expected to be around 75 000 customers visiting the shopping mall. Furthermore, the bridge that links Saudi Arabia to Bahrain makes it easy for Saudis to come into Bahrain on weekends.

In addition, the Formula 1 race every year attracts many tourists. An important aspect regarding our product is that it has a religious value attached to it and this has high value in Arab countries, as even banks are giving amber prayer beads as gifts to their loyal customers. And there are no direct competitors with such a distinct and different product.

8. Do you think you will have to adjust your product for the new market?

No, our product is already specialized for the market. The only thing we have to change is to adjust product packing from wholesale to retail image. In order for us to do this, it is important that we authenticate the product certificate, this will be prepared accordingly in the course of the sales process.

9. What are the benefits your company could achieve by entering Bahrain's market?

Knowledge and experience working in the international market, and increase in sales, higher profit margin. We would like to reach a well-known company name and an online shop.

10. What are the expectations and objectives of the company by entering Bahrain market?

Increase in sales and positive growth. We hope to achieve this through continuous collaboration with the local banks by supplying them with amber beads, which they will use as gifts for their customers. This is a strong case of a B-to-C market.

11. Which entry mode do you consider to be most effective for you?

The company has not decided that yet.

12. Will your business be a 100% ownership or will you enter a joint venture?

We want 100% business ownership.

13. Do you think that cultural awareness is an important aspect when entering a new market?

It is, especially when you have a service part, an actual shop, as especially because the client service and sales technique have to be different from what obtains in Western countries. Furthermore, our product is very cultural and religious, so the product positioning and understanding of our numerous clients become imperative and is very important to achieving our commercial success.

14. How is the company going to cope with the differences of culture and language?

We have plans of learning the Arabic language in addition to considerations of employing Arabic speaking customer-service personnel. In a working environment to learn traditions, get to know more about cultural differences and ethics before going there.

15. What other your company have to offer than competitors?

In Bahrain there are no amber manufacturers, only retailers, so we would be only manufacturers in the market. In fact, those retailers are not our direct competitors,

because they are not specialized to Amber, a variety of other materials praying beads are there, amber beads are just few styles. Our product variety is high, different sizes, shapes, colours, amber processing methods.

16. What are the plans if company will succeed? Fail?

At the moment plans are to make a stable investment. If failure occurs, we have plans to search for a new market in Asia, where amber is also highly valued.

17. Are you considering entering neighbouring countries if company will succeed in Bahrain?

It is very difficult to make foreign investment in Saudi Arabia, lots of restrictions, we can only own 75% of the company, and other 25% must belong to a Saudi national. Dubai is full of direct competitors; even from Lithuania, also we have wholesale customers there. The Asian market in this case would be an option.

18. Other relevant company information regarding the case company.

- Has been in operation since 1994.
- 200 000 Euro estimated annual turnover (2013).
- A family company, started work as retailers, after a while turned to manufacturing.
- Exports various Amber products to Estonia, United Arab Emirates, Germany, Poland, Latvia, Turkey, Greece, Lebanon, and England.
- 80% percent of sales are made by exports, only 20% domestically.
- In Lithuania the company holds first place in amber processing technologies, and the owner is well known between the professionals in the field.
- The company uses only newest technology procedures for manufacturing, and reduce waste in production process

- Processing gem stone is getting smaller, and reducing value. However, being able to provide new amber processing technologies will help make our product to be more desired.

4.2 Case company presentation

The case company was established 1994 as a private entrepreneurship and the company commenced business activities as a wholesale retailer of raw amber. Over the years, the company grew and enhanced its business focus to include other areas of expertise. Currently the company is specialized in amber gem-stone processing and amber jewellery manufacturing. The raw amber material is bought from Kaliningrad Oblast, a place where the biggest Baltic amber mines are located and shares a border with Lithuania. After first, when the product is manufactured, majority of them are distributed for sale to wholesale customers, while the remaining ones are kept for various exhibitions, trade fairs and trade shows.

At present, the company's product offering include various amber pendants, beads (including religious-Muslim prayer beads), bracelets, brooches, and customised tools for body massage. The amber in the products is attached to wood, leather, or non-precious metals using different kinds of strings and wires for stringing the beads onto such materials.

On an ongoing basis, the company is consistently concentrating on investing its resources into the latest technologies that can be deployed into the processing of amber gem-stones. Such investments allow the company to maximize yield by increasing its processing efficiency and also diversifying its product range since different products can be made from recyclable waste materials that was left over after the main product had been manufactured.

Furthermore, the company has already started business activities domestically in Lithuania. This enables it to slowly enter into the markets of neighbouring countries through exports. Current export destinations in Europe include Estonia, Lat-

via, Poland, England, Turkey, and Greece. Whereas in the Middle East, the current export destinations include United Arab Emirates and Lebanon respectively.

However, as a result of the fact that the company enjoys remarkable success of doing business in Lithuania, the current success of its local business activities company presented the need for the company to enter into a new market and as such, it chose to do so by seeking a foreign investment in Bahrain. As a matter of fact, this accounts for the fundamental reason as to why this research has been conducted.

The subsequent chapter deals with how the theoretical and empirical parts were implemented in order to show the case company's strengths, weaknesses, opportunities and threats in entering the Bahrain market.

4.3 SWOT analysis

A SWOT analysis is commonly used in business in order to identify all positive and negative elements for a new venture or strategy. (Goodrich, 2013)

In proposal stage of strategic plan the case company FI in Bahrain, SWOT analysis is used to identify positive and negative influencing elements in internal and external environments. Internal factors are strengths and weaknesses of the company. It is analysed by looking at company's resources and experience. Therefore external factors are defined as opportunities and threats, when organization is influenced and affected by external forces. (Goodrich, 2013)

SWOT analyses for the case company to make a FI in Bahrain below shows both positive and negative elements of external and internal factors, to name a few:

- S- field experience and solid capital;
- W- no international experience, lack of language knowledge;
- O- free, growing economy, low taxes, good English knowledge;
- T- unstable political environment, arid weather, strong Islamic culture.

STRENGTHS

- 20 years field experience
- Good knowledge of the market
- Huge capital
- Latest technologies
- Manufacturing competence
- High profit margin
- Good Managerial competence

WEAKNESSES

- Lack of international experience
- Lack of excellent arabic language knowledge
- Lack of complete cultural knowledge

OPPORTUNITIES

- Low duties cost
- No income taxes
- High immigration of skilled workers
- No direct competitors at present
- Government policies are generally considered to be Liberal towards foreigners
- Good English knowledge
- Free help for investors from EDB
- 13th freest economy in the world
- Low tax for employees
- Growing economy
- Growing population
- Educated labour force
- BD is pegged to the US Dollar

THREATS

- Unstable political environment
- Strong Islamic culture (ex.: huge dependence on the Islamic calendar)
- Ethical differences
- Connections and trust based business environment
- Arid weather conditions
- It is more difficult to conduct business during the month of Ramadan

Figure 7 SWOT analysis

4.4 Findings

Franklin Root's theory of successful market entry strategy suggests a compromise with the case company's ambitions for entering Bahrain and, as such, the critical factors can be defined. The case company has the desire to make a stable business investment in Bahrain by bringing an adjusted product which suits the market. The market entry mode was selected because of the company's intention to have full control of the day-to-day business activities in Bahrain.

Also, it is the company's intent to secure a 100% ownership of the business since other entry modes such as joint ventures and acquisitions do not match the company's preferences for now. As a result, the new establishment as an entry mode has been chosen since not all the forms of businesses are available for 100% foreign ownership in Bahrain, and coupled with the fact that the case company does not have intentions at having business partners or promoters in the host country.

For now the proprietorship business entity best matches the company's preferences. Although it is not allowed to carry out financial activities such as banking or insurance with this form of business establishment, the case company does not perceive that to be a problem since it is going to operate mainly as a retailer in Bahrain.

As shown in Figure 2, in which external and internal factors influencing the entry mode decision of companies have been highlighted, the case company's choice to make a FDI seems to be the most favourable option. However, it is important to point out here that home country factors have revealed a shrinking demand for the company's product, and the Bahrain market offers many excellent opportunities for the company to revamp its business activities and investment. The internal factors also look promising since the case company's product is in high demand, is highly differentiated and well customised to suit the market needs of the destination country. Furthermore, despite the relatively small size of the case company, its managers are highly committed and well-motivated to take on calculated risks that are often associated with most market entry choice. In conclusion, it has been proven to a large extent that the choice of the degree of ownership of a busi-

ness entity that a company requires determines the choice of entry mode which a company selects to enter the market at its disposal. This enables potential investors to calculate the risks involved in making such huge investments. Put simply, this means that a different entry mode exist for a company that desires to own 100% of the business, and this is completely different from the entry mode in which a company is seeking to own less than 100% of the business.

5 CONCLUSION

This conclusion is carefully grafted taking into consideration the practical issues that were encountered in the course of writing this thesis. It is by no means exhaustive. However, it offers a candid opinion and well thought out view of the entire process. As a result of the information collected in the course of the interview, a better understanding of the fundamental issues involved with the company's intent of going global was gained. As a result an in-depth view as to what the company's plans and ambitions and reasons for going into the new market was obtained.

Coupled with the theoretical framework which gave a clear overview and structured blue print regarding entering a new market, the major factors influencing market entry decision were examined and incorporated into the empirical work frame. Furthermore, the current situation of the macro-environment and cultural implications in Bahrain were also highlighted. The conclusions and recommendations concerning business entry to Bahrain, present a brief points from the researcher's perspective on how to provide a platform that encourages further studies to be conducted in this field as well as making a brief mention of the limitations that were encountered in the course of writing this thesis.

For companies that intend to go international, one major challenge which stood out clearly was the one that is always associated with relocating or expanding the business into new markets. Citing the case company, for instance, by expanding its business into Bahrain, it encountered a huge cultural difference and this was evident in various "cultural shocks". In practice, there exist vast differences between Western cultures and the cultures in Arab countries, which in many cases is crucial and can lead to multiple costs or in extreme situations it can lead to outright termination of a business.

At present, Bahrain as a country is seeking for avenues to get out of its dependency on oil. As such, the country offers many business opportunities and is very supportive at foreign business investors intending to enter and do business in the country. A crucial ministry with the Bahraini government – The EDB is giving a

free help to businesses establishing operations as well as supporting new investors on how to conduct further business operations in the country.

5.1 Recommendations

The following recommendations are made to the company. This list is by no means exhaustive. This offers the case company reference point to consider, and the suggestions that have been made here can provide the company with the needed information to guide it in the final decision-making process.

1. First, as a result of the company's preferences, the proprietorship business entity is recommended for the case company. This is so because the requirements for opening such a company (as listed in the legal environment section of this study) are achievable by the case company.
2. Second, the case company also needs to pay high attention to the ethical issues that have been listed in the section titled "Some highlights of Bahrain's culture". This is crucial because cultural awareness is one of the most essential points to consider while seeking entry to a new market.
3. Third, it is also recommended that the case company should consider importing semi-finished products instead of finished product. The reason for this is that this step could reduce the company's overall costs and this could ultimately allow the company to save more than 1% on duty taxes. However, since labour cost is low in Bahrain, precise calculations need to be done beforehand.
4. Fourth, it is important to mention that the case company needs to be prepared to face a decline in its business activities during the holy month of Ramadan. During this period, business entities in Bahrain generally experience lower and ultimately slower business processes/activities and sales. Also, during the hottest months of summer, many Bahrainis take holidays and travel out of country and the flow of tourists into the country

is lower due to extremely high temperatures. Everything happens much more slowly during this period and it is recommended that the case company should desist from any attempt to rush things up as such behaviour could be considered by many to be very impolite.

5.2 Limitations

The scope of the research makes it limited. In the beginning of the research it was planned to conduct several interviews with four key groups of qualified respondents. Semi-structured questionnaires for the interviews were made for four recipient groups respectively: Owner of the case company, Bahraini entrepreneur, and foreign investor in Bahrain and business consultancy agency. They were planned to be interviewed. However, only one respondent was interviewed.

The researcher made several attempts to gather as many participants as possible from the four distinct groups mentioned above using e-mails as well as posting invitations to expatriates on Bahrain's investment forum, but unfortunately no responses were received from more than one source.

The researcher attributes this low response rate to restrictions based on location, lack of good internet connections and time frame differentials for which the respondents could not be found.

The research was conducted by increasing the number of questions for the owner of the case company and a section of these recommendations concern only the case company and have been written based on the answers provided during the course of the interview.

5.3 Further studies

I am of the opinion that there exist a room for future studies to be conducted in this field as it relates to this research. As such, it is recommended that more expatriates and business owners in Bahrain should have the opportunity to answer these questions in order to get a view from inside of the target market about the business climate and past experiences of establishing a business in Bahrain.

It is also recommended that the scope of the research should not be limited to only the quantitative approach, but also further research should take into account the qualitative aspect too. Exploring further options for the case company should be encouraged while enabling the company to become fully prepared for the diverse challenges that might present themselves in the new market. Still, an in depth market research and financial analysis should be carefully carried out at every stage.

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