INTERNATIONAL JOURNAL OF eBUSINESS AND eGOVERNMENT STUDIES
Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105
Received: 20.01.2026 | **Accepted:** 10.03.2026 | **Published Online:** 31.03.2026

-RESEARCH ARTICLE-

THE ROLE OF ORGANIZATIONAL CULTURE AND INNOVATION IN BAHRAIN SMES

Zuhair Ali Baba*

Swiss Business School SBS, Switzerland
ORCID: 0009-0007-7343-1935
Email: Zbab739@student.sbs.edu

La'aleh Al-Aali

European University of Bahrain, Bahrain
ORCID: 0009-0005-1494-3282
Email: Laaleh.alaali@eub.edu.bh

Siddiq Balal

Gulf University, Bahrain
ORCID: 0000-0002-5879-4822
Email: dr.siddiq.balal@gulfuniversity.edu.bh

─Abstract─

Small and medium-sized enterprises (SMEs) constitute an important component of Bahrain's economic advancement, particularly through their contributions to job creation, entrepreneurial activity, and economic diversification. Nevertheless, despite substantial governmental and institutional initiatives intended to support this sector, Bahraini SMEs continue to experience considerable business failure, creating concerns about their ability to achieve sustained growth and long-term viability. Against this backdrop, this study examines organisational culture and innovation as key determinants of SME development and progress in Bahrain. Building on the existing body of SME development literature, the study assesses the extent to which these factors shape business performance and organisational sustainability within the Bahraini environment. A quantitative research design was adopted, with 300 questionnaires distributed to SME owners and managers operating across various sectors in Bahrain. Of these, 120 completed questionnaires were returned and subjected to descriptive and

Citation (APA): Baba, Z. A., Al-Aali, L., Balal, S. (2026). The Role of Organizational Culture and Innovation in Bahrain SMES. *International Journal of eBusiness and eGovernment Studies, 18*(1), 74-92. doi:10.34109/ijebeg.2026180105

inferential statistical analysis. The findings demonstrate that organisational culture and innovation both make significant contributions to SME performance. Organisational culture was identified as a prominent influence, with respondents highlighting shared values, effective leadership, competitiveness, responsiveness to market conditions, and sustainable growth as important organisational attributes. The findings further indicate that SMEs characterised by robust cultural foundations and stronger commitment to innovation are comparatively better equipped to address operational difficulties and maintain long-term organisational sustainability.

Keywords: Innovation, Culture, SMEs, Bahrain, Growth

INTRODUCTION

Despite extensive government initiatives designed to strengthen the SME sector, small and medium-sized enterprises (SMEs) in the Kingdom of Bahrain continue to encounter substantial barriers to growth, expansion, and long-term viability. The persistent failure of many SMEs to achieve sustainable success constitutes the central research problem and necessitates closer examination of the organisational factors underlying this outcome. Accordingly, the study focuses on organisational culture and innovation as two critical determinants of SME success, while recognising their connection with strategic leadership and people management practices. A quantitative research design is employed to obtain and analyse empirical data concerning these relationships. The findings indicate that weaknesses in organisational culture and limited innovation capabilities can restrict business development, promote stagnation, and increase the likelihood of organisational failure. On this basis, the study proposes the development of a national framework aimed at strengthening SME capabilities through focused investment in innovation and leadership development. Such measures could support the establishment of resilient organisational cultures and improve the capacity of Bahraini SMEs to achieve sustained growth and performance.

LITERATURE REVIEW

Empirical evidence suggests that around 20% of newly established businesses do not survive beyond their first year, while approximately half discontinue operations within five years (Capital, 2025; Gottschalk et al., 2014). Several factors are associated with business failure, including ineffective leadership, inadequate financial planning, constrained access to capital, and weak market assessment (Alhaddad, 2024; Darwish et al., 2014). Within Bahrain, failure rates among SMEs have been estimated at 30–50%, with their long-term viability constrained by managerial shortcomings, limited innovation capabilities, and restricted financing opportunities (Benzing et al., 2009).

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

The present study responds to these shortcomings by examining the challenges affecting SMEs within Bahrain's economic environment and comparing them with evidence from international settings. A structured review of the literature is undertaken to identify recurring challenges, underlying patterns, and interventions that have demonstrated potential effectiveness. The principal research problem concerns the relatively high rate of SME failure in Bahrain. Darwish et al. (2014) identifies several persistent difficulties experienced by Bahraini SMEs, including weak coordination, ineffective policy implementation, restricted financial access, inadequate training opportunities, and limited educational attainment. Collectively, these constraints contribute to ineffective managerial practices and restrict the capacity of SMEs to expand. Furthermore, management principles and organisational frameworks traditionally developed for large corporations cannot necessarily be transferred directly to the SME environment because of differences in organisational scale, resources, and operational characteristics.

Alhaddad (2024), examines the factors affecting the sustainability of Bahrain's SME sector and identifies access to essential financial resources as a major constraint. Although the banking sector participates in SME financing, demanding lending criteria frequently restrict smaller enterprises from obtaining adequate financial assistance. Such conditions place additional pressure on businesses that lack sufficient collateral or financial capacity to satisfy conventional lending requirements. The available evidence therefore points to persistent structural and operational weaknesses that contribute to unstable growth and thus elevated SME failure. According to the Central Bank of Bahrain (Bahrain, 2024), SMEs account for approximately 99% of businesses operating in Bahrain. Despite this substantial presence, nearly 30% fail within their first three years, while only around 20% succeed in obtaining bank financing. To address this financing gap, the CBB required retail banks to direct 20% of their domestic financing portfolios towards SMEs by 2025. The policy established progressive targets of 5% by December 2023 and 10% by December 2024. It also called for dedicated SME financing units and the introduction of financial products tailored to SME requirements. These measures demonstrate a policy-level commitment to improving SME access to finance, supporting business expansion, and reducing financing constraints (Alhaddad, 2024; Bahrain, 2024). Further evidence from Bilal and Al Mqbali (2015) and Alhaddad (2024) attributes much of the elevated failure rate among Bahraini SMEs to continuing financial constraints that restrict their capacity for expansion. Stringent lending conditions and high collateral requirements frequently prevent SMEs from securing the external funding required for continued operations and development.

Beyond financial constraints, the study considers how strategic business leadership and innovation may assist SMEs in addressing these difficulties. Effective leadership can facilitate organisational transformation, encourage innovative behaviour, and strengthen managerial decision-making (Lok & Crawford, 1999). Similarly, innovation in operational processes, marketing activities, and product development can strengthen

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

SME competitiveness by enabling firms to respond more effectively to changing market requirements and reduce exposure to business risks (Genus & Coles, 2006). Bosede Akanbi (2016), identify classical and modern perspectives among the major theoretical approaches used to explain SME development. Scholars such as Hoselitz (1959), Staley and Morse (1965), and Anderson (1982) contributed to the development of classical perspectives in this field. These theories generally anticipated that large enterprises would progressively dominate economic development and that the relative advantages associated with SMEs would diminish as economies developed.

A contrasting perspective is presented by Dabić and Kraus (2023), who describe SMEs as important engines of economic activity worldwide and major contributors to employment generation. Their argument also recognises that the managerial requirements and practices of SMEs differ substantially from those of larger and more established organisations. Although classical theories offer an important historical foundation for understanding SME development, their explanatory capacity may be limited in contemporary digitalised economies. Recent evidence demonstrates that SMEs can display considerable adaptability and resilience during periods of severe disruption, including the COVID-19 pandemic (OECD, 2022). This divergence between classical expectations and contemporary SME behaviour reinforces the importance of developing context-sensitive explanations, particularly in economies such as Bahrain, where national diversification strategies assign SMEs a central economic role.

Bahrain provides an appropriate setting for examining the identified research problem because of the combination of limited SME growth and relatively high failure rates. SMEs account for nearly 30% of Bahrain's gross domestic product (GDP) and provide employment for approximately 75% of the private-sector workforce. Their economic significance notwithstanding, SMEs have experienced disproportionate effects from the recent economic downturn (Group, 2022). Ateeq and Ateeq (2024), further investigate the adoption of sustainability practices among Bahraini SMEs and their implications for organisational performance. Their findings identify restricted financial resources, insufficient experience, and inadequate governmental assistance as important obstacles to the broader implementation of sustainable practices. Similarly, Bunagan and Sison (2019) reported that Bahrain ranked 34th among 137 countries in relation to global entrepreneurship and fifth within the Middle East and North Africa (MENA) region. This assessment reflects the extent to which the national environment facilitates and supports entrepreneurial activity and considers multiple dimensions, including the cultural and social conditions surrounding entrepreneurship.

The present research specifically examines how the challenges confronting SMEs influence the performance of their owners and managers in Bahrain. The study contributes to the relatively limited body of research addressing the nature, effects, and

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

significance of these challenges within the Bahraini SME environment. By identifying the principal constraints affecting SME performance, the research seeks to provide a stronger basis for determining the forms of assistance required from the Bahraini government and relevant institutions. More recent evidence indicates that SMEs have demonstrated continued resilience during 2025, with their contribution to GDP reaching approximately 34.6% in recent quarters, partly reflecting expansion in non-oil economic activities (Tamkeen.bh., 2023). While this development demonstrates progress in Bahrain's economic diversification, it also draws attention to continuing deficiencies in the adoption and implementation of sustainable business practices.

SMEs remain a fundamental component of Bahrain's economic development. Statistics reported by the Development (2023), indicate that approximately 90% of all registered businesses in the country fall within the SME category. This proportion illustrates the substantial economic importance of the sector and its potential influence on employment, entrepreneurship, and broader economic activity. Recognising this importance, the Bahraini government has allocated various resources and established support mechanisms intended to strengthen the SME sector and enhance its contribution to national economic development. One example is Tamkeen, a dedicated government entity that provides financial assistance and training programmes designed to support SMEs (Tamkeen.bh., 2023). The existence of such targeted institutional support further demonstrates the strategic importance assigned to SMEs within Bahrain's economic development agenda.

According to Bahrain's Commercial Registration Department within the Ministry of Commerce, more than 99% of registered enterprises are SMEs. These businesses are concentrated primarily in three sectors: trading, accounting for 42%; manufacturing, representing 14.48%; and construction, comprising 13.73%. The classification of SMEs in Bahrain is established under the Ministry of Industry and Commerce Act (922) of 2017. The national classification incorporates both employee numbers and annual turnover. A small enterprise is defined as a business employing fewer than 20 individuals with an annual turnover below BHD 100,000. A medium-sized enterprise, by comparison, employs between 20 and 100 individuals and records an annual turnover ranging from BHD 100,000 to BHD 500,000.

Table 1: SMEs Definition in the Kingdom of Bahrain (Source: MOIC, 2017)

SME definition (MOIC)	Micro	Small	Medium
Number of Employees	Up to 5	6 to 50	51 to 100
Annual Turnover (Bahrain Dinar)	1 to 50,000	50,001 to 1 Million	1,000,001 to 3 million

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

SMEs in Bahrain and their Challenges

Bahrain has approximately 91,000 businesses, including around 85,000 micro-enterprises, 5,485 small enterprises, 950 medium-sized enterprises, and approximately 176 large firms (IMF, 2023). Data from the General Organization for Social Insurance (Insurance, 2024) indicate a decline in employment during the third and fourth quarters of 2023. Since 2004, the country has recorded an average employment level of 521,444 persons, reaching a maximum of 658,600 in Q4 2016 and a minimum of 255,073 in Q1 2004. Between 1990 and 2022, Bahrain's average labour force participation rate stood at 68.4%.

According to the Labour Market Regulatory Authority (Authority, 2023), approximately 288,400 individuals were employed in establishments, while 39,800 worked in government organisations and 9,300 in semi-government entities. The private sector accounted for approximately 239,300 employees. The Annual Economic Review of 2022 (BIS, 2022) reported that SMEs generated 33.7% of Bahrain's GDP, with trade, manufacturing, and construction contributing 6.4%, 5.6%, and 4.0%, respectively. Additional contributions came from real estate (3.0%), transportation (1.6%), mining (1.5%), and private education services (1.0%). SMEs constitute a fundamental element of Bahrain's economic structure, with substantial potential to stimulate innovation, create employment, and support economic diversification. Jafar Al-Sayegh of the Bahrain Economists Association estimates that SMEs account for approximately 30% of the national economy and make a substantial contribution to employment. Data from the Ministry of Finance report (Bahrain Economic Quarterly Report, 2023) show that Bahrain's economy expanded by 4.9% in 2022, thus representing strongest growth since 2013 and reflecting primarily the expansion of non-oil activities (EDB), 2023).

The Bahraini government has recognised the strategic importance of SMEs and introduced a range of measures to facilitate their development. These initiatives include investment support, improved participation in public procurement, skills development programmes, and assistance with technology adoption. The resilience and adaptability demonstrated by SMEs further reinforce their importance to sustained economic development. Zayed bin Rashid Al-Zayani, Minister of Industry, Commerce, and Tourism, also introduced a national initiative intended to strengthen SME development. Nevertheless, empirical investigation into the challenges experienced by Bahraini SMEs remains relatively limited (Ravindran & Boh, 2020), thereby reinforcing the relevance of the present study. The COVID-19 pandemic intensified several pre-existing difficulties, particularly constraints surrounding access to finance. Although stimulus packages valued at USD 11.2 and 1.2 billion were introduced, fiscal limitations restricted the government's capacity to provide comprehensive assistance to SMEs (Bank, 2010). Reuters (2020), reported that Bahrain's economy contracted by 8.9% during the pandemic, while the subsequent recovery remained relatively slow. SMEs also

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

encountered greater uncertainty in business planning because of fluctuations in consumer demand. Changes in global consumption patterns accelerated the shift towards e-commerce, a development that was similarly observed in Bahrain (Forum, 2021b).

In response to these developments, Bahrain's Ministry of Industry, Commerce, and Tourism introduced the National E-commerce Strategy (2019–2022). The strategy sought to strengthen SME participation in the digital economy through regulatory measures, digital technologies, and public awareness initiatives (Ministry of Industry, 2022). Despite such interventions, scholarly evidence concerning post-COVID SME resilience in Bahrain remains limited. Existing findings continue to identify access to finance as a major constraint, while fiscal pressures have restricted the extent of government assistance. SMEs additionally contend with difficulties involving market access, regulatory requirements, and shortages of appropriately skilled personnel. To reinforce the SME ecosystem, Bahrain established the SME Development Board under the Ministry of Industry, Commerce, and Tourism. Its strategic objectives include increasing the SME contribution to GDP to 40%, expanding exports to 20%, and generating employment for 43,000 Bahraini nationals (Development, 2023; Institute, 2018). The private sector is likewise regarded as an important contributor to SME development, particularly by addressing financing and resource deficiencies that cannot be fully resolved through public-sector intervention (IMF, 2023).

Previous studies have identified significant human capital limitations and emphasised the need for stronger business support mechanisms (Bunagan & Sison, 2019; Darwish et al., 2014). Among the principal obstacles are restricted access to capital, regulatory pressures, difficulties associated with digital transformation, and mismatches between available and required skills (Najaf et al., 2021). Bahrain has responded by introducing digital platforms intended to simplify business registration and regulatory compliance procedures (Commerce, 2024). Nevertheless, the relatively limited size of the domestic market creates a need for SMEs to pursue internationalisation and broader market expansion. Persistent deficiencies in technology adoption, digital marketing capabilities, and managerial expertise continue to constrain SME development (Al-Ehtawi & Arbab, 2022; Khamis et al., 2022). Government responses include vocational education, skills development, and public-private partnership initiatives. Business incubators and accelerators also contribute by offering advisory assistance, mentoring, and enterprise development services (Al-Ammal & Aljawder, 2021). In parallel, SMEs are encouraged to strengthen their competitiveness by targeting specialised market segments, developing innovative offerings, and investing in effective branding.

Evidence from Switzerland suggests that successful post-COVID SME recovery depends on strong institutional arrangements, appropriately targeted financing mechanisms, and sustained assistance for digitalisation and innovation (Innosuisse,

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

2021). These experiences provide potentially transferable lessons that Bahrain could adapt to the requirements and characteristics of its own SME ecosystem. Against this background, the present study examines the challenges confronting SMEs within the Middle Eastern context, with particular emphasis on Bahrain. The literature identifies ten principal areas of concern: access to finance, market access, cost of doing business, employee recruitment and retention, training, innovation, management systems, people management, and regulatory compliance.

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

Sr.#	Challenges	Context	References
1	Access to Finance	Difficulty in securing financing due to insufficient collateral and limited financial track records.	(Bank, 2020; Reuters, 2020)
2	Access to Markets	Constraints on budgets and a lack of marketing expertise impact the ability to reach customers effectively.	(Al-Ammal & Aljawder, 2021)
3	Costs of Doing Business	Limited resources and risk aversion hinder the adoption of new technologies.	(Al-Ammal & Aljawder, 2021; Al-Ehtawi & Arbab, 2022)
4	Employee Recruitment	Skill and talent gaps are also prevalent, particularly in technology and digital marketing.	(Al-Ehtawi & Arbab, 2022)
5	Employee Retention	The sector is striving hard despite several human capital challenges	(Darwish et al., 2014)
6	Employee Training	Provide SMEs with mentorship, training programs, and networking opportunities.	(Al-Ammal & Aljawder, 2021)
7	Innovation	Need to adapt marketing strategies and distribution channels to meet changing consumer preferences, particularly the shift toward e-commerce.	(Forum, 2021a; Ministry of Industry, 2022)
8	Management Systems	Challenges in establishing networks and accessing business support services, such as mentoring and advisory services.	(Al-Ehtawi & Arbab, 2022; Bilal & Al Mqbali, 2015)
9	People Management Skills	Many SMEs lack essential management skills for effective decision-making and maximizing limited resources.	(Darwish et al., 2014) (Bunagan, 2019)
10	Regulatory Compliance	The complexity of regulatory processes and administrative requirements, such as licensing and tax compliance, can be time-consuming.	(Commerce, 2024; Najaf et al., 2021)

Although the literature identifies ten relevant factors that warrant examination within the Bahraini SME context, the present study narrows its analysis to two key dimensions of SME success: organisational culture and innovation.

SME Organizational Culture

Organisational culture within SMEs is reflected in the values, beliefs, and behavioural patterns developed and shared among members of the organisation. Although such cultural characteristics may initially appear relatively subtle, their collective nature can

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

create difficulties when organisations attempt to adapt to changing circumstances. Consequently, senior management must adopt a strategic approach to integrating and developing cultural practices while ensuring that organisational changes remain compatible with the broader national culture, thereby facilitating smoother implementation. Kaye and Jordan-Evans (2000), highlighted that employees value challenging and meaningful work, effective management, and opportunities for learning and professional development. This perspective emphasises the importance of establishing a stimulating organisational environment in which employees perceive that their contributions can influence workplace decisions. Such conditions can subsequently affect work attitudes and job satisfaction (Boswell et al., 2005).

Geletkanycz (1997), conceptualised culture as the shared beliefs, norms, and expectations of a society that influence individual choices, commitments, and behavioural standards. Differences in these cultural characteristics can produce variations in business practices, including approaches to market entry, levels of innovation, and willingness to undertake risk (Rantanen & Toikko, 2017). The influence of culture on strategic behaviour has therefore become an important consideration within international business research (Tihanyi et al., 2005). Departures from established cultural expectations may create substantial difficulties for organisational continuity. Ricks (2006)m further demonstrated the importance of geographical context, reporting that location and regional characteristics explain approximately 9% of the variation in firm performance.

Culture is consequently an important determinant of organisational effectiveness, making contextual understanding essential. Lonner et al. (1980), have done influential work on cultural values demonstrated the relevance of relatively identifiable and enduring cultural characteristics, although their expression may differ across societies. His research also examined cultural orientations associated with motivation, optimism, and aspirations for economic achievement. The findings challenge the assumption that differences in national culture have little influence on individual values and perceptions in international contexts. Within SMEs, owners and managers exert considerable influence over how the organisation is operated and which values become embedded in its activities. Organisational values therefore provide an important indication of the underlying cultural orientation of the business. Cultural values and traditions can influence managerial attitudes and behaviours in areas such as internationalisation, decision-making, and adherence to established social expectations. These expectations can also shape perceptions of appropriate leadership behaviour, encouraging managers to operate within accepted societal norms.

Organisational culture plays a central role in promoting cohesion and strengthening employees' commitment towards achieving organisational objectives (Hofstede, 1994). Management expectations, preferences, and values contribute to shaping organisational culture and consequently influence organisational structures and operational practices. Cravens et al. (1994), have argued that societal values can affect organisational practices through their incorporation into internal organisational culture. It is therefore important for managers to establish compatibility between prevailing employee expectations and organisational cultural values to support effective management. Further it has been noted that cultural dimensions differ between countries and can consequently influence managerial strategies and practices. SMEs possess distinctive organisational characteristics because ownership and management are often closely interconnected. The owner generally exercises substantial influence over employees and plays an important role in developing the entrepreneurial orientation of the enterprise (Levy & Powell, 2005). In particular, the owner's attitude towards risk and uncertainty can strongly influence the firm's capacity and willingness to innovate. A supportive organisational culture can strengthen operational effectiveness, whereas an unfavourable cultural environment may restrict organisational performance.

As SMEs expand, management requires a clearly defined strategy for implementing organisational changes and coordinating operational activities. Such decisions should take account of employee expectations, beliefs, and values because these factors can affect the effectiveness of managerial decision-making. Compared with larger organisations, SMEs often exhibit a more organic cultural structure, in which a relatively small number of employees are connected through shared beliefs and values. This characteristic can make cultural transformation comparatively easier to achieve. Within many SMEs, the owner remains the principal source of organisational values and beliefs and therefore represents a major influence on cultural development.

Management attitudes towards risk can constitute a significant barrier to innovation, particularly within SMEs that typically operate under substantial financial constraints. Souitaris (2001), demonstrated that a strong willingness to undertake risk is commonly associated with innovative enterprises. Sandberg & Aarikka-Stenroos (2014), have categorized innovation barriers into internal and external categories. Internal constraints include inadequate financial resources, insufficient human capital, weak market positioning, elevated operating costs, and the risks associated with innovation investment. External constraints include an uncertain and rapidly changing business environment, limited opportunities for collaboration, restricted access to relevant information, and insufficient governmental support. Evidence from Switzerland provides further support for this relationship, indicating that SME innovation performance is influenced substantially by their ability to manage uncertainty, obtain appropriate financing, and participate in external knowledge networks (Taghizadeh et al., 2024).

Policies designed to reduce uncertainty and facilitate collaborative relationships can therefore contribute significantly to strengthening innovation outcomes. Innovation

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

requires organisations to continuously address the internal and external constraints associated with introducing and implementing new processes, products, or practices. Such activities inherently expose organisations to different forms of risk arising from both internal conditions and external market forces (Genus & Coles, 2006). Borgelt and Falk (2007), similarly emphasised that the potential negative consequences of risk can substantially impede innovation and limit organisational progress. The importance of technology adoption has become particularly evident for small businesses following the COVID-19 pandemic. Owners and managers must increasingly consider how technological applications can support business continuity, efficiency, and competitiveness.

Evidence accumulated over the past two decades indicates that SMEs encounter numerous difficulties when adopting and implementing technology. These include information security concerns, limited technological expertise, integration and performance problems, high implementation costs, employee training requirements, and difficulties incorporating technological systems into existing business processes. Innovation-related difficulties can also arise from high implementation costs, insufficient technological knowledge, limited governmental assistance, difficulties integrating technology into business operations, and inadequate organisational support (Umrani et al., 2019). Collectively, these findings indicate that both organisational culture and innovation represent important dimensions of SME development and performance. The research hypotheses are therefore formulated on the basis of the relationships and issues identified through this literature review.

Hypothesis 1: Investment in Innovation and Culture

- **Null Hypothesis ($H_0$2):** There is no significant relationship between investment in innovation, and culture practices and the success of SMEs in Bahrain.
- **Alternative Hypothesis ($H_1$2):** There is significant relationship between investment in innovation, and culture practices and the success of SMEs in Bahrain.

RESEARCH METHODOLOGY

The study adopts a quantitative research design to obtain objective empirical evidence through a structured questionnaire. More than 300 questionnaires were distributed among SMEs operating across diverse sectors in Bahrain to identify the principal challenges and constraints affecting their performance. The first section collected background information concerning the SME, including whether the business was family-owned, its organisational size, number of employees, annual turnover, and duration of operation. The second section examined respondents' perceptions of the two focal dimensions identified in the study, namely organisational culture and innovation. In total, 120 completed questionnaires were received and included in the analysis.

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

FINDINGS

The descriptive statistics indicate that Innovation exhibits a negatively skewed distribution, with observations concentrated towards the upper end of the scale and a mean score of 6.51. The moderate level of dispersion, together with the relatively flatter distribution, suggests some variation in respondents' innovation experiences and the possible presence of unusual observations that may warrant further investigation. The observed range of 1 to 10 further demonstrates substantial diversity in the reported levels of innovation. The confidence interval provides an estimated range within which the population mean is expected to fall, thereby supporting interpretation of the sample mean in relation to the broader population. Overall, the results indicate relatively challenging innovation conditions, although responses tend to be concentrated towards higher scores.

Table 3: Challenges of SMEs in Bahrain – Innovation

Innovation	Analysis
Mean	6.51
Standard Error	0.243084
Median	7
Mode	8
Standard Deviation	2.430841
Sample Variance	5.90899
Kurtosis	-0.5714
Skewness	-0.54199
Range	9
Minimum	1
Maximum	10
Sum	651
Count	100
Largest (1)	10
Smallest (1)	1
Confidence Level (95 Percent)	0.482332

- The mean score is 6.51, with a standard error of 0.243084, indicating a relatively precise estimate of the population mean.
- The median is 7, while the mode is 8, demonstrating that responses are concentrated towards the upper end of the scale and are consistent with a negatively skewed distribution.
- The standard deviation of 2.430841 indicates a moderate level of dispersion around the mean, reflecting noticeable variation in the reported responses.
- The kurtosis value of -0.5714 indicates a relatively flatter and lighter-tailed distribution than a normal distribution, while the skewness value of -0.54199 confirms a moderate negative skew, with observations tending to cluster towards higher values.

The descriptive statistics indicate that Culture exhibits a slightly negatively skewed distribution, with responses concentrated around the mean score of 7.3. The moderate degree of variability and relatively flat distribution indicate some heterogeneity in the

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

responses, with potential patterns or unusual observations that may merit further examination. The confidence interval provides an appropriate range for assessing the sample mean in relation to the wider population. Overall, the findings suggest that Culture represents a relatively substantial challenge for SMEs.

Table 4: Challenges of SMEs in Bahrain – Organizational Culture

Organizational Culture	Analysis
Mean	7.3
Standard Error	0.239317
Median	8
Mode	9
Standard Deviation	2.393172
Sample Variance	5.727273
Kurtosis	-0.40004
Skewness	-0.846

The descriptive statistics indicate that Organisational Culture displays a slightly negatively skewed distribution, with responses largely concentrated around the mean score of 7.3. The moderate degree of dispersion and relatively flat distribution reflect variation in respondents' assessments and may indicate underlying response patterns or potential outlying observations. The confidence interval provides a useful basis for interpreting the sample mean in relation to the wider population. Overall, the findings suggest that Organisational Culture constitutes a relatively substantial challenge for SMEs.

DISCUSSION

The findings provide empirical support for H1, demonstrating that SMEs can derive substantial benefits from a strong Organisational Culture and effective innovation practices. The results indicate that sound management practices are positively associated with the development of Organisational Culture and innovation capabilities. This finding is consistent with Darwish et al. (2014), who attributed the high failure rate of Bahraini SMEs to weaknesses in management practices, ineffective policy implementation, and inadequate training. The literature further establishes the important contribution of SMEs to economic development and innovation. Compared with larger organisations, SMEs often possess greater flexibility and adaptability, enabling them to respond more rapidly to changing market conditions and exploit emerging opportunities (Kahveci et al., 2025). This flexibility highlights their strategic importance to Bahrain's economy, particularly in supporting innovation, entrepreneurship, and broader economic development.

The significance of SMEs is also reflected in their substantial presence within Bahrain's business environment. SMEs account for 93.3% of all commercial registrations, of

Vol: 18 No: 1 Year: 2026 ISSN: 2146-0744 (Online) (pp.74-92) Doi: 10.34109/ijebeg.2026180105

which 81% are owned by Bahrainis, 39% by women, and 23% by young entrepreneurs (BNA, 2023). Despite this considerable presence, their contribution to national economic development may remain below its potential because Bahrain continues to rely heavily on the oil sector, which generates approximately 75% of total government revenue (Banker, 2023). The findings therefore reinforce the need for SMEs to strengthen their innovation capabilities as part of efforts to broaden and diversify Bahrain's economic base.

Peters and Waterman (1982), have emphasised that a supportive Organisational Culture can create a workplace in which employees feel valued and motivated, thereby contributing to higher productivity and employee retention. Consistent with this perspective, the present findings suggest that SMEs that establish positive cultural environments and invest in their employees are better equipped to manage complex and changing business conditions. The quantitative results further demonstrate significant relationships between SME success, innovation, and Organisational Culture. The one-way ANOVA identified statistically significant differences among SMEs according to their levels of innovation and cultural practices ($F = 9.13$, $p < 0.001$). In addition, correlation analysis revealed strong positive associations between Organisational Culture, innovation, and overall SME growth and scalability, with correlation coefficients exceeding 0.70 ($r > 0.70$). These results provide further empirical evidence that stronger cultural and innovation capabilities are closely associated with improved SME performance and expansion.

CONCLUSION

The study examined the roles of Organisational Culture and innovation within the SME context in Bahrain. The literature review identified these dimensions as important determinants of the challenges experienced by SMEs and the strategies adopted to address them. The findings offer important theoretical implications by identifying the critical areas that Bahraini SMEs should prioritise to strengthen their development and sustainability. They also provide practical implications for SME owners, managers, and Human Resources professionals. In particular, the results emphasise the value of investing in employee training and development programmes that strengthen innovation-related capabilities while simultaneously cultivating a supportive Organisational Culture. Such initiatives can enhance employee skills and performance and, consequently, contribute to sustainable SME growth.

REFERENCES

Al-Ehtawi, A. I., & Arbab, A. M. (2022). The Reality of Creating Shared Value at Small and Medium Enterprises in the Kingdom of Bahrain. *International Journal of*

Accounting and Management Sciences, *1*(1). https://doi.org/10.56830/IJAMS07202205

Alhaddad, A. (2024). Understanding the Dynamics of Financial Constraints and Business Viability among Bahrain's SME Sector. *Indian Journal Economics and Finance (IJEF) ISSN*, 2582-9378. https://dx.doi.org/10.2139/ssrn.5024671

Anderson, D. (1982). Small industry in developing countries: A discussion of issues. *World Development*, *10*(11), 913-948. https://doi.org/10.1016/0305-750X(82)90034-1

Ateeq, A., & Ateeq, R. A. (2024). Sustainability as strategy: the new competitive edge for Bahrain's SMEs. In *Business Sustainability with Artificial Intelligence (AI): Challenges and Opportunities: Volume 2* (pp. 277-284). Springer. https://doi.org/10.1007/978-3-031-71318-7_26

Authority, L. M. R. (2023). Survey's most important results. . https://lmra.gov.bh/en/page/show/89

Bahrain, C. B. o. (2024). Financial Stability Report (Issue No. 38). Financial Stability Directorate. https://www.cbb.gov.bh/

Bahrain Economic Quarterly Report I Q3 2023. (n.d.). Retrieved July 17, 2025, from https://www.mofne.gov.bh/media/jnlpflga/beq32023en_v15_final.pdf

Bank, W. (2010). Bahrain country report. https://thedocs.worldbank.org/en/doc/62eb666e0f2 cdab1bf7c38a4e4f7aff7-0280012021/original/2-mpo-am21-bahrain-bhr-0926-kcm.pdf

Bank, W. (2020). Migration and development brief 33: COVID-19 crisis through a migration lens. https://www.knomad.org/publication/migration-and-development-brief-33

Banker, T. (2023). Bahrain's economy enjoys respite despite long-term challenges. https://www.thebanker.com/Bahrain-s-economy-enjoys-respite-despite-long-term-challenges-1676886547

Benzing, C., Chu, H. M., & Kara, O. (2009). Entrepreneurs in Turkey: A factor analysis of motivations, success factors, and problems. *Journal of small business management*, *47*(1), 58-91. https://doi.org/10.1111/j.1540-627X.2008.00262.x

Bilal, Z. O., & Al Mqbali, N. S. (2015). Challenges and constrains faced by small and medium enterprises (SMEs) in Al Batinah governorate of Oman. *World Journal of Entrepreneurship, Management and Sustainable Development*, *11*(2), 120-130. https://doi.org/10.1108/WJEMSD-05-2014-0012

BIS. (2022). Annual Economic Report 2022. Www.Bis.Org. https://www.bis.org/publ/arpdf/ar2022e.htm

BNA, B. N. A. (2023). Bahrain SME sector achieves remarkable growth of 14%. https://www.bizbahrain.com/bahrain-sme-sector-achieves-remarkable-growth-of-14/

Borgelt, K., & Falk, I. (2007). The leadership/management conundrum: innovation or risk management? *Leadership & Organization Development Journal*, *28*(2),

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

122-136. https://doi.org/10.1108/01437730710726822

Bosede Akanbi, O. A., Arogundade Sodiq. (2016). Analysis of Small and Medium Scale Enterprises (SMEs) financing and economic growth: Which way for Nigeria. *European Journal of Business and Management*, *8*(16), 12-17. https://www.iiste.org/Journals/index.php/EJBM/article/view/30973

Boswell, W. R., Boudreau, J. W., & Tichy, J. (2005). The relationship between employee job change and job satisfaction: the honeymoon-hangover effect. *Journal of applied psychology*, *90*(5), 882. https://psycnet.apa.org/doi/10.1037/0021-9010.90.5.882

Bunagan, V. D., & Sison, M. S. M. (2019). Entrepreneurial culture and orientations of SME owners/managers in the kingdom of Bahrain. *Journal of Small Business and Entrepreneurship*, *7*(1), 60-70. https://doi.org/10.15640/jsbed.v7n1a5

Capital, C. (2025). Small business failure statistics: Why do they fail? . https://clarifycapital.com/

Commerce, M. o. I. a. (2024). Inspection services. https://www.moic.gov.bh/en/node/1578

Cravens, D. W., Shipp, S. H., & Cravens, K. S. (1994). Reforming the traditional organization: the mandate for developing networks. *Business Horizons*, *37*(4), 19-29. https://doi.org/10.1016/0007-6813(94)90043-4

Dabić, M., & Kraus, S. (2023). An introduction to a theory of SME entrepreneurship. *De gruyter handbook of sme entrepreneurship*, 1-18. https://www.croris.hr/crosbi/publikacija/prilog-knjiga/823469

Darwish, S., Joseph, J., Selvaraj, P., Dohse, D., & Walter, S. (2014). The role of universities in developing small and medium enterprises (SMEs): Future challenges for Bahrain. *International Business and Management*, *8*(2), 70-77. https://doi.org/10.3968/4776

Development, M. o. S. (2023). Bahrain voluntary national review 2023. https://sdgs.gov.bh/PDFfiles/EN/VNR%202023%20Bahrain%20Report_1.pdf

EDB, (2023). Invest in Bahrain: The heart of the Gulf. https://www.bahrainedb.com/

Al-Ammal, H., & Aljawder, M. (2021). Strategy for artificial intelligence in Bahrain: Challenges and opportunities. *Artificial intelligence in the gulf: Challenges and opportunities*, 47-67. https://doi.org/10.1007/978-981-16-0771-4_4

Forum, W. E. (2021a). 5 key insights on the future readiness of SMEs. https://www.weforum.org

Forum, W. E. (2021b). The pandemic has changed consumer behaviour forever – and online shopping looks set to stay. . https://www.weforum.org/stories/2021/07/global-consumer-behaviour-trends-online-shopping/

Geletkanycz, M. A. (1997). The salience of 'culture's consequences': The effects of cultural values on top executive commitment to the status quo. *Strategic Management Journal*, *18*(8), 615-634. https://doi.org/10.1002/(SICI)1097-0266(199709)18:8%3C615::AID-SMJ889%3E3.0.CO;2-I

Genus, A., & Coles, A.-M. (2006). Firm strategies for risk management in innovation. *International Journal of Innovation Management*, *10*(02), 113-126. https://doi.org/10.1142/S1363919606001429

Gottschalk, S., Greene, F. J., Höwer, D., & Müller, B. (2014). If you don't succeed, should you try again? The role of entrepreneurial experience in venture survival. *The Role of Entrepreneurial Experience in Venture Survival (January 29, 2014). ZEW-Centre for European Economic Research Discussion Paper*(14-009). https://dx.doi.org/10.2139/ssrn.2387508

Group, O. B. (2022). Bahrain 2023 report. https://oxfordbusinessgroup.com/reports/bahrain/2023-report/industry/building-blocks-industrial-zones-free-trade-agreements-and-efforts-to-improve-the-investment-climate-lay-the-groundwork-for-a-period-of-growth-overview/

Hofstede, G. (1994). Business cultures. https://unesdoc.unesco.org/ark:/48223/pf0000096919

Hoselitz, B. F. (1959). Small industry in underdeveloped countries. *The Journal of Economic History*, *19*(4), 600-618. https://doi.org/10.1017/S0022050700086022

IMF, I. M. F. (2023). World economic outlook: navigating global divergences. In: International Monetary Fund Washington, DC. https://www.elibrary.imf.org/display/book/9798400235801/front-1.xml

Innosuisse. (2021). Annual report 2021: Supporting Swiss SMEs through innovation. https://www.innosuisse.ch/inno/en/home/company/sme.html

Institute, T. B. (2018). The structural constraints of entrepreneurship in Bahrain. https://www.bakerinstitute.org/research/structural-constraints-entrepreneurship-bahrain

Insurance, G. O. f. S. (2024). Statistical reports: Fourth quarter 2023. https://www.sio.gov.bh/en/statistics-reports

Kahveci, E., Avunduk, Z. B., Daim, T., & Zaim, S. (2025). The role of flexibility, digitalization, and crisis response strategy for SMEs: Case of COVID-19. *Journal of Small Business Management*, *63*(3), 1198-1235. https://doi.org/10.1080/00472778.2024.2377671

Kaye, B., & Jordan-Evans, S. (2000). Retention: tag, you're it! *Training and development-Alexandria-American society for training and development*, *54*(4), 29-39. https://assets.td.org/m/66fe42084db8cf9f/original/Retention-Tag-Youre-It.pdf

Khamis, H. A. W., Mahdi, O. R., & Nassar, I. A. (2022). Entrepreneurial Leadership and Competitive Advantage: Empirical Study of SMEs in Manufacturing Sector in Bahrain. https://www.naturalspublishing.com/files/published/4v7cq6k357pn77.pdf

Levy, M., & Powell, P. (2005). Strategies for Growth in SMEs. https://doi.org/10.1016/B978-0-7506-6351-9.X5000-1

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

Lok, P., & Crawford, J. (1999). The relationship between commitment and organizational culture, subculture, leadership style and job satisfaction in organizational change and development. *Leadership & Organization Development Journal*, *20*(7), 365-374. https://doi.org/10.1108/01437739910302524

Lonner, W. J., Berry, J. W., & Hofstede, G. H. (1980). Culture's consequences: International differences in work-related values. *University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship*. https://ssrn.com/abstract=1496209

Madrid Ministry of Industry, C. a. T. (2022). The e-commerce national strategy: The Ministry of Industry, Commerce and Tourism launched the National eCommerce Strategy 2019–2022. https://www.moic.gov.bh/en/node/2854

Najaf, K., Schinckus, C., & Chee Yoong, L. (2021). VaR and market value of fintech companies: an analysis and evidence from global data. *Managerial Finance*, *47*(7), 915-936. https://doi.org/10.1108/MF-04-2020-0169

OECD. (2022). Financing SMEs and entrepreneurs: An OECD scoreboard. Paris: OECD Publishing. https://www.oecd.org/en/publications/financing-smes-and-entrepreneurs-2022_e9073a0f-en.html

Peters, T. J., & Waterman, R. H. (1982). *In Search of Excellence: Lessons from America's Best-run Companies*. Harper & Row. https://books.google.com.pk/books?id=lGfonySC3DkC

Rantanen, T., & Toikko, T. (2017). The relationship between individualism and entrepreneurial intention–a Finnish perspective. *Journal of Enterprising Communities: People and Places in the Global Economy*, *11*(2), 289-306. https://doi.org/10.1108/JEC-10-2014-0021

Ravindran, T., & Boh, W. F. (2020). Lessons from COVID-19: Toward a pandemic readiness audit checklist for small and medium-sized enterprises. *IEEE Engineering Management Review*, *48*(3), 55-62. https://doi.org/10.1109/EMR.2020.3015488

Reuters. (2020). Bahrain's economy shrank by 8.9 percent in second-quarter amid coronavirus restrictions. https://www.reuters.com/article/bahrain-gdp-int-idUSKBN26I0IT

Ricks, D. A. (2006). *Blunders in International Business*. Wiley. https://books.google.com.pk/books?id=q7-rEAAAQBAJ

Sandberg, B., & Aarikka-Stenroos, L. (2014). What makes it so difficult? A systematic review on barriers to radical innovation. *Industrial Marketing Management*, *43*(8), 1293-1305. https://doi.org/10.1016/j.indmarman.2014.08.003

Souitaris, V. (2001). Strategic influences of technological innovation in Greece. *British journal of management*, *12*(2), 131-147. https://doi.org/10.1111/1467-8551.00190

Vol: 18 **No:** 1 **Year:** 2026 **ISSN:** 2146-0744 (Online) (**pp.**74-92) **Doi:** 10.34109/ijebeg.2026180105

Staley, E., & Morse, R. (1965). *Modern Small Industry for Developing Countries*. McGraw-Hill. https://books.google.com.pk/books?id=2c26AAAAIAAJ

Tamkeen.bh. (2023). Start your business. https://www.tamkeen.bh/programs/start-your-business/

Taghizadeh, S. K., Rahman, S. A., Nikbin, D., Radomska, M., & Maleki Far, S. (2024). Dynamic capabilities of the SMEs for sustainable innovation performance: role of environmental turbulence. *Journal of Organizational Effectiveness: People and Performance*, *11*(4), 767-787. https://doi.org/10.1108/JOEPP-04-2023-0166

Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of international business studies*, *36*(3), 270-283. https://doi.org/10.1057/palgrave.jibs.8400136

Umrani, W. A., Afsar, B., Khan, M., & Ahmed, U. (2019). Addressing the issue of job performance among hospital physicians in Pakistan: The role of job security, organizational support, and job satisfaction. *Journal of Applied Biobehavioral Research*, *24*(3), e12169. https://doi.org/10.1111/jabr.12169