



Micro, small and medium-sized enterprises development in the Kingdom of Saudi Arabia

MSMEs
development in
Saudi Arabia

Problems and constraints

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Abstract

Purpose – The purpose of this paper is to shed light on the main problems and constraints faced by micro, small and medium-sized entrepreneurs (MSMEs) in the Kingdom of Saudi Arabia.

Design/methodology/approach – To attain the above objective, the study employed a mixed methodology research design where both quantitative and qualitative methods were used. A survey method was used to gather data from 177 MSMEs located in selected cities in Saudi Arabia (i.e. Riyadh, Jeddah, Jubail and Al-Khobar), and, in addition, 15 of these entrepreneurs were purposefully selected and interviewed. Statistical analysis was conducted to identify the factors constraining the growth and survival of MSMEs in the country. The relevant literature review pinpoints salient issues in the environment of the small business enterprises.

Findings – The results show that the difficulties in obtaining financial support, bureaucracy, lack of credit options and unfriendly business environment are the main problems and constraints faced by the analysed MSMEs. Other important problems include unfriendly business environment, inadequate government support, unpredictable policy changes, and lack of training. These barriers vary according to the field of activity of the enterprises.

Research limitations/implications – The instruments used for this study need to be subjected to more statistical tests in order to establish a more robust validity and reliability. In addition, replication of this study using larger samples with more types of business sectors and a broader geographic base is suggested for cross-validation purposes.

Practical implications – Policy makers – such as governments (federal, state, local), NGOs, and other stakeholders – can strengthen their MSME entrepreneurs by launching promotional schemes that could lead to entrepreneurial success and design targeted policies and related support programmes that will actively stimulate the development of MSME businesses.

Originality/value – The paper serves to enrich the understanding on the subject of entrepreneurship in an Arab country and will specially help to fill the lack of academic research available about MSMEs businesses in the Kingdom of Saudi Arabia. In addition, the insights gained from this study contribute to the future development of this line of research, particularly in a non-Western context. Proper attention to the issues raised and recommendations made could give a significant boost to entrepreneurial activities in the region.

Keywords Kingdom of Saudi Arabia, Small to medium-sized enterprises, Business development, Arab countries, Micro, small and medium-sized business enterprises

Paper type Research paper

Introduction

The entrepreneurship literature has increasingly acknowledged the role of micro-, small- and medium-sized enterprises (MSMEs) in facilitating global economic development. The sector is seen as an important contributor in the transition to a market economy, through the processes of creativity, fostering technological advancement, organisational innovation and changes, employment creation, income



generation, competitiveness of the economy and other aspects of social development in general, and industrial expansion, in particular (Ahmad *et al.*, 2010). Significant research in this area has contributed to the well-being of the MSME business sector albeit mostly in developed and industrial nations. One of the main agenda is the scarcity of research and supporting literature behind the problems and constraints of the MSMEs conducted in developing countries (Ahmad, 2011b; Ahmad *et al.*, 2010). While some studies have been conducted on MSME businesses in developing and transition economies in other parts of the world, the scope and findings of these studies vary widely and are incomparable with each other since they had different objectives (Nilufer, 2001). Mark *et al.* (2006) also pointed out that research on entrepreneurial activity is both widespread and multidisciplinary in nature. In the context of Saudi Arabia, a limited number of studies have been undertaken in regard to the development of MSMEs and entrepreneurial activities; despite it being considered a valid diversification strategy to expand the productive base of the Saudi economy (Kayed and Hassan, 2011). Therefore, this study has been undertaken to bridge the gap. Since this study is the first of its kind – to reflect on the Saudi Arabia experience, its primary aim is to provide exploratory findings, rather than concrete conclusions.

Study objectives

It has been claimed that < 1 per cent of the 236 papers published in the ten-year period between 1990 and 1999 in a prestigious international journal focused on the Arab world (Robertson *et al.*, 2001). An even more rare exception is research involving entrepreneurial activities in the Middle East and North Africa region (Ahmad, 2011a, 2012; Ahmad and Xavier, 2011). The present study takes a step to fill this gap by critically analysing the problems and constraints encountered by the MSME business entrepreneurs not only in starting but also in survival, as well as the development and progression of their businesses in four primary districts of the Kingdom of Saudi Arabia. In order to achieve the primary objective, secondary objectives were also formulated as follows:

- to identify the reasons for the start-up of MSMEs in the country;
- to investigate the factors that inhibit business survival and development; and
- to suggest a number of recommendations in light of the findings.

The findings of such research are helpful and useful to individual entrepreneurs as well as to economic development planners (Wijewardena and Tibbits, 1999).

Classification of enterprise development in Saudi Arabia

A comparative analysis of MSME definitions across various Gulf countries has proved inconclusive (Hertog, 2010). In Saudi Arabia, there is no official definition of MSMEs or large enterprises. Adopting any other country's definition would be inappropriate and imprecise. Generally, the definition of MSME in Saudi Arabia uses various quantitative criteria, which categorises MSMEs by the number of employees. More specifically, according to the Saudi Arabian General Investment Authority (SAGIA):

- micro enterprises have < 25 employees;
- small enterprises have between 25 and 59 employees;
- medium-size companies have between 60 and 99 employees; and
- large-size companies are those with > 100 employees.

In contrast, according to other bodies, small companies are those with <5 million Saudi Riyals (USD 1.3 million) of capital, while medium-size ones as those with capital between SR5 and SR20 million (USD 5.3 million).

The Small and Medium Enterprises Development Centre at the Eastern Province Chamber of Commerce and Industry has adopted a different classification concerning the terms for MSMEs. Interestingly, the criteria vary from the above definition as it defines small enterprises as those employing not more than 20 workers, while medium-size enterprises employ 21-100 workers. According to the “Kafala[1]” small and medium-sized enterprises (SMEs) support programme attached to the Saudi Industrial Development Fund (SIDF), SMEs are companies with up to 20 million Saudi Riyals (USD 5.3 million) in exports or sales. Again, different criteria are used and even within the same criterion, different institutions use different threshold values.

It is believed that it is difficult to establish a common SME definition that could be acceptable to the Gulf countries, and in particular, in Saudi Arabia. Therefore, for the purpose of this study, a definition of SMEs is based on those adopted by SAGIA for two primary reasons: first, SAGIA's definition employs standard quantitative criterion, such as the number of employees. According to Hertog (2010), due to the scarcity of financial company data in the Gulf, most public and private bodies dealing with SMEs base their definitions solely on the number of employees. Second, SAGIA is among the primary institutions responsible for managing the investment environment in the Kingdom.

Prior research on obstacles encountered by micro-, small- and medium-sized business development

Because literature on Saudi entrepreneurship and small business development is somewhat limited, reliance on studies of small businesses in other countries and regions of the world is necessary for a more complete understanding of the problems of micro-, small- and medium-sized business owners in Saudi Arabia. The problems may differ from place to place and between one industry and the other – and even within the same industry, the problems may differ from enterprise to enterprise and also from entrepreneur to entrepreneur, due to economic, social, political and cultural disparities and variations. However, generally, compared to entrepreneurs in other developed countries, those in emerging nations face more monumental challenges. Among the reasons for this are, first, the SMEs or entrepreneurs from these countries deal with unstable and highly bureaucratic business settings. Second, the laws governing private enterprise, especially business registration and the taxation system are more complex and complicated. Third, commercial and contractual laws, intellectual property rights, administrative procedures, bankruptcy and private property laws are often poorly designed and/or enforced, resulting in an unfavourable institutional/regulatory business environment. Fourth, from the perspective of Middle Eastern culture, social networks or *wasta*[2] built on family networks are a significant force in all aspects of decision making, and, thus, play a very important role in the development of the business success MSMEs. In the context of a firm operating in the Arab world, trust is an essential component of ordinary business practices. Personal power and sociocultural influence, *wasta*, play a very important role in daily life and relationships among Gulf Arabs (see Hutchings and Weir, 2006). Other problems facing entrepreneurs in developing economies include inadequate infrastructure, poor macroeconomic policies, limited access to financial capital,

corruption and a lack of managerial experiences. These problems may be multi-dimensional and are overly complex, relating to inadequate infrastructure, inability to hire good employees, lack of marketing, management, production, labour, finance, technical and guidance, etc. The differences and discrepancies concerning the obstacles encountered by SMEs present challenges and impede studies.

Many studies have been undertaken and have identified numerous problems as being associated with the progress and development of small businesses. Studies by Keyser *et al.* (2000) found that in third world countries such as Zambia, a lack of starting capital from external sources was a common problem for entrepreneurs, as only 24 per cent received a loan to start their business. External finance is usually not available to most small firms for a variety of reasons. The common view among economists is that the market for loans is imperfect and restricted in scope, even in developed economies, and that it fails to address the financing needs of small businesses (Chilosi, 2001; Beaver, 2002). Another study by Koop *et al.* (2000) found that the amount of starting capital was positively related to business success. Ahmad *et al.* (2010) identified stiff competition, unstable economic conditions, reducing demand and increasing operation costs, etc. as the major obstacles to the growth and development of small business enterprises in developing economies, such as in Malaysia. Researchers also identified inexperience in the field of business, particularly a lack of technical knowledge, plus inadequate managerial skills, lack of planning, lack of market research, lack of confidence and lack of training (Lussier, 1996; Mahadea, 1996; Ahmad *et al.*, 2010; Ahmad, 2011a). The start-up problems faced by the micro and SMEs of Mozambique include lack of funding, stiff competition, corruption, constant price fluctuation, lack of clients and policy uncertainties (Fumo and Jabbour, 2011). Among the major constraints in the competitiveness of SMEs are access to adequate technologies (Gunasekaran *et al.*, 2001), excessive costs of product development projects (Chorda *et al.*, 2002), a lack of effective selling techniques and limited market research (Ahmad, 2012). In addition, other constraints include an inability to meet the demand for multiple technological competencies (Narula, 2004), information gaps between marketing and production functions, and lack of funds for implementing software (Xiong *et al.*, 2006). However, these researchers have not identified which management problem or group of problems contributes most to the failure of small business in Middle Eastern countries, in general, and Saudi Arabia, in particular where economies of the Saudi monarchies combine features of advanced and emerging market economies in a rather unique blend. Identifying the major problem would be a vital major step in addressing the issue.

Research methodology

Data collection and survey administration

The study employed a mixed methodology research design where both quantitative and qualitative methods were used. A comprehensive questionnaire was administered randomly to a sample of 200 small-scale business or entrepreneurs located in the selected four primary districts in the Kingdom of Saudi Arabia (Riyadh, Jubail, Jeddah and Al-Khobar). These districts are the primary business locations, as the majority of Saudi fast growth enterprises are located in these areas (US-Arab Tradeline, 2010). The entrepreneurs were approached via the snowball method – business owners or entrepreneurs in the area were contacted by word of mouth. This method is thought to be more effective and culturally more acceptable in Saudi Arabia compared to other

survey methods, such as by telephone or mail (Emory and Cooper, 1991). To enhance the response rate, the questionnaires were delivered by hand to the addresses of the companies identified for the study and collected by hand on a scheduled pick-up date. The distribution was done this way to avoid the problems with the local correspondence system and to fit with local cultural issues, such as the background of the researcher and purpose of the research. For instance, most Saudis will be reluctant to respond to anonymous surveys, they are reluctant to participate in lengthy questionnaire studies and want to know the person and the subject of the research before responding (see Tuncalp, 1988 for more details of the marketing research scene in Saudi Arabia).

After screening the collected questionnaires, it was evident that 23 questionnaires were not properly completed (some of the main sections of the questionnaires were not completed by the participants) and excluded from the analysis. A total of 177 questionnaires were completed (48 were from Riyadh, 33 were from Jubail, 53 were from Jeddah and 43 were from Al-Khobar). Hence, this process resulted in a useful response rate of 88.5 per cent. The Cronbach's α for the collected data was 0.923. In social studies research, a Cronbach's α value of 0.70 or more will be good enough to ensure data reliability.

In addition to the quantitative data from the survey participants, 15 MSME owners or entrepreneurs were selected for face-to-face interviews by the purposeful sampling method – the purpose being to obtain more in-depth understanding of the phenomenon. Most of the enterprise interviews were conducted with the same person who had responded to the questionnaire. An opportunity was given to the interviewed business owners to recount their stories, which were helpful in understanding the entrepreneurs, the types of business ventures undertaken, the business challenges they face and issues about how to deal with the current economic situation. The interviews lasted approximately 35-55 minutes. The interviews were semi-structured, that is, a range of topics and specific questions served as a base but the interviewer mostly followed the business owner's articulation of their thoughts.

Instruments

The comprehensive questionnaire included demographical data about the respondent's age, educational level, gender and business experience; and 33 items based on the literature relating to the common problems and constraints faced by MSME businesses in Saudi Arabia. The statements were phrased with a possible response continuum based on a Likert five-point scale (5 = very serious problem to 1 = not a problem). The respondents were asked to rank the obstacles based on the level that hindered their business development. The questionnaire was piloted by asking a number of MSME business owners or entrepreneurs to complete it. The participants raised a few issues about the understandability of an early version of the questionnaire and made suggestions how to simplify the items that were relevant. Some of the comments received were useful and incorporated in the final draft of the questionnaire, while some of the questions were eliminated as they were found to be irrelevant to the Saudi cultural environment. In order to minimise any confusion over terminology, the English version of the questionnaire was then translated from English to Arabic and verified by a linguist specialist (see Tuncalp, 1988). The questionnaire was administered by an Arabic-speaking interviewer.

Findings of the study

Quantitative analyses

Descriptive statistics were computed for each question and are discussed as follows.

Demographic profile – the demographic profile of the 177 respondents indicates that (see Table I):

- (1) The most common age category of respondents in this study is the 25-45 age group (57.07 per cent). This means that the young generation is taking part in the development of the Saudi entrepreneurial activity.
- (2) The respondents are all males[3]. This means that the country is a male dominated society and this gender contributes the most to economic activities.
- (3) The participants have different marital status, with 77.40 per cent of the respondents being married, 13.00 per cent single and 9.60 per cent divorced.
- (4) More than 50 per cent have received a college degree with 43.50 per cent of the respondents stating that their highest degree was a Bachelor's degree, and 9.61 per cent stating that they have received at least a Master's degree. This means that the Saudi entrepreneurs possess high-academic qualifications in various areas of study.
- (5) That 29.38 per cent of Saudi MSMEs have no formal business education, 16.95 per cent have a certificate or short business courses, and the remaining 53.67 per cent have obtained at least a diploma in business-related studies. This indicates that high percentage of Saudi business owners or entrepreneurs lack proper business/management training.
- (6) That 79.66 per cent have at least one year former working experience before venturing into business.
- (7) The motivating and compelling factors to become entrepreneurs are various – freedom seekers (48.02 per cent), security seekers (33.33per cent) and satisfaction seekers (18.65 per cent).

Business background – Table II depicts the business profile of the 177 respondents who took part in the study and reveals that:

- (1) Nearly 90 per cent of the Saudi MSMEs are at the pre-start and existence/survival stages, and only a small percentage (11.86) are at the growth level.
- (2) The origin of ownership is overwhelming start-up (53.11 per cent). Inherited business (41.24 per cent) comprised the next largest segment of ownership. When combined, these two categories represent 94.35 per cent of the micro-, small- and medium-sized businesses sample.
- (3) The vast majority of businesses (48.59) are dominated by multiple types of business ventures, with only a small percentage of the businesses deal with manufacturing and wholesaling merchandising. About 20.91 per cent of the businesses deal with retailing and 19.21 per cent are likely to be in services. The prominent position of the various types of business sector is indicative of the emerging entrepreneurial-led private sector, which focuses on the various consumer markets (Davis, 2000).
- (4) More than 93 per cent of businesses in this study employ < 59 workers, which represents MSMEs.

Variables	Frequency (n = 177)	%
<i>Age</i>		
Below 25	18	10.16
25-35	25	14.13
36-45	76	42.94
46-55	42	23.73
Above 56	16	9.04
<i>Gender</i>		
Male	177	100
Female	–	
<i>Marital status</i>		
Single	23	13.00
Married	137	77.40
Divorced	17	9.60
<i>Number of children</i>		
One	19	10.73
Two	46	26.00
Three	73	41.24
More than three	39	22.03
<i>Highest education level</i>		
No education	15	8.47
Primary	14	7.91
Secondary	54	30.51
Bachelors	77	43.50
Masters	17	9.61
<i>Formal business education</i>		
No business education	52	29.38
Certificate/short courses	30	16.95
Diploma	37	20.90
Degree	49	27.68
Postgraduate	9	5.09
<i>Work/business management experience (years)</i>		
No experience	12	6.78
<1	24	13.56
1-3	37	20.91
4-6	47	26.55
7-9	35	19.77
>9	22	12.43
<i>Reasons for starting-up micro, small and medium scale business or being entrepreneur</i>		
Freedom seekers	85	48.02
Security seekers	59	33.33
Satisfaction seekers	33	18.65

Source: Field Survey 2009-2010

Table I.
Structure profile of
the respondents

- (5) The majority of the respondents claim that the main sources of start-up capital comes from their own savings, followed by family/friends/relatives and loans from financial/commercial institutions.
- (6) About 60 per cent reveal that family and friends became a source of advice for their business ventures. This is not surprising as the majority of the businesses

Variable	Frequency (<i>n</i> = 177)	%
<i>Enterprise level</i>		
Pre-start	32	18.08
Existence/survival	124	70.06
Growth	21	11.86
<i>Origin of business</i>		
Start-up	94	53.11
Inherited	73	41.24
Others	10	5.65
<i>Type of business</i>		
Retailing	37	20.91
Wholesaling merchandising	13	7.34
Services	34	19.21
Manufacturing	7	3.95
Multiple types of business	86	48.59
<i>Number of employees</i>		
1-25	145	81.92
26-59	23	13.00
60-100	9	5.08
Above 100	–	–
<i>Source of start-up capital</i>		
Self-finance	97	54.80
Loans	26	14.69
Others (family, friends, relatives)	54	30.51
<i>Source of advice for start-up business</i>		
Family/friends	115	64.97
Other business owners	29	16.38
Financial advisor/bank/lending institutions	8	4.52
Other	25	14.13

Table II.
Profile of business
in the study

Source: Field survey 2009-2010

in this country are “family-owned operated businesses”. Some of these entrepreneurs also seek advice from other business owners (16.38 per cent). Even though it is the lowest percentage, a substantial amount of advice (18.65 per cent) also came from financial advisors, banks, lending institutions and other sources.

Problems and constraints faced by the MSMEs in the Kingdom of Saudi Arabia – the development of viable and efficient micro-, small-, and medium-sized businesses in Saudi Arabia is hampered by several constraints (see Table III).

In some aspects, there are very commonly perceived problems and constraints faced by the entrepreneurs and also perhaps generally encountered difficulties of operation of the MSMEs (Hisrich and Brush, 1984; Hitt *et al.*, 2003; Brush *et al.*, 2004). Some of these constraints are, narrated here.

Problems in obtaining financial support (90.96 per cent), bureaucracy (88.70 per cent), lack of credit options (86.44 per cent), unfriendly business environment (84.18) and inadequate government support and assistance (79.66 per cent) are the five major crucial barriers frequently mentioned by the interviewees that hindered the development of MSMEs in Saudi Arabia. The respondents of this study not only pointed out the non-availability and/or difficulty in accessing capital for start-up and

Main barriers	Respondents (<i>n</i> = 177)	%
Difficult to obtain financial support	161	90.96
Bureaucracy	157	88.70
Lack of credit options	153	86.44
Unfriendly business environment	149	84.18
Inadequate government support and assistance	141	79.66
Unpredictable policy changes	139	78.53
Too much competition	132	74.58
Unstable economic conditions	126	71.19
High interest rates on loans from financial institutions	125	70.62
Inconsistent requirements for business loan applications	121	68.36
Inability to maintain proper business and accounting records	118	66.67
Lack of business contacts/ <i>wasta</i>	110	62.15
Inadequate business information	108	61.02
Inability to employ skilled employees/workers in the same business line	104	58.76
Inability to manage employees/workers	99	55.93
Saudization policy	97	54.80
Unreliable and undependable employees	92	51.98
Difficult in gaining acceptance in the market	90	50.85
Lack of marketing knowledge	89	50.28
No business knowledge and experience	87	49.15
Lack of management training	80	45.20
Inadequate demand to support business growth	77	43.50
Lack of business training	75	42.37
Lack of adequate performance indicators	72	40.68
Lack of cost effectiveness	67	37.85
Inflexibility of business time (closing during prayer times)	63	35.59
Competition from large enterprises	57	32.20
Increase in cost of materials	55	31.07
Corruption	54	30.51
Poor accessibility to rural areas	45	25.42
Poor infrastructure	39	22.03
Inadequate infrastructure facilities	34	19.21
High-transportation costs	27	15.25

Notes: A five-point scale was used: 5, very serious problem; 4, serious problem; 3, problem; 2, minor problem; 1, not a problem

Source: Field Survey 2009-2010

Table III.
Main barriers
encountered in the
growth of MSME
business owners or
entrepreneurs in
Saudi Arabia

growth when needed as one of the prime issues, but also mentioned that they experienced negative attitudes from the lending agencies and related institutions. This was in addition to strict or unfavourable conditions for getting finance. It emerged that the procedure for loan or grant approvals is relatively long winded, lasting between one and several months and the procedures are very complicated. It should be emphasised that although many more businesses have tried to apply for bank loans, high-interest rates, and, more importantly Central Bank rates, non-transparent administrative and bureaucratic procedures have forced them to withdraw their applications. Furthermore, MSMEs often face the refusal of financing institutions to provide the necessary funds without credit guarantees and security for the establishment and operation of their enterprises. Banks typically demand 150 per cent of the loan value as collateral, which is high in international comparison (Hertog, 2010).

Thus, bureaucratic procedures appear to represent real impediments in obtaining bank facilities. There are several other pieces of empirical research that support this finding, notably, Ahmad *et al.* (2010) and Okpara and Wynn (2007) and Centre at the Riyadh Chamber of Commerce and Industry (see Figure 1).

Unfriendly business environment and inadequate government support and assistance may also affect MSME businesses in several ways. For instance, Saudi courts do not always enforce contracts efficiently. The court system is slow, non-transparent and influenced by the ruling elite. Laws protecting intellectual property rights are being revised to comply with the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, but enforcement is rather weak, and procedures are inconsistent. It has also been reported that many Saudi MSMEs considered unpredictable policy changes (78.53 per cent), too much competition in the same business sector (74.58 per cent), and unstable economic conditions (71.19 per cent) the major barriers facing micro-, small- and medium-sized business owners/entrepreneurs in much of Saudi Arabia.

Among the keys to working effectively within the Arab regions is appreciation of the interpersonal networks and connections that pervade all aspects of business and social life, known as *wasta* (Cunningham and Sarayah, 1993). *Wasta* is literally defined as Arabic for connections or pull and may be utilised as a form of intercession or mediation. Traditionally, the head of the family in Arab nations performed *wasta* services by obtaining for the supplicant what is assumed to be otherwise unattainable (Hutchings and Weir, 2006). In the context of Arabs world, where personal identity is framed in terms of tribal, regional or even city origins, trust and commitment are preconditions for successful in businesses. Okten and Osil (2004) found that the formation of business networks might help entrepreneurs to tap resources in the external environment successfully. Shane and Cable (2002) support this view and claimed that networking can be used to reduce information asymmetry in creditor/debtor relationships. It is interesting to note that, 62.15 respondents claimed that a lack of business connections or contacts constitute the major problem that hinders the development of MSMEs in the country. Indeed, further research is needed to explore this factor.

Apart from the above, it has been observed from the survey that another impediment for the expansion and development of MSMEs in Saudi Arabia is inadequate business information. To start an enterprise one would require certain basic business information about the industry in which the entrepreneurs intend to venture.

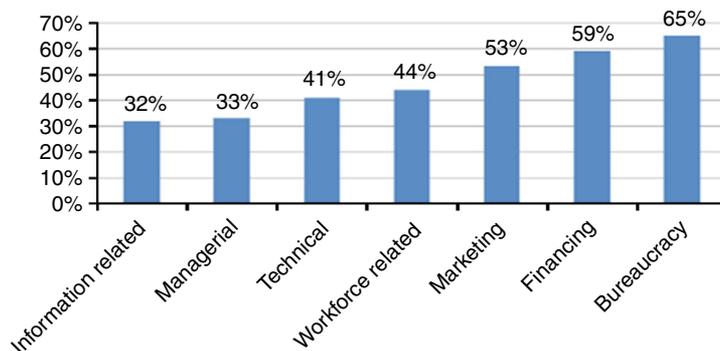


Figure 1.
Most important obstacles
to SME development
according to the Riyadh
Chamber of Commerce
and Industry Survey

Market data is also required for the entrepreneur to determine a realistic start-up size, to assess viability of the business, and to project the size of the market for the present and future. Such information is very expensive to collect on an individual basis, especially by those contemplating a small enterprise. The governments as well as its related agencies and specialised institutions usually gather, compile, refine and make available this type of information to all interested parties. Unfortunately, this business information is not sufficiently available and easily accessible. This study corroborates this finding, as 61.02 per cent of the respondents pointed out that inadequate information and poor information flow as barriers to enterprise creation and development. A more important problem here is that the average entrepreneur is usually unaware of the existence of even the little information that is available. Furthermore, those who are aware of the availability of the information do not know where to access it, nor its appropriateness and importance in making important business decisions.

Another impediment towards the development of MSMEs is the inability to employ skilled workers (58.76 per cent), inability to manage employees (55.93 per cent), Saudization policy (54.80 per cent), unreliable and undependable employees (51.98 per cent). The majority of young Saudi job seekers continue to prefer a government post compared to private sector employment. Job security, benefits and for most levels of qualification – wages tend to be better, while work tends to be less demanding. Some of these entrepreneurs experienced a high turnover of skilled staff (trained most of the times at the company's expense and then found better jobs with higher salaries and perks) and higher costs for trained and technically equipped staff. Lack of management experience is also a major obstacle that hindered the development of MSMEs (Yusuf, 1998; Thomson and Gray, 1999). As the findings of this study show, most business owners or entrepreneurs do not have management experience or adequate business training and skills to operate a business. For instance, because of the lack of basic business management skills, such as bookkeeping, inventory management, personnel management and basic marketing, most business owners end up losing track of their day-to-day transactions.

Another important hurdle in the growth of enterprises disclosed by the participants of this study was the level of corruption. Corruption is perceived as significant. In total, 30.51 per cent of the respondents claimed that business activities in Saudi are associated with bribery. Bribes are often disguised as “commissions”. This finding would not be surprising to those familiar with the business environment and practices of Saudi Arabia because the country has been ranked 50th out of 178 countries in Transparency International's Corruption Perceptions Index for 2010. One of the most demoralising consequences of corruption for small businesses is its impact on business development and performance. Gaviria (2002) argued that the reason why MSMEs engage in corruption is often linked to problems with regulatory compliance and bureaucracy. However, the country has continuously undertaken various actions in order to improve its ranking in freedom from corruption, property rights and business practices. For instance, Saudi Arabia has created a national anti-corruption commission to enhance Saudi development efforts towards expansion of the country. According to Shaheen (2011), “the formation of this commission will drive forward efforts being exerted by the Saudi government for eliminating corruption at public sector agencies”.

With regard to poor accessibility to rural areas, poor infrastructure and inadequate infrastructure facilities play a critical role in a country's development and are directly

linked to small business success and economic growth. These factors affect the distribution of goods and services and increase transportation costs. Businesses may find it problematic to operate in rural areas that are not accessible, even though the rural areas may have a high demand for their products. This limits the ability of businesses to expand and the opportunity to generate profit in order to remain in business.

Qualitative analyses

Based on the interviews with 15 MSMEs, the most pressing problems that need urgent solutions were identified as:

- problems in the area of securing finances for establishing and running MSMEs;
- problems with bureaucratic processes and procedures;
- problems with inconsistency of rules and regulation;
- problems with the availability of business information;
- lack of entrepreneurial and management competence and exposure;
- problems in finding the markets and distribution networks;
- limited amount of government and institutional support; and
- changing the culture of running the business in the country.

The major findings that are consistent with the title and objectives of the study are enumerated below:

- Policies, procedures and approval processes for attaining low interest credit, letters of credit and other types of bridging financing and other credit instruments need to be made easier and decisions need to be made in a more timely fashion.
- To strengthen the financing capability of MSMEs, the government may consider providing credit guarantees on MSME loans.
- Policy makers can design related entrepreneurial training and development programmes for Saudi business owners or entrepreneurs to successfully manage and develop and sustain their business including marketing, communication and management.
- With respect to management problems, management workshops and seminars can be organised by local chambers of commerce, public and private universities, and other non-profit organisations in the country. Entrepreneurs with a low literacy level should be assisted in developing their business plans by these support organisations, which presupposes training for enhancing the expertise of the trainers in business plan development and general business planning principles.
- Government policy should support training and retraining programmes geared to upgrading and maintaining a high-quality human resource pool for MSMEs.
- Small-scale business entrepreneurs should build the business network and seek advice from experienced entrepreneurs in similar businesses. Successful MSMEs could assist in supporting the establishment of mentoring networks in order to

facilitate the development of nascent entrepreneurs. These forums need to play a more active role by providing the business development services (BDS) required by business owners or entrepreneurs at their vulnerable stage of business development.

- Governments must continue their efforts to improve communication infrastructure, reduce costs and increase accessibility.

Conclusion and recommendations

In light of the relative dearth of research into small business performance in the Arab world, this study aims to provide a broader understanding of the problems and barriers that MSMEs face in business in Saudi Arabia. In the Kingdom of Saudi Arabia, although the number of MSMEs is gradually increasing, many existing entrepreneurs, due to certain problems and constraints, cannot develop their business. Based on the results of this study, several factors were identified as responsible for hindering small business growth and survival in Saudi Arabia.

There is a need for business organisations, such as chambers of commerce, business support agencies and related associations to adapt their approach towards strengthening these MSMEs in order to identify business opportunities available and develop adequate financial and management training. Given the right support, proper capacity-building and conducive business environment, MSMEs in Saudi Arabia can improve their success rate and economic contribution. These findings have potentially important implications for policy makers and managers. Ultimately, government policies need to be streamlined and simplified. Effective coordination among all the ministries and agencies is essential and their emphasis should be more on results rather than on numerical targets. In conclusion, this study is an important step towards understanding the factors that hinder the growth of their businesses. Such an understanding will lead to the establishment of effective programmes by the government and its related agencies for aspiring MSMEs owners/entrepreneurs.

Limitations of the study

The scope of the current research was limited in four ways:

- First, the geographic scope of this study was limited to four districts, namely, Riyadh, Jubail, Jeddah and Al-Khobar. The results obtained from these districts may not be completely representative of the entire nation.
- Second, while the size of the study was sufficient for the statistical techniques used in the analysis, better statistical estimates would have been possible with a larger sample.
- Third, because of the issues of budget and time constraints, a longitudinal nationwide study could not be conducted to identify the factors that hinder small-scale entrepreneurs' development.
- Finally, since this is a single country study, comparative research studies capturing MSMEs activities in other Middle Eastern countries should be undertaken in order to generalise the finding in the context of the Arab world. Such an enhancement of these limitations would strengthen the value of this study.

Notes

1. The Kafala Program is a collaboration between the Ministry of Finance, represented by the SIDF and Saudi banks, which aims to promote financing to SMEs within the Kingdom of Saudi Arabia.
2. *Wasta* is a term used to refer to social networks or connections (Cunningham and Sarayah, 1993). *Wasta* is crucial for understanding how decisions are made in this region because it permeates the culture of all Arab countries and is a force in every significant business and management decision (Whiteoak *et al.*, 2006).
3. It should be noted that given the conservative cultural and religious oriented in Saudi Arabia, it is not surprising that the business persons (proprietorship/partnership/self-employed) were dominated by males.

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Further reading

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