



## MSMEs OF SAUDI ARABIA: STATUS AND PROBLEMS

*Anis Ali<sup>1</sup>*

<sup>1</sup> College of Business Administration, Prince Sattam Bin Abdulaziz University, Al kharj-11942,  
Saudi Arabia.

<sup>1</sup>[ah.ali@psau.edu.sa](mailto:ah.ali@psau.edu.sa)

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### **ABSTRACT**

Micro, small, and medium enterprises (MSMEs) are considered as the engine of growth in the developing economy. MSMEs boost and accelerate the rate of growth of development of the economy and utilize the resources optimally and provide employment. In Saudi Arabia, the contribution of MSMEs is only 21% which is lower than the average of the advanced countries. Hence, there is a need to enhance the contribution of MSMEs in the GDP of Saudi Arabia to shift the economy from oil to other sectors. The objective of the study is to consider the current status and problems and challenges of the MSMEs of Saudi Arabia. The study considers the secondary data obtained from the General Authority for Statistics of Saudi Arabia and an extreme polar study conducted to identify the MSMEs' economic activity-wise. MSMEs of wholesale trade, manufacturing, and mining and quarrying are profitable more than the other sectors'. The employees of medium-size establishments of Professional, scientific and technical activities, and insurance and financial sector activities face the training need problems. The Saudi MSMEs face the problems of low demand for the products, unavailability of the required human resource, and access to finance. There is a need to establish a training institute by the government and provide an organized platform for the distribution of the products internationally. There should be a special

financial assistance program should be launched after identifying the financial need and requirements of the MSMEs to enhance the contribution and attain the goals of vision 2030.

*JEL classification:* O10, O13, O14, L17,

### **INTRODUCTION**

Micro, small and medium enterprises (MSMEs) contribute to any developing or emerging economy. The MSMEs in emerging economies contribute up to 45% and 33% of total employment and GDP, respectively. Indirectly, the contribution of the MSMEs is more than half of the employment and the GDP in developing economies. But, the contribution of the MSMEs in the Saudi economy is only 21% that is lesser than 46% of the average of the 15 biggest economies of the world. In the European Union, about 99% of business establishments are SMEs and contribute more than 50% in value-adding (37). In Saudi Arabia, numbers of micro-enterprises are more than five times of small enterprises, fifteen times of medium enterprises, and one hundred and fifty times of large enterprises running their operational activities in Saudi Arabia.

But, micro, small, medium, and large enterprises of Saudi Arabia provide 11%, 29%, 20%, and 40% of the total employment, respectively. In Saudi MSMEs, the number of non- Saudi employees (6893867) is more than the four times of Saudi employees (1703566) engaged in the operational activities while the strength of non-Saudi male employees (6679661) is more than the five times of Saudi male (1161296) employees. But, the number of total female Saudi employees (542270) is more than two and half times of the female non-Saudi employees (214206). In Saudi Arabia MSMEs and large enterprises, the male employees are more than nine times to female employees engaged (36). As per net assets in the establishments, Manufacturing (29185674 thousand SR), Wholesale and retail trade; repair of motor vehicles and motorcycles (18687669 thousand SR), Real estate activities (14990739 thousand SR), Transportation and storage (11912788 thousand SR), air conditioning supply and electricity, steam, gas (6677094 thousand SR) are the biggest while sewerage, waste management, and remediation activities, water supply (27125 thousand SR), Professional, scientific and technical activities (132356 thousand SR), Arts, entertainment and recreation (831119 thousand SR), Administrative and support service activities (1340187 thousand SR), and Agriculture, forestry and fishing (1481013 thousand SR) are the smallest economic activity MSMEs in Saudi Arabia (Appendix 1).

**Table 1:** Number of establishments and employees by gender, nationality and size engaged in MSMEs and larger establishment of Saudi Arabia

| Establishment Size | Non- Saudi Employees |        |         | Saudi-Employees |        |         | Total Employees |        |         |     | No. of Esta. |
|--------------------|----------------------|--------|---------|-----------------|--------|---------|-----------------|--------|---------|-----|--------------|
|                    | Male                 | Female | Total   | Male            | Female | Total   | Male            | Female | Total   | %   |              |
| Micro              | 844572               | 11646  | 856218  | 42601           | 35147  | 77748   | 887173          | 46793  | 933966  | 11  | 87577        |
| Small              | 2052836              | 38063  | 2090899 | 219832          | 183823 | 403655  | 2272668         | 221886 | 2494554 | 29  | 17889        |
| Medium             | 1356938              | 35256  | 1392194 | 221645          | 138894 | 360539  | 1578583         | 174150 | 1752733 | 20  | 5833         |
| Large              | 2425315              | 129241 | 2554556 | 677218          | 184406 | 861624  | 3102533         | 313647 | 3416180 | 40  | 635          |
| Total              | 6679661              | 214206 | 6893867 | 1161296         | 542270 | 1703566 | 7840957         | 756476 | 8597433 | 100 | 111934       |

*Source:* Gstat (Small and Medium establishments Survey 2018)

The external business environment of Saudi Arabia is suitable for the creation, development of MSMEs. The regulatory system, economic conditions, and infrastructure are favorable for the creation and development of the MSMEs. But, there are challenges also available i.e. low access to finance, weak market linkage, etc., in Saudi Arabia for the start-up and operation of the MSMEs. However, the Saudi government is taking so many initiatives i.e. KAFALAH program (Saudi Credit and Savings Bank Saudi Industrial Development Fund), and Prince Sultan bin Abdul Aziz Fund to Support Women's Small Enterprises Centennial Fund to energize and boost the MSMEs. Saudi Arabia Monetary Agency (SAMA), Human Resource Development Fund, and National Competitiveness Center Ministry of Economy and Planning of Saudi Arabia are facilitating financial and other related assistance to the MSMEs for growth and development (35). Expectedly, the MSMEs can be a prime option to shift the reliance of the oil-based economy to a non-based economy. In vision 2030 of Saudi Arabia, the contribution of the MSMEs is expected to grow from 20% to 35% of GDP. So, the Saudi government is focusing upon MSMEs to enhance the contribution in Saudi GDP to attain the goals of the vision 2030. There are very few studies available to elaborate on the problems and challenges of the Saudi MSMEs by bifurcating between well-performing and poor establishments. The study aims to get the present status of different types of MSMEs, analyze their problems and challenges, and facilitate suggestions for the growth and development of MSMEs in Saudi Arabia.

## LITERATURE REVIEW

Rafiki (2020) revealed that trained and well equipped human resources, easy availability of finance, and relationship with related enterprises are the responsible ingredients for the firm's growth and development. The age of the firm and education of the employees does not affect the firm's growth. Ali (2020) conducted a study on the industrial development of Saudi Arabia and suggested that the favorable labor laws, financial and technical assistance, and special treatment of underdeveloped establishments is necessary by the government for the growth of the MSMEs in Saudi Arabia. Tripathi (2019) revealed in their study that the success of SMEs is correlated with the imports and exports of the country. There is a negative correlation between the success of the SMEs and imports while positive with the exports. He suggested that the accomplishment of the vision 2030, the appropriate strategy, and efficient optimization of the fund is necessary. Hilman et al. (2019) found the direct effect of the TQM, OC on the performance of the SMEs, and suggested that the owners of the SMEs should focus on TQM. Hakeem (2019) indicated the avoidance of Islamic banks in providing loans to MSMEs due to the high risk in the recovery of loans. He recommended some programs i.e. KAFALAH, to enhance the financing to the SMEs to obtain the objectives of the economic vision of Saudi Arabia. Elhassan (2019) added that there should be an encouraging policy of financing and unified terminology to define the size of the MSMEs in Saudi

Arabia. Sabri et al. (2019) conducted a study on the psycho-attitudinal of female entrepreneurs and observed that female entrepreneurs in Saudi Arabia have a higher developmental attitude than male entrepreneurs. Sugiarto (2018) explored the micro and macro factors of the MSMEs in developing the business. Skilled and required human resources, funds, and tangible assets are the internal factors while demand, competition, and technological advancements are the macro factors that affect the growth of the MSMEs. The support of the system and regional government is necessary for the procurement of financial assistance. Rafiki et al. (2018) observed that the internationalization of the firms positively governed by the training and knowledge, size and network of the firms, etc. The education, age, and experience of the managers are not positively correlated with the internationalization of the small or family businesses of Saudi Arabia. Almosabbah et al. (2018) observed the positive correlation between GDP growth and the production of goods and services in Saudi Arabia. The policy framers of Saudi Arabia will have to comprise the manufacturing sector for economic and social development. Alzahrani (2018) observed that the challenges of e-commerce are the problems of SMEs of Saudi Arabia while there is a positive relationship between the development of e-commerce and SMEs of Saudi Arabia. Bramantoro (2018) found that in Saudi Arabian SMEs Enterprises Resource Planning 9 ERP) is more effective than the traditional ERP system. The global accessibility, low operational costs, fast upgrading, and interoperability among the services of the ERP services are better than the traditional ERP. Mehta et al. (2017) revealed that the world-class infrastructure is the base of the success of the manufacturing industry in Saudi Arabia while the connectivity of the industry with the big cities important for the easy conveyance of inputs and finished products. Mandhachitara et al. (2017) focused on market orientation and observed the relationship between positive leadership and the success of the enterprises. Srinivasan et al. (2017) conducted a study and found that the Indian MSMEs face the problems of human resource, import and export, regulatory systems, and direct competition from the Chinese products. Al Bakr (2015) explored product based diversification and suggested the connectivity of the small industry with the bigger industry for research & development (R & D), manufacturing, and lowering the dependency of the private sector on the other sector to increase the results of Saudi industrial sector. Hashim (2015) found that Malaysian SMEs are facing some problems i.e. Lack of skilled workers, competition in the domestic markets, physical infrastructure, bureaucracy hindrances, poor government assistance, and poor communication in the field of SMEs. Adeyemi et al. (2015) carried out study-related Islamic microfinance and its impact on the development of MSMEs in Saudi Arabia and found the problems of low access to finance and the entrepreneurs were not aware of the Islamic microfinance. Jaswal (2014) explained that MSMEs in India accelerating the growth of development, promoting balanced regional development, and means of livelihood. Ali et al. (2014) observed that Indian MSMEs encounter the problems of high-cost credit availability, lack of advancements, research and entrepreneurial skills, poor financial support, and complex labor laws. Mutual exchange of technology, favorable labor laws, and the government's financial and technical assistance will be helpful for the Indian MSMEs to attain the expected growth. Khan

(2013) found that in Saudi Arabia the entrepreneurial ecosystem in its initial stage and faces the problems and challenges of strategy and institutional. Gupta et al. (2013) stated that the growth and development of SMEs are governed by the factors that vary as the stage of the firm and geographically. Muhammad (2012) indicated the performance of the small businesses affected by the unavailability of advisory services, only profit-oriented commodities, a traditional and rigid culture of marketing and production, etc.,. Taiwo et al. (2012) explained the importance of SMEs for the economy as SMEs are using inputs, technology for production, and providing employment. They suggested favorable policies to enhance the productivity of SMEs in the economy. El-Khasawneh (2012) explored that regional, international, national, and enterprise factors affect the performance of the SMEs. The internal factors of the firms are controllable while external factors are unpredictable and uncontrollable. Ahmad (2012) studied the problems and constraints of MSMEs of Saudi Arabia and found that the MSMEs face the problems of bureaucracy, lack of credit options and financial support, and lack of favorable business environment for the MSMEs. The policy change problems, unskilled labor is also affected the MSMEs performance in Saudi Arabia. Danish et al. (2012) conducted a study of female entrepreneurship and found that the females of Saudi Arabia is managing the SMEs but facing social and institutional challenges. Sadi et al. (2011) found that the franchise method is the appropriate way to get benefits in the SME sector. The problems of franchise and franchiser should be considered while policy formulation for the economy. Bates et al. (2011) explained the importance of SCM (supply chain management) in the development of SMEs. Kayed et al. (2011) conducted a study related to the economic development of Saudi Arabia and found that the nation is facing a problem of unemployment due to a failing five years plan. They suggested the entrepreneurial diversification under the radius of Islamic values to achieve the economic goals. Maghrabi et al. (2009) found the importance of SMEs in the economy of Saudi Arabia. SMEs would be the better option for the economy as the prices of oil decreases globally. Kaur et al. (2008) found in their study that lack of proper training, underutilization of financial resources, and labor issues are the reasons behind the growth of the manufacturing industry in India.

## RESEARCH METHODOLOGY

The analysis is based upon the published data taken from the website of the Gstat (Small and Medium establishments Survey, 2018) of Saudi Arabia. As per data available, the General authority of statistics of Saudi Arabia divided manufacturing establishments among four categories based on the number of employees:

**Table 2:** Definition of the MSMEs for the study

| Types of establishments | No. of Employees |
|-------------------------|------------------|
| Micro                   | 1 to 5           |
| Small                   | 6 to 49          |
| Medium                  | 50 to 250        |
| Large                   | 251 and above    |

The study is based on the relational analysis of all MSMEs (micro, small, and medium enterprises) excluding large enterprises of Saudi Arabia. As per economic activity, there are 18 types of MSMEs available in Saudi Arabia (Appendix 1). The relational weightage of each enterprise categorized as per economic activity is to be calculated as follows:

$$RWeco. acti. = (Aeco.acti. * 100) / \sum A$$

Where, RWeco. acti.= relational weightage of economic activity, Aeco.acti. = Amount of a particular economic activity,  $\sum A$  = sum of the amounts of all activities of a particular type of MSMEs.

After, relational weightage calculations of each activity, the highest and lowest relational weightage economic activity MSMEs are to be identified out of all MSMEs as per the economic activity-wise of Saudi Arabia (Appendix 1). The concluding extreme polar analysis of the relational study will identify the well-performing and poor performing MSMEs of Saudi Arabia. The composite study of relational polar performance and problems, requisites, and hindrances will explain the obstacles in the path of development of MSMEs. The amount of MSMEs facing the problems of training needs, traditional market, start-up problems, problems of the internal and external environment, and problems from the systems are given in percentage for analysis and explanations' point of view.

## **ANALYSIS AND RESULTS**

Broadly, the analysis of the status and problems of the MSMEs of Saudi Arabia bifurcated into two categories i.e. status of the MSMEs, and requirements, problems, and hindrances of the MSMEs.

### ***Status of the MSMEs***

The status of the MSMEs of Saudi Arabia can be well explained on the highest and lowest compensation to the employees, operating expenditure, operating revenue, and operating profit of the establishments of Saudi Arabia.

### ***Average compensation of employees of MSMEs in Saudi Arabia***

The average compensation of the employees sorted by size and establishment will explain the relational weightage or spending of the compensation on the employees. The polar analysis will identify the MSMEs of various activities.

**Table 3:** The highest and lowest average compensation of employees by economic activity and size of establishment in Saudi Arabia

| N<br>o. | Economic activity                                   | Absolute ( Thousands Riyals) and relative (%) average Compensation of employees |       |              |       |                |       |       |       |
|---------|---|---|-------|--------------|-------|----------------|-------|-------|-------|
|         |   | 1 to 5 Emp.   | %     | 6 to 49 Emp. | %     | 50 to 250 Emp. | %     | Total | %     |
| 1       | Mining and quarrying                                | 331   | 27.79 | 334          | 28.21 | 307            | 26.52 | 972   | 27.52 |
| 2       | Financial and insurance activities                  | 176   | 14.80 | 142          | 11.98 | 192            | 16.59 | 510   | 14.44 |
| 3       | Electricity, gas, steam and air conditioning supply | 131   | 11.02 | 140          | 11.86 | 116            | 10.03 | 388   | 10.98 |
| 4       | Information and communication                       | 106   | 8.88  | 104          | 8.76  | 86             | 7.48  | 296   | 8.38  |
| 5       | Other service activities                            | 21  | 1.72  | 23           | 1.94  | 22             | 1.88  | 65    | 1.84  |
| 6       | Accommodation and food service activities           | 21  | 1.77  | 22           | 1.89  | 21             | 1.81  | 64    | 1.82  |
| 7       | Agriculture, forestry and fishing                   | 20  | 1.64  | 19           | 1.60  | 19             | 1.67  | 58    | 1.64  |

*Source:* Gstat (Small and Medium establishments Survey 2018)



Table 3 explains that Mining and quarrying 27.52%, Financial and insurance activities (14.44%), Electricity, gas, steam, and air conditioning supply 10.98%), Information and communication (8.38%) relatively highest while other activities (1.84%), Accommodation and food service activities (1.82%), Agriculture, forestry and fishing (1.64%) are the relatively lowest average compensation paying MSMEs to the employees in Saudi Arabia.

From the above, it can be concluded that the establishment engaged in the production and ancillary to the production compensating their employees at a high rate than the other sectors.

### ***Operating expenditure of MSMEs in Saudi Arabia***

The operating expenditure of the MSMEs sorted by size and establishment will explain the relational weightage or spending of the MSMEs to run the operational activities of the business. The polar analysis of operating expenditure of MSMEs will identify establishments spending the highest and lowest amounts on running the operational or business activities.

Table 4 explains that Wholesale and retail trade; repair of motor vehicles and motorcycles (39.73%), Manufacturing (25.57% relatively highest while Education (1.01%), Other service activities (0.93%), Electricity, gas, steam, and air conditioning supply (0.65%), Arts, entertainment and recreation (0.28%), Water supply; sewerage, waste management and remediation activities (0.24%) are the relatively lowest average compensation paying MSMEs to the employees in Saudi Arabia.

The operating expenditures of the establishments engaged in wholesale trade and manufacturing are more than the other sectors' MSMEs.

### ***Operating revenues of MSMEs in Saudi Arabia***

The operating revenue of the MSMEs sorted by size and establishment will explain the relational weightage or operating revenue of the MSMEs by running the operational activities of the business. The polar analysis of operating revenue of MSMEs will identify establishments' highest and lowest amounts of operational revenues from business activities.

**Table 4:** The highest and lowest operating expenditure by economic activity and size of establishment in Saudi Arabia

| No | Economic activity  | Absolute and relative size of the MSMEs |       |              |       |                |       |           |       |
|----|--|---|-------|--------------|-------|----------------|-------|-----------|-------|
|    |  | 1 to 5 Emp.                             | %     | 6 to 49 Emp. | %     | 50 to 250 Emp. | %     | Total     | %     |
| 1  | Wholesale and retail trade; repair of motor vehicles and motorcycles | 190878386                               | 55.15 | 100868431    | 34.67 | 35045138       | 18.89 | 326791955 | 39.73 |
| 2  | Manufacturing  | 69539335                                | 20.09 | 71064974     | 24.43 | 69727641       | 37.58 | 210331949 | 25.57 |
| 3  | Education  | 443121                                  | 0.13  | 5255245      | 1.81  | 2593090        | 1.40  | 8291456   | 1.01  |
| 4  | Other service activities   | 5839991                                 | 1.69  | 1401397      | 0.48  | 413934         | 0.22  | 7655322   | 0.93  |
| 5  | Electricity, gas, steam and air conditioning supply                  | 294254                                  | 0.09  | 1638508      | 0.56  | 3421480        | 1.84  | 5354243   | 0.65  |
| 6  | Arts, entertainment and recreation                                   | 600730                                  | 0.17  | 1136966      | 0.39  | 541250         | 0.29  | 2278946   | 0.28  |
| 7  | Water supply; sewerage, waste management and remediation activities  | 415787                                  | 0.12  | 818915       | 0.28  | 773927         | 0.42  | 2008629   | 0.24  |

**Source:** Gstat (Small and Medium establishments Survey 2018)

**Table 5:** The highest and lowest operating Revenue by economic activity and size of establishment in Saudi Arabia

| No. | Economic activity  | Absolute and relative size of the MSMEs |       |              |       |                |       |           |       |
|-----|--|---|-------|--------------|-------|----------------|-------|-----------|-------|
|     |  | 1 to 5 Emp.                             | %     | 6 to 49 Emp. | %     | 50 to 250 Emp. | %     | Total     | %     |
| 1   | Wholesale and retail trade; repair of motor vehicles and motorcycles | 324207773                               | 50.43 | 163005091    | 27.03 | 54755715       | 12.90 | 541968579 | 32.44 |
| 2   | Manufacturing  | 125415405                               | 19.51 | 127943311    | 21.22 | 135644518      | 31.95 | 389003235 | 23.29 |
| 3   | Other service activities   | 12534327                                | 1.95  | 3015967      | 0.50  | 977859         | 0.23  | 16528152  | 0.99  |
| 4   | Education  | 798924                                  | 0.12  | 10600094     | 1.76  | 4796487        | 1.13  | 16195504  | 0.97  |
| 5   | Electricity, gas, steam and air conditioning supply                  | 625875                                  | 0.10  | 4422817      | 0.73  | 8817650        | 2.08  | 13866341  | 0.83  |
| 6   | Arts, entertainment and recreation                                   | 1447074                                 | 0.23  | 3763223      | 0.62  | 1625362        | 0.38  | 6835659   | 0.41  |
| 7   | Water supply; sewerage, waste management and remediation activities  | 958397                                  | 0.15  | 1928907      | 0.32  | 1728895        | 0.41  | 4616199   | 0.28  |

**Source:** Gstat (Small and Medium establishments Survey 2018)

Table 5 explains that Wholesale and retail trade; repair of motor vehicles and motorcycles (32.44%), Manufacturing (23.39% relatively highest while Education (0.97%), Other service activities (0.99%), Electricity, gas, steam, and air conditioning supply (0.83%), Arts, entertainment and recreation (0.41%), Water supply; sewerage, waste management and remediation activities (0.28%) are the relatively lowest average compensation paying MSMEs to the employees in Saudi Arabia. The operating revenue of the establishments engaged in wholesale trade and manufacturing are more than the other sectors' MSMEs.

### ***Operating profit of MSMEs in Saudi Arabia***

The operating profit of the MSMEs sorted by size and establishment will explain the relational weightage of operating profit of the MSMEs by running the operational activities of the business. The polar analysis of the operating profit of MSMEs will identify establishments' highest and lowest amounts of operational profit from business activities.

Table 6 explains that Wholesale and retail trade; repair of motor vehicles and motorcycles (25.38%), Manufacturing (21.07%), Mining and quarrying (10.32%) relatively highest while Education (0.93%), Other service activities (1.05%), Electricity, gas, steam, and air conditioning supply (1.00%), Arts, entertainment and recreation (0.54%), Water supply; sewerage, waste management and remediation activities (0.31%) are the relatively lowest average compensation paying MSMEs to the employees in Saudi Arabia. The operating profit of the establishments engaged in wholesale trade, manufacturing, and mining and quarrying are more than the other sectors' MSMEs.

### ***Requirements, problems, and hindrances of the MSMEs***

The needs, problems, and hindrances of the MSMEs can be well explained after considering their training needs, marketing problems, start-up problems, internal and external environment problems, and hindrances from the systems or regulatory bodies.

### ***Training, marketing, and start-up problems of MSMEs in Saudi Arabia***

Required human resources, effective marketing methods of products play a vital role in the growth and development of the business organization. But, there some hindrances that are to be faced by the MSMEs in its initial stage of creation. The marketing methods and skilled or required human resources affect the business organization in its running stage and govern the success of the business while start-up problems resist the creation of the business. The following table explains the establishments asper economic activity needed training to their employees and establishments equipped with trained employees.

**Table 6:** The highest and lowest operating profit by economic activity and size of establishment in Saudi Arabia

| No. | Economic activity  | Absolute and relative size of the MSMEs |       |              |       |                |       |           |       |
|-----|--|---|-------|--------------|-------|----------------|-------|-----------|-------|
|     |  | 1 to 5 Emp.                             | %     | 6 to 49 Emp. | %     | 50 to 250 Emp. | %     | Total     | %     |
| 7   | Wholesale and retail trade; repair of motor vehicles and motorcycles | 133329387                               | 44.92 | 62136660     | 19.91 | 19710577       | 8.24  | 215176624 | 25.38 |
| 3   | Manufacturing  | 55876070                                | 18.83 | 56878338     | 18.23 | 65916877       | 27.57 | 178671285 | 21.07 |
| 2   | Mining and quarrying   | 1753203                                 | 0.59  | 35710547     | 11.45 | 50007083       | 20.92 | 87470834  | 10.32 |
| 18  | Other service activities   | 6694335                                 | 2.26  | 1614570      | 0.52  | 563925         | 0.24  | 8872830   | 1.05  |
| 4   | Electricity, gas, steam and air conditioning supply                  | 331621                                  | 0.11  | 2784308      | 0.89  | 5396170        | 2.26  | 8512098   | 1.00  |
| 15  | Education  | 355803                                  | 0.12  | 5344848      | 1.71  | 2203397        | 0.92  | 7904048   | 0.93  |
| 17  | Arts, entertainment and recreation                                   | 846343                                  | 0.29  | 2626258      | 0.84  | 1084113        | 0.45  | 4556714   | 0.54  |
| 5   | Water supply; sewerage, waste management and remediation activities  | 542610                                  | 0.18  | 1109992      | 0.36  | 954967         | 0.40  | 2607569   | 0.31  |

Source: Gstat (Small and Medium establishments Survey 2018)

**Table 7:** Highest and lowest Training needs in MSMEs in Saudi Arabia

| No. | Economic activity                                 | Training needs (%) |              |                |     |
|-----|---|--------------------|--------------|----------------|-----|
|     |   | 1 to 5 Emp.        | 6 to 49 Emp. | 50 to 250 Emp. | Av. |
| 2   | Financial and insurance activities                | 71%                | 76%          | 87%            | 78% |
| 8   | Professional, scientific and technical activities | 67%                | 71%          | 85%            | 74% |
| 11  | Human health and social work activities           | 73%                | 74%          | 74%            | 74% |
| 12  | Mining and quarrying                              | 67%                | 78%          | 75%            | 73% |
| 13  | Real estate activities                            | 39%                | 46%          | 50%            | 45% |
| 14  | Transportation and storage                        | 33%                | 42%          | 52%            | 43% |
| 16  | Other service activities                          | 39%                | 39%          | 50%            | 43% |
| 18  | Administrative and support service activities     | 31%                | 35%          | 40%            | 35% |
|     | Overall average of 18 economic activity           | 51%                | 60%          | 66%            | 59% |

Source: Gstat (Small and Medium establishments Survey 2018)

From the above table 7, it can be explained that more than half of the MSMEs in Saudi Arabia needed training for their employees to perform the business activities properly and efficiently. Out of 18 economic activities MSMEs, Financial and insurance activities (78%), Professional, scientific and technical activities (74%), Human health and social work activities (74%), and Mining and quarrying (73%) are the highest training needed establishment while Real estate activities (45%), Transportation and storage (43%), Other service activities (43%), and Administrative and support service activities (35%) equipped with trained employees or low training requirements. Overall, the training requirement is more than in medium establishment comparatively micro and small MSMEs.

From the above, it can be explained that there is a huge need for trained skilled workers in the financial, managerial, and health sectors. Nowadays, the latest or advanced marketing methods are the base of the success of the business organization. The suitable marketing methods enhance the turnover by creating the demand for the products and services. The following table explains the MSMEs of Saudi Arabia applying the traditional methods of marketing in the distribution of their products and services.

**Table 8:** Highest and lowest traditional marketing methods in MSMEs in Saudi Arabia

| No. | Economic activity  | Traditional marketing (%) |              |                |     |
|-----|--|---------------------------|--------------|----------------|-----|
|     |  | 1 to 5 Emp.               | 6 to 49 Emp. | 50 to 250 Emp. | Av. |
| 2   | Wholesale and retail trade; repair of motor vehicles and motorcycles | 90%                       | 89%          | 77%            | 85% |
| 8   | Agriculture, forestry and fishing                                    | 89%                       | 81%          | 83%            | 84% |
| 11  | Construction   | 85%                       | 84%          | 79%            | 82% |
| 12  | Mining and quarrying   | 83%                       | 85%          | 73%            | 80% |
| 13  | Water supply; sewerage, waste management and remediation activities  | 62%                       | 57%          | 53%            | 57% |
| 14  | Electricity, gas, steam and air conditioning supply                  | 50%                       | 60%          | 43%            | 51% |
| 16  | Information and communication  | 48%                       | 43%          | 41%            | 44% |
| 18  | Financial and insurance activities                                   | 43%                       | 43%          | 40%            | 42% |
|     | Overall average of 18 economic activity                              | 77%                       | 68%          | 61%            | 69% |

**Source:** Gstat (Small and Medium establishments Survey 2018)

From the above table 8, it can be explained that two-third of the total MSMEs of applying the traditional marketing methods to distribute their products. Out of all 18 economic activities MSMEs, Wholesale and retail trade; repair of motor vehicles and motorcycles (85%), Agriculture, forestry and fishing (84%), Construction (82%), Mining and quarrying (80%) needed to apply the advanced or e-marketing methods while Information and communication (44%), Financial and insurance activities (42%) are using the appropriate or contemporary marketing methods of goods and services. Overall, the bigger establishments apply advanced or contemporary marketing methods than the smaller establishments and there is a need for advanced marketing methods in the field of trade and repair of motorcycles, agriculture, and forestry, construction, mining, and quarrying MSMEs. In Saudi Arabia, there is a need to start new MSMEs to boost economic growth and shift from an oil-based economy to a non-oil-based economy. The obstacles resist starting new establishments in Saudi Arabia. The following table explains the activity-wise establishments facing start-up problems or problems of the creation of MSMEs.

**Table 9:** Highest and lowest Strat-up problems in MSMEs in Saudi Arabia

| No. | Economic activity                                   | Traditional marketing (%) |              |                |     |
|-----|---|---------------------------|--------------|----------------|-----|
|     |   | 1 to 5 Emp.               | 6 to 49 Emp. | 50 to 250 Emp. | Av. |
| 2   | Professional, scientific and technical activities   | 18%                       | 22%          | 24%            | 21% |
| 8   | Administrative and support service activities       | 15%                       | 17%          | 22%            | 18% |
| 11  | Transportation and storage                          | 31%                       | 9%           | 7%             | 16% |
| 12  | Other service activities                            | 14%                       | 16%          | 16%            | 15% |
| 13  | Information and communication                       | 2%                        | 3%           | 2%             | 3%  |
| 14  | Financial and insurance activities                  | 1%                        | 2%           | 2%             | 2%  |
| 16  | Human health and social work activities             | 1%                        | 1%           | 2%             | 1%  |
| 18  | Electricity, gas, steam and air conditioning supply | 0%                        | 0%           | 0%             | 0%  |
|     | Overall average of 18 economic activity             | 8%                        | 9%           | 10%            | 9%  |

**Source:** Gstat (Small and Medium establishments Survey 2018)

From the above table 9, it can be explained that in Saudi Arabia only 9% of MSMEs face the problems of start-up and creation of the establishments. Among all the MSMEs in Saudi Arabia, Professional, scientific and technical activities (21%), Administrative and support service activities (18%), Transportation and storage (16%), and Other service activities (15%) are the highest start-up facing establishments while Information and communication (3%), Financial and insurance activities (2%), Human health and social work activities (1%), and Electricity, gas, steam, and air conditioning supply (0%) establishments start-up

problems are negligible. Overall, the bigger MSMEs establishments' face more start-up problems than smaller businesses. But, the start problems of all kinds of MSMEs are comparatively lesser than the other problems.

Overall, there is a need to consider the problems of start-up of Professional, scientific and technical activities, Administrative and support service activities, Transportation and storage, and other service activities MSMEs.

### *Micro and Macro environmental problems of MSMEs of Saudi Arabia*

The growth and development of any business organization require the positivity and support of Internal (micro) and External (macro) environment. The internal business environment factors affect the business organization internally while the external factors affect form the outside of the business organization. The MSMEs of Saudi Arabia face business environmental problems that are the hindrance in the path of the development of business establishments. The following table explains the environmental factors that affect the growth and development of Saudi MSMEs negatively.

**Table 10:** Percentage of MSMEs facing business environmental problems sorted by size in Saudi Arabia

| No. | Problems                            | 1 to 5 Emp. | 6 to 49 Emp. | 50 to 250 Emp. | Av. |
|-----|-------------------------------------|-------------|--------------|----------------|-----|
| 1   | Low Demand                          | 15%         | 14%          | 16%            | 15% |
| 2   | Marketing / Export                  | 2%          | 6%           | 7%             | 5%  |
| 3   | Availability & Capability of Labour | 15%         | 19%          | 21%            | 18% |
| 4   | Availability of Finance             | 26%         | 15%          | 13%            | 18% |
| 5   | Availability of Raw Material        | 3%          | 6%           | 11%            | 7%  |
| 6   | Local Competition                   | 6%          | 13%          | 13%            | 11% |
| 7   | Foreign Competition                 | 1%          | 4%           | 13%            | 6%  |
| 8   | Customers & Collection              | 6%          | 10%          | 9%             | 8%  |
| 9   | Government Systems & Regulations    | 10%         | 9%           | 8%             | 9%  |
| 10  | General Services                    | 5%          | 4%           | 7%             | 5%  |
| 11  | Machinery/Equipment & Technology    | 5%          | 10%          | 13%            | 9%  |
|     | Average                             | 8%          | 10%          | 12%            | 10% |

**Source:** Gstat (Small and Medium establishments Survey 2018)

From the above table 10, it is obvious that only 10% of MSMEs of Saudi Arabia is facing the internal and external business environmental problems of the successful operation of their business activities. Low Demand (15%), Availability & Capability of Labor (18%), Availability of Finance (18%), and Local Competition (11%) are



the environmental factors that affect the growth and development, and smooth operation of the business activities. Marketing / Export (5%), General Services (5%), Customers & Collection (8%), and government systems and regulations (9%) are the business environmental factors that affect the Saudi MSMEs negligibly. Overall, the medium establishments are more affected by the business environmental factors than micro and small enterprises in Saudi Arabia. There is a need to consider and assure the availability of required human resources and finance while low demand is also an external factor that affects the growth and development and lowers the growth and development of the Saudi MSMEs.

## **DISCUSSION**

In Saudi Arabia, the establishment engaged in the production and ancillary to the production compensating their employees at a high rate than the other sectors. But, the high rate of compensation may be due to the requirements of the specific technical employees or skilled employees. The operating revenue and expenditures of the establishments engaged in wholesale trade and manufacturing are more than the other sectors' MSMEs. The operating profit of the establishments engaged in wholesale trade, manufacturing, and mining and quarrying are more than the other sectors' MSMEs. Hence, wholesale trade, manufacturing, and mining and quarrying are the most profitable economic activity MSMEs of Saudi Arabia. There is a need for training of employees and applicability of contemporary marketing or advanced marketing methods in the Micro and small MSMEs comparatively medium-size establishments in Saudi Arabia. Financial, managerial, and health sector, etc., are the areas where training to the employees needed to make the capability to deploy their duties efficiently while trade and repair of motorcycles, agriculture, and forestry, construction, mining and quarrying related MSMEs needed advanced and contemporary marketing methods and techniques to distribute their goods and services easily.

Professional, scientific and technical activities, Administrative and support service activities, Transportation and storage, and other service activities MSMEs face startup problems. But, the medium MSMEs face more start-up or creation problems than the micro and small establishments. Overall, the medium establishments are more affected by the business environmental factors than micro and small enterprises in Saudi Arabia. There is a need to consider and assure the availability of required human resources and finance while low demand is also an external factor that affects the growth and development and lowers the growth development and growth of the Saudi MSMEs.

## **CONCLUSION**

Based on above all analysis it can be concluded that there needs to control salaries and employees related expenditures in the production and ancillary to the production MSMEs i.e. financial and insurance activities, Quarrying and mining, Gas, steam,

air conditioning supply, Electricity and Information, and communication. In Saudi Arabia, wholesale trade, manufacturing, and mining and quarrying are the most profitable economic activity MSMEs of Saudi Arabia. So, there is a need to establish more and more profitable MSMEs to contribute to GDP in Saudi Arabia. Mining and quarrying are the most profitable economic activity MSMEs in Saudi Arabia.

There is a need for training to the employees of the medium size establishment engaged in professional, scientific, and technical and financial and insurance activities MSMEs. Medium establishments apply more advanced and contemporary marketing methods than micro and small enterprises. The MSMEs engaged in the wholesale and retail trade; repair of motor vehicles and motorcycles and Agriculture, forestry and fishing economic activity needed advanced marketing methods. The start problems in the medium establishments are more than the micro and small enterprises of Professional, scientific and technical activities and administrative and support service activities economic activity. The Saudi MSMEs also face the problems of Availability & Capability of Labor, access, and availability of finance, and low demand problems in the business environment.

Overall, there is a need to establish more and more profitable enterprises and government training institutes to provide the training to the employees engaged in the MSMEs. The access and availability of finance must be assured by the government for the entrepreneurs. To face the low demand for the product, the government should have to provide the platform to the MSMEs to get valuable information and export the products internationally.

The research is based only on the secondary data available on the website of the General authority for statistics of Saudi Arabia. To get the specific problems and challenges of the MSMEs, there is a need to get the customized information from the entrepreneurs and employees of the MSMEs as per the need and requirement of the study. There is scope for further researches to get the customized practical problems facing the MSMEs of Saudi Arabia. Possibly, unavailability of finance, low demand, and training needs are the concerned angle for the prospective researcher of MSMEs in Saudi Arabia.

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**Appendix 1 : Net Assets by economic activity and size of establishment**

| No. | Economic activity  | Thousands Riyals | %      |
|-----|--|------------------|--------|
| 1   | Agriculture, forestry and fishing                                    | 1481013          | 1.36   |
| 2   | Mining and quarrying   | 1537868          | 1.41   |
| 3   | Manufacturing  | 29185674         | 26.73  |
| 4   | Electricity, gas, steam and air conditioning supply                  | 6677094          | 6.12   |
| 5   | Water supply; sewerage, waste management and remediation activities  | 27125            | 0.02   |
| 6   | Construction   | 5160485          | 4.73   |
| 7   | Wholesale and retail trade; repair of motor vehicles and motorcycles | 18687669         | 17.12  |
| 8   | Transportation and storage   | 11912788         | 10.91  |
| 9   | Accommodation and food service activities                            | 2214897          | 2.03   |
| 10  | Information and communication  | 3498841          | 3.20   |
| 11  | Financial and insurance activities                                   | 1626128          | 1.49   |
| 12  | Real estate activities   | 14990739         | 13.73  |
| 13  | Professional, scientific and technical activities                    | 132356           | 0.12   |
| 14  | Administrative and support service activities                        | 1340187          | 1.23   |
| 15  | Education  | 3779641          | 3.46   |
| 16  | Human health and social work activities                              | 4134773          | 3.79   |
| 17  | Arts, entertainment and recreation                                   | 831119           | 0.76   |
| 18  | Other service activities   | 1952749          | 1.79   |
|     | Total  | 109171146        | 100.00 |

**Source:** Gstat (Small and Medium establishments Survey 2018)