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THE ROLE OF GOVERNMENT IN DEVELOPING STARTUPS IN SAUDI ARABIA

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ABSTRACT

Small and medium enterprises (SMEs) are essential for the economic stability of the country. This study aimed to assess the awareness of role of government in developing start up in Saudi Arabia. The study used questionnaire with 10 multiple choices and included 90 respondents living in Jeddah city. The questionnaire was answered electronically through social media. The study found that there was low prevalence of small business in Saudi Arabia included there was a lack of the ability to start the own small business for the majority. Hence, the SMEs need training courses to instruct in starting their own business. In addition, the government did not have a major role in guiding young people in starting their own business. However, there was affinity of government to develop the small business because there are not many legal difficulties faced by the people if anyone wants to start their own business. The government has to work hard to encourage more private business, especially among young people and work to provide moral and financial support for them.

INTRODUCTION

Small and medium enterprises (SMEs) roles in economic development, growth, export and employment are highly recognized in most countries even facing challenges and limited resources [1]. SMEs were measured those enterprises whose whole number of workers includes less than 500 people with micro-enterprises (1-9 employees), small enterprises (10-99 employees) and medium enterprises (100-499 employees) [2]. Main characteristics of SMEs has summarized in six points such as limited market, often local, producing single product, complete lack of expectations or standards, an informal structure that strengthen the weight of interpersonal relationships, strong integration at regional assembly and capital divided among small number of owners [3].

SMEs have contributed more than 95% of private sector enterprise, more than half of total employment and one third of investment [4]. In Malaysia, SMEs represents 99.2% of all business and contributes 56.4% of total employment [5]. The assistance from national and local governments to SMEs is important which help in reducing SMEs failure [6]. Various studies contributions of government policy have been contradictory and supporting. Mason et al. [7] found government policy is positively related to entrepreneurship. On the contrary, other studies also found government policy to be negatively related to entrepreneurship [8].

The government of several countries view entrepreneurship as the bedrock of industrialization of their economy and thus encourages entrepreneurship [9]. However, the importance of government policy towards entrepreneurship cannot be overemphasized since it in turn shapes the institutional environment in which entrepreneurial decisions are made.

Business incubators are perceived to be a mainstay of economic development programs. The business incubators create value by combining the entrepreneurial drive of a startup with resources generally available to new ventures. Among the primary objectives of business incubators are creating employment opportunities in the local economy and commercializing technologies. Saudi government has put high-growth, innovative businesses at the heart of its economic agenda [10]. In the case of government support policies, it is assumed that since government is in the lead for entrepreneurial development, it should provide the much-needed resources within its capability. Such resources include provision of environment conducive to business that will highly promote entrepreneurship.

Government policy in this context is any course of action which aims at regulating and improving the conditions of SMEs in terms of supportive, implementation and funding policies by the government. Based on this definition, government policy as it relates to entrepreneurial practice is targeted at encouraging entrepreneurship by making a favorable environment for the entrepreneurs. This, it does through enactment of guidelines that will regulate entrepreneurial activity generally because entrepreneurship is the bedrock of a nation's path to industrialization.

Makorere [11] had studied on key factors influencing small enterprise to become medium enterprise and hence large enterprises. This study found that increased on business profits, labor employments, outlets, and sales volume are the impact of adequate microfinance access. The enterprises whose owners also received business training, tax exemption, fair interest rate, enough grace period and infrastructures performed better than those that did not [11].

This study aimed to assess the awareness of role of government in developing start up in Saudi Arabia.

METHODOLOGY

The study used descriptive analytical approach which is based on the study of the phenomenon, as it is in reality, and contributes to describe it accurately as

it illustrates its characteristics through information gathering, analysis and interpretation, and then apply the results in the light. The questionnaire was the study tool prepared by the researcher with the help of experts and specialists. The questionnaire has 10 multiple choice questions.

The data was collected through website SurveyMonkey and Excel with necessary statistical methods to achieve study objectives. The study population includes all Saudi citizens who live in Jeddah city till the study year. Random samples of 90 respondents were selected and answered electronic questionnaire through social media.

RESULT AND DISCUSSION

Result

Figure 1 shows that there were 33 respondents (36.7%) mentioned that had their own projects and 57 respondents (63.3%) said no any handling project.

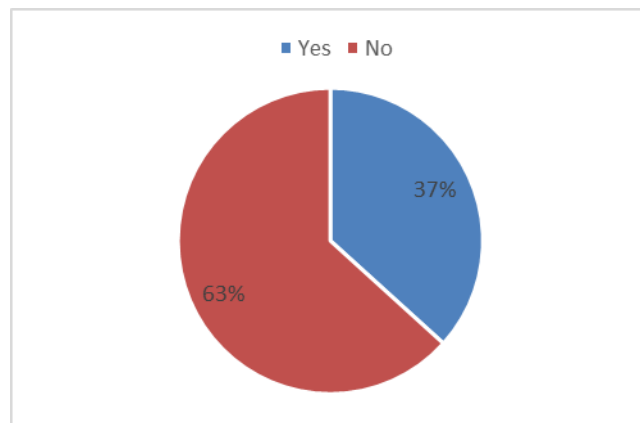


Figure 1: Respondent distribution based on private project involvement

Figure 2 shows that there were 68 respondents (76.4%) had own project but not yet start and 17 respondents (18.2%) had started one year or more. Meanwhile, 1 respondent (1.1%) started own project since five years or more and 4 respondents (4.5%) started own project with more than 10 years.

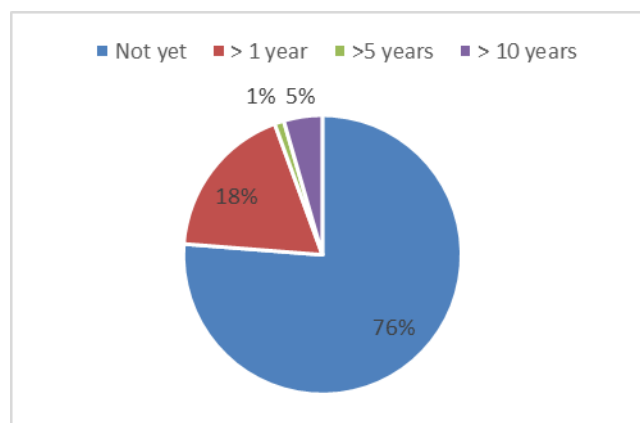


Figure 2: Respondent distribution based on number of years with own project

Figure 3 shows that 20 respondents (22.2%) were knew how to get help in managing their won projects and 70 respondents (77.8%) did not knew how to get helps in managing their own projects.

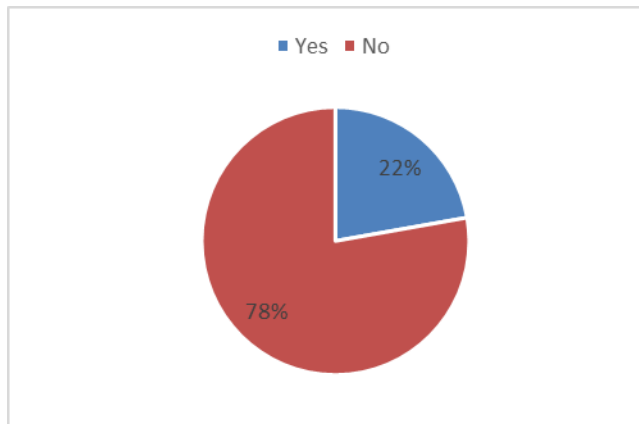


Figure 3: Respondent distribution based on number of years with own project

Figure 4 shows that 30.7% of respondents said knew about similar projects and also required an expert help. Meanwhile, 15.8% of respondents had consulted an advisory governmental institution and 15.8% of respondents help from one of their friends or relatives and 6.9% of respondents had other sources.

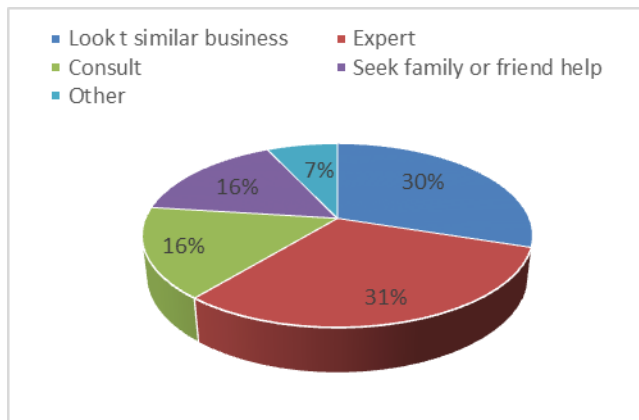


Figure 4: Respondent distribution based on way get help in managing their own project

Figure 5 shows that 44 respondents (48.9%) did not know the primary steps to launch their own projects while 48.9% of respondents had good knowledge on primary steps.

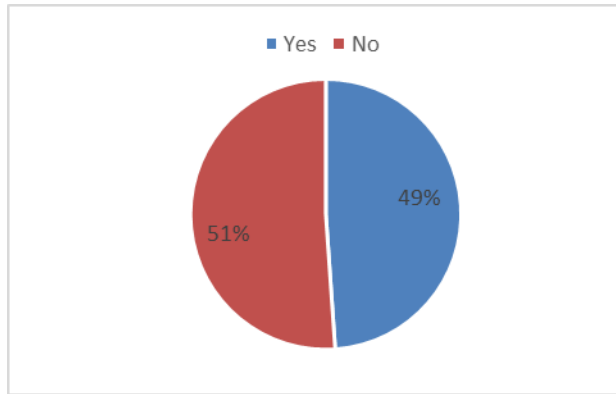


Figure 5: Respondent distribution based on knowledge on the primary steps needed to launch own private project

Figure 6 shows that 48 respondents (53.9%) believed that important that government institution instructed in start their own business and 29 respondents (32.6%) believed that important but not always. Meanwhile, 13 respondents (14.4%) preferred to be independent.

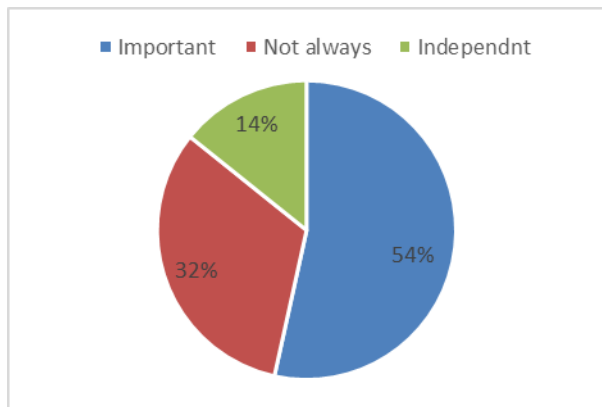


Figure 6: Respondent distribution based on desire in governmental institution guide for start own business

Figure 7 shows that 28 respondents (35.0%) had face any difficulties in the law during project beginning while 52 respondents (65%) did not face any difficulties in the law at project beginning.

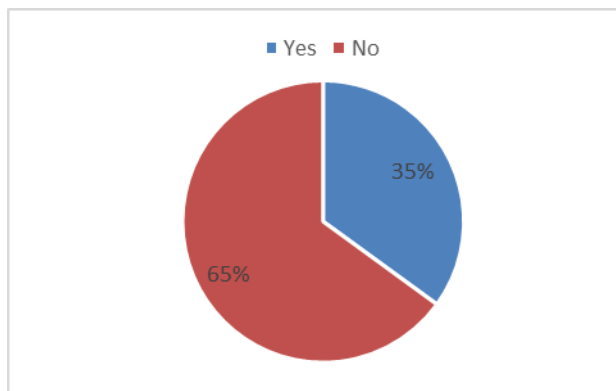


Figure 7: Respondent distribution based on any difficulties in the law during project beginning

Figure 8 shows that 71 respondents (82.6%) believed that their prior knowledge of laws and regulations help in the project successful and 15 respondents (17.4%) did not believed that prior knowledge of laws and regulations help in the project successful.

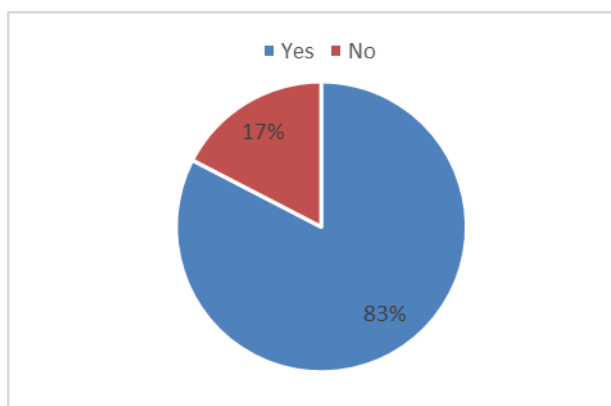


Figure 8: Respondent distribution based on knowledge on the laws and regulations to start business affected their work

Figure 9 shows that there were 75 respondents (90.4%) believed that government funding was important for projects emerging while 8 respondents (9.6%) believed opposite.

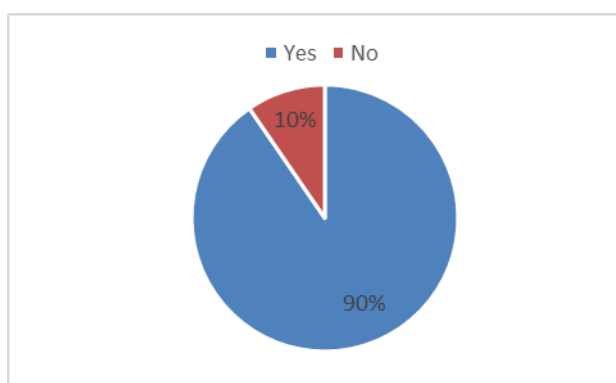


Figure 9: Respondent distribution based on belief need for government funding for project emerging

Figure 10 shows that 76 respondents (91.6%) believed that need training and guidance before started their projects while 7 respondents (8.4%) did not need training and guidance before starting their projects.

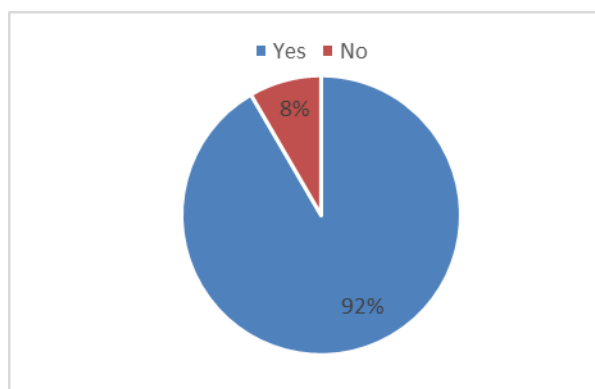


Figure 10: Respondent distribution based on need for training and guidance to start a project

Discussion

Small businesses are known by governments worldwide for their contribution to the economic stability and growth, employment and new job creation and social cohesion and development and a small business is especially important in developing countries [12-14]. This study conducted to assess the awareness of role of government in developing start up in Saudi Arabia.

The results showed low prevalence of private projects only 36.7% of the participants had their own projects and 76.4% of respondents did not spend a year yet at their businesses. The reason is due to the adoption of the Saudi economy on oil significantly and basically. So Saudi Arabia needs to diversify its economic base to ensure that it does not depend on one major source of revenue from oil and also to meet globalization because the failure rate of small businesses is high globally [15].

A study in Tanzania showed that 45.1% of small and medium enterprises holder more than four years [11]. A study in Nigeria reported that most of the small businesses have been in operation between 2-5 years and make up 46.6% of the small businesses owner sample [15]. Small and medium enterprises (SMEs) are essential for the economic stability of the country and act like a cushion to economic shocks. For example, during the economic recession of the past several years and the debt crisis in the euro zone, SMEs have retained their position as the backbone of the European economy. In Saudi Arabia, the Saudi government is doing a lot for the promotion of small entrepreneurship. Saudi Arabia Government has in the past invested so many efforts and resources in establishing policies intended to uplift entrepreneurship. Kingdom of Saudi Arabia in 2010 established a ten-year entrepreneurship efforts and innovation. The intention was a strategy to put the Kingdom at equal pedestal with high economic competitive nations globally [10].

Early recognition and understanding of risks of business failure are important for establishing, sustaining and growing a business. However, based on our results there is an urgent need in Saudi society for training or guidance to start private business, the results showed a lack of knowledge of the participants on start and run a special business. Meanwhile, “consult an advisory

governmental institution” did not play a significant role in guiding people how to run their business in the present study. It may be due bureaucratic regulations and routine procedure in governmental sector are delaying rendered services the public.

One of the main problems in small business promotion is the lack of capital and credit availability. Most participants in this study belief at the need for government funding for business emerging. It was suggested that governments should minimize the constraints on entrepreneurship. In this study, most of participants didn't face any difficulties in the laws at the start of their business. This is a good indication of the desire of the Saudi government for the development of small business.

CONCLUSION

In conclusion, there is no wide prevalence of small business in Saudi Arabia, as well as small business does not extend for long periods of time. Despite the lack of knowledge on how to start and run special business in the community, the government tries to play an active role in advising them among “Consult an advisory governmental institution”. There are not many legal difficulties faced by the people if want to start their own business that showed the affinity of government to develop the small business.

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