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Unlocking the potential of small and medium-sized enterprises in an emerging economy: A critical analysis of enablers and barriers

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Abstract

Small and Medium Enterprises are crucial to the socioeconomic development of nations. They contribute to employment generation, bolster local economies, and drive regional growth. Nonetheless, SMEs face numerous challenges. This study explores the prospects and challenges of SMEs in Saudi Arabia using a qualitative case study. Thirty semi-structured interviews and four focus group discussions were conducted with SME employees and owners, selected through convenience and snowball sampling. Thematic analysis revealed that SMEs create jobs, diversify the economy, and are involved in innovation and technological advancement. However, they face challenges, including administrative charges, bureaucratic hurdles, financial constraints, technological issues, inadequate staff development, and insufficient marketing information. The study recommends establishing a specialized SME bank or fund, simplifying regulatory procedures, and offering subsidies or tax breaks for digital transformation. These findings provide valuable insights into the role of SMEs in Saudi Arabia's economic transformation and offer recommendations for policymakers and industry stakeholders.

Keywords: Prospects, Challenges, Saudi Arabia, Small and medium-sized enterprises.

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1. Introduction

The critical role of small and medium-sized enterprises (SMEs) in the socioeconomic development of nations is well recognized. These enterprises are not only vital contributors to the economy but also unique and integral members of their communities [1, 2]. SMEs are particularly significant in job creation, accounting for approximately 60% of employment opportunities in the manufacturing sector [3, 4]. By driving local economic growth, they also contribute to regional

development and are key players in fostering innovation and creativity, which are essential for economic resilience and growth [5].

Globally, SMEs make up 90% of all enterprises and represent 99.41% of businesses in the private sector [2, 6]. In Canada, SMEs constitute 98% of all businesses, contributing nearly one-third of the country's GDP [5]. Similarly, in the United Kingdom, SMEs account for 99% of all businesses and provide 43% of private-sector jobs [7]. However, the situation in Saudi Arabia is different, where SMEs contribute only 20% to the GDP, reflecting an underexploited potential in the national economy [6].

SMEs in emerging economies face numerous challenges, including resource constraints and knowledge gaps, particularly in accessing investment opportunities, staff shortages [8, 9], ineffective strategic planning [10], inadequate education and training [11], and a reluctance among owners to delegate control. In Saudi Arabia, similar challenges prevail [7]. Additional hurdles include unemployment, insufficient training, the need for SME-specific legislation, and the slow adoption of technological innovations [7, 12].

Despite the rapid growth of SMEs in Saudi Arabia, research on this topic remains scarce [2, 13]. The limited empirical research is evident in the few published articles, with only 49 articles on SMEs among 33,000 journal publications as of 2018 [13], indicating limited knowledge and empirical gaps.

SMEs are crucial to the global economy, offering benefits such as job creation, innovation, increased competition [14, 15], and diversification of the economy [16]. However, their high failure rate is a pressing concern [17]. Given the Saudi Arabian government's Vision 2030 initiative to address unemployment, SMEs are poised to play a critical role in reducing national unemployment [7]. This study examines the enablers and barriers SMEs face in Saudi Arabia, shedding light on this under-researched context and contributing to the growing body of literature on SMEs.

2. Literature Review

The definition of SMEs is not universally agreed upon, and the criteria used to define them vary depending on the proponent and context [18]. According to Ardic, et al. [19] loan size, sales volume, and employee count are commonly used to define SMEs. In Saudi Arabia, SMEs are defined as businesses with independent commercial registration, fewer than 249 employees, and an annual turnover of less than SAR 200 million [7]. Various factors can influence this classification, including geographical location, size, structure, age, number of employees, ownership structure, and other regulatory frameworks [19, 20]. SMEs are typically characterized by limited capital, autonomy, and a capacity for multitasking [21] and represent the most common type of business structure globally [5].

Research consistently highlights the critical role of SMEs in socioeconomic development [22]. A key function of SMEs is job creation, often requiring a labor-intensive workforce [23]. SMEs contribute significantly to labor markets by absorbing labor and providing opportunities, especially for underrepresented groups such as women and youth, thereby enhancing social inclusion and reducing unemployment [3]. In developing countries, SMEs create most jobs and generate revenue opportunities [24]. They are also considered significant drivers of wealth, growth, and prosperity García-Cabrera, et al. [25]. Masroor and Asim [26] emphasize that wealthier nations have supported SMEs financially, enabling them to generate employment and accommodate a larger workforce.

SMEs also play a crucial role in poverty reduction [27]. This is evidenced by expanding local job opportunities, which can be further enhanced through government support and incentives. For example, China has successfully reduced poverty over the past two decades by promoting the growth of SMEs. The number of people living in poverty in China decreased from over 400 million in 2000 to 55 million in 2019 [28]. SMEs are also recognized as catalysts for innovation, driving technological advancement and productivity improvements [3]. Due to their flexibility and agility, SMEs can quickly adapt to changing market conditions, helping businesses remain resilient during economic uncertainty. According to Chege and Wang [29] SMEs significantly address national development issues in their home countries by empowering communities, generating income, and fostering employment and sustainability.

Despite these opportunities, research indicates that SMEs face various challenges. Access to finance is the most significant issue [30]. Many SMEs in developing countries fail due to a lack of funding [12]. Securing financing is crucial for a company's growth and survival, as it allows for operational expansion. Banks are SMEs' second-largest source of capital after self-funding [31]. However, obtaining bank loans is challenging for SMEs, often due to their inability to provide adequate collateral, high transaction costs, and difficulties establishing creditworthiness [32]. Additionally, the pre-screening methods, including minimum deposits, track records, collateral, and feasibility studies, hinder SMEs' ability to secure loans.

Further, SMEs face several operational challenges, including market internationalization, rapid economic changes leading to global downturns, and increasing competition among SMEs and business models [7]. These factors highlight the need for continuous evaluation of evolving customer demands and the swift pace of technological advancements [33]. Moreover, SMEs often struggle with a lack of skilled employees and a narrow managerial focus [23, 32]. Skill and training deficiencies are frequently referred to as resource poverty, as most SMEs lack the technical expertise and sufficient funding necessary for organizational planning and technical improvement [23]. Moreover, many SMEs cannot insulate business ownership and management, leading some scholars to argue that corporate governance principles do not apply to SMEs, compounding the challenges [32]. Against this backdrop, this study attempts to empirically examine the prospects and challenges of SMEs in Saudi Arabia to bring to the fore the peculiarities existing in Saudi Arabia.

2.1. Resource-Based View Theory

The Resource-Based View (RBV) theory is a widely accepted framework in strategic management and organizational studies. It posits that firms can achieve sustainable competitive advantage by leveraging unique resources and capabilities [34]. SMEs can apply this theory to examine the prospects and challenges in accessing and utilizing resources, such as financial capital, human capital, and technology. The RBV theory emphasizes the importance of valuable, rare, unique, and non-replaceable (VRIN) resources, including physical capital, human capital, organizational capital, and competencies [35]. Recent research has broadened the RBV framework to include three types of strategic resources: physical, human, and organizational resources [36]. Studies have shown combining multiple resources can lead to sustained competitive advantage [37]. The dynamic capabilities extension of the RBV theory highlights the importance of reorganizing and modifying resources in rapidly changing environments [38]. This perspective has been applied to digital transformation [39] and emphasizes the efficient use of limited resources for SMEs' survival and growth [40]. While the RBV theory has been criticized for its static nature and challenges in quantifying VRIN resources [41] it remains a valuable framework for understanding how SMEs generate long-term competitive advantages. Therefore, this study uses the RBV theory to comprehend how SMEs leverage their distinct resources to generate sustained competitive advantages in complex environments.

3. Research Methodology

3.1. Research Design and Approach

A qualitative research approach was adopted to explore the phenomena in-depth, allowing for a nuanced understanding of the experiences and perspectives of respondents [42]. This study views reality as subjective, influenced by how individuals interpret their motivations and actions [43]. The qualitative method was selected for its ability to uncover deeper insights and provide a rich analytical context beyond surface-level responses [42]. It is particularly suited for this research as it offers a comprehensive view of events within their natural, real-life setting [44].

The case study design was chosen for its ability to provide detailed insights into a phenomenon within its real-world context, facilitating theory development and empirical description [45]. This design thoroughly explored the unique conditions and experiences of SMEs in Saudi Arabia [46]. By collecting and analyzing data from SME owners and employees, the case study approach allowed for a rigorous examination of real-world challenges [46]. Case study research is ideal for answering "how" and "why" questions, particularly in situations where the researcher has little control over the events being studied [46].

3.2. Population and Sampling

The population for this study included all SMEs in Saudi Arabia. The research involved thirty semi-structured interviews and four focus group discussions (FGDs) with twenty-four SME owners and six employees. Participants were selected using convenience and snowball sampling methods. Convenience sampling was employed to select participants who were readily accessible to the researchers [45]. This approach effectively engaged participants who were available and willing to provide valuable insights. Initially, sixty SMEs were invited to participate, but only six consented due to ethical considerations. Snowball sampling was utilized to expand the sample, with these initial participants helping to identify additional SMEs that met the study's criteria [47]. This strategy allowed the researchers to reach an additional eighteen SME owners and six employees, resulting in thirty semi-structured interviews and four FGDs. The sample size was consistent with the recommendations of Marshall, et al. [48] and Creswell [49] who suggested 15-30 interviews for qualitative research.

3.3. Data Collection and Analysis

The study began with a pilot phase involving two FGDs in Medina to gather preliminary insights into the opportunities and challenges faced by SMEs in Saudi Arabia. The findings from these FGDs informed the development of interview questions for the subsequent data collection phase. After obtaining ethical approval, the researchers collected the primary data, which included two additional FGDs with five participants each. FGDs were chosen for their ability to capture diverse perspectives through group interactions, thus minimizing individual bias. These discussions provided valuable insights into the daily challenges and opportunities SMEs encounter. Following the FGDs, twenty-four SME owners and six employees participated in semi-structured interviews. The study adhered to the theoretical saturation model [45] continuing to recruit participants until no new information emerged. The interview guide facilitated a deep exploration of participants' responses, providing a comprehensive understanding of SMEs' issues [49]. The participants, selected through purposive sampling, were knowledgeable about the study's focus, ensuring their responses were relevant and insightful [50]. Purposive sampling is particularly useful in qualitative research when selecting individuals with specific expertise related to the phenomenon under study [51]. Each interview and FGD was audio-recorded and lasted approximately fifty minutes.

The recorded interviews and FGDs were transcribed, and a micro-analysis was performed to identify recurring themes. The analyses were shaped by both the literature and the research aim. The literature informed key concepts that structured the scientific approach, while the research aim provided coherence and consistency in data analysis and interpretation. Following Miles and Huberman [52] recommendations, the data were coded to identify and describe patterns and themes from the interviewees' perspectives, highlighting the opportunities and challenges facing SMEs in Saudi Arabia. The authors were guided by the ethical issues concerning informed consent, voluntary participation, confidentiality and participation anonymity, and translations from English to Arabic. Consent was obtained from the owners and managers of SMEs involved in the research before proceeding.

4. Research Findings

4.1. Prospects of SMEs in Saudi Arabia

4.1.1. Employment Creation

SMEs play a vital role in global job creation, accounting for nearly two-thirds of employment worldwide. In Saudi Arabia, SMEs also contribute significantly to employment, a trend confirmed by several interviewees in this study. One respondent (O3) highlighted the growing job opportunities within SMEs, noting:

"There are now more job opportunities within SMEs. Previously, SMEs had only 5 to 6 roles, but now more specialized jobs, such as branding, have emerged, creating positions we never imagined before."

SMEs effectively employ workers from underrepresented groups, such as lower-skilled, younger, and older individuals, who may otherwise struggle to find jobs. In Saudi Arabia, much of the labor force comprises foreign workers, especially in labor-intensive sectors. These foreign workers, predominantly from Asian countries, fill roles where Saudi nationals are less present, while Saudis tend to occupy senior managerial or public sector positions. This imbalance has led to the government's Saudization initiative, which aims to increase Saudi participation in the private sector. However, the initiative faces cultural and practical challenges.

One challenge noted by respondent O5 is the lack of preparedness among Saudi nationals for private-sector roles:

"Saudization is important, but there should be a better strategy for training nationals. I don't have time for extensive training. I need someone who is ready and knowledgeable, not someone who requires much guidance."

Other respondents echoed this sentiment, particularly in sectors like construction, where jobs are demanding and lower-paid. Respondent O13 pointed out the reluctance of Saudi nationals to accept such roles, which creates a gap often filled by foreign labor. This gap highlights the practical difficulties of implementing Saudization in labor-intensive industries.

Despite these challenges, SMEs are seen as potential employers for recent Saudi graduates, aligning with the objectives of Saudization. However, economic pressures make hiring non-nationals more appealing to some businesses. Respondent O17 explained the dilemma many SME owners face:

"If I don't focus on profit, I can create more jobs for nationals. However, employing non-nationals is cheaper, and it increases my profitability."

To address the skills gap and support Saudization, some SMEs are taking proactive steps to prepare Saudi nationals for roles within their businesses. Respondent O2 described the efforts being made in this regard:

"We prioritize hiring nationals. Whenever possible, we replace non-national employees with locals. We also hold regular meetings to explore new ideas on promoting Saudization."

SMEs are critical drivers of employment, but the findings from this study indicate that more must be done to encourage the hiring of Saudi nationals. Financial and social incentives could motivate SMEs to prioritize local talent over foreign labor. Additionally, while SMEs are responsible for creating jobs, respondents suggested that government agencies must play a more active role in providing qualified candidates through enhanced training and education programs.

4.1.2. Supports Through Economic Diversification

Saudi Arabia's effort to diversify its economy is driven by SMEs, which contribute to non-oil GDP. The government has introduced several initiatives, such as the State Program for Supporting SMEs, aiming to accelerate socio-economic development, promote private sector growth, and enhance the global competitiveness of SME-produced goods and services. One of the flagship projects under the Vision 2030 initiative is the Hadaf Fund, designed to target export-oriented SMEs, diversify foreign currency earnings, and bolster Saudi Arabia's overall economic resilience.

Respondent O2 acknowledged the presence of these financial programs, emphasizing that they are accessible to SMEs. He remarked:

"Yes, there is support in the form of funds called Hadaf, meaning 'goal.' This initiative helps us, especially when dealing with challenges from the Ministry of Trade or financial crises. It enables us to expand operations and increase exports, which is beneficial."

In addition to Hadaf, other financial schemes support SME expansion in key sectors such as manufacturing, construction, and agro-processing. The government provides loans for equipment acquisition, further advancing its diversification goals. Respondent O13 highlighted the impact of this support, noting:

"We are happy to receive the assistance and will support the government's efforts to diversify the economy and create jobs."

The government's focus on job creation and promoting Saudization has also been crucial. An SME owner and manager (O17) shared how financial support allowed them to expand their business and employ more Saudi nationals. He explained:

"I received funds to grow my business. The Ministry of Human Resources and Social Development offers additional incentives, like reducing fees for non-national employees if you employ Saudis. This helps promote economic growth and reduces our dependence on oil exports."

Furthermore, various respondents have acknowledged SMEs' pivotal role in the Saudi economy. O4 pointed out that SMEs account for 80% of the Kingdom's economy and emphasized their distinct role compared to multinational enterprises (MNEs). While MNEs often repatriate profits, SMEs reinvest in the local economy, creating jobs and stimulating regional development. O4 commented:

"SMEs constitute 80% of the GDP and support the local economy in ways MNEs cannot. Unlike MNEs, which calculate everything from a financial perspective, we contribute to the country's growth. This should catch the government's attention."

SMEs act as catalysts for innovation, job creation, and increased productivity, essential for sustainable development.

4.1.3. Innovation and Technological Advancement

In Saudi Arabia, SMEs are at the forefront of innovation, particularly in the tech sector. Their agility enables them to swiftly adopt new technologies, positioning the Kingdom as a potential regional tech hub. In today's digital world, technological innovation is crucial for SME growth, boosting their local and global competitiveness. Respondent O15 emphasized the positive impact of technology.

"We are embracing technology, which opens doors for nationals, especially in digital marketing. Firms like Google, Snapchat, and TikTok have made advertising more accessible and efficient."

Technological advancements enhance SME competitiveness and contribute significantly to economic growth by increasing efficiency, reducing costs, and raising productivity. This, in turn, generates jobs and improves living standards. As respondent O22 noted:

"Now everything is online. Obtaining licenses, for instance, is much easier compared to before."

Respondent O29 also highlighted:

"Unlike previously, processes like applying for licenses or commercial records are now done online in minutes."

Moreover, technology has opened new markets for SMEs, allowing them to expand beyond local boundaries. To remain competitive globally, SMEs must embrace technological innovation. Public policies and private investments play a key role in fostering this shift. As respondent O15 explained:

"Investing in advanced technology helps me better understand my clients' needs, streamline supply chain management, and increase customer satisfaction."

Technological innovation offers opportunities for SMEs to enhance operational efficiency and explore new markets. Respondent O3 stated:

"Investing in innovative technology has increased my market reach, improved cash flow, and enhanced customer satisfaction. Digital marketing tools like social media allow us to reach a broader audience."

For SMEs to thrive in today's fast-paced business environment, continuous innovation is essential. It enables them to differentiate themselves from competitors and deliver new value to customers.

4.1.4. Promote Entrepreneurial Culture and Regional Development

The rise of SMEs fosters an entrepreneurial culture and inspires more Saudis to launch businesses. SMEs are central to the country's efforts to reduce its reliance on oil, with potential growth in non-oil sectors such as tourism, manufacturing and technology. A strong entrepreneurial culture plays a crucial role in the spread and success of businesses. Societies cultivating this culture tend to achieve greater economic development, as entrepreneurial traits such as creativity, risk-taking, and innovation drive the economy forward. Respondent O16 emphasized the personal traits necessary for entrepreneurial success.

"To succeed as an entrepreneur, traits like innovation, creativity, self-confidence, and a willingness to take risks are crucial. These qualities have helped me run several SMEs for years."

In addition to personal traits, industry knowledge and expertise are critical for entrepreneurship. Understanding market dynamics and having effective managerial skills can distinguish between success and failure in a competitive environment. Respondent O3 highlighted the importance of continuous learning and adaptability.

"I need up-to-date knowledge and strategy to keep my business competitive. The market changes rapidly, and staying profitable is becoming more challenging."

External factors like family, education, and societal norms shape entrepreneurs. In Saudi Arabia, family support is a key factor in SME development. As one respondent (O16) explained:

"I started my SME with the support of my brothers. In wealthy families, financial backing is often provided at the start of a business. On the other hand, low-income individuals may struggle to launch businesses due to a lack of resources."

Cultural norms in patriarchal societies also play a role, with strict family control often influencing entrepreneurial behaviors. However, the desire for independence and the ambition to start one's own business are essential drivers of entrepreneurship in Saudi Arabia.

SMEs are critical for economic diversification and contribute significantly to regional development. They reduce regional economic disparities and foster more balanced growth by creating opportunities in rural areas and smaller cities. Entrepreneurship drives innovation, competitiveness, and productivity, generating jobs and supporting regional economic expansion. Respondent O12 explained the role of SMEs in economic flexibility and innovation.

"SMEs enhance the economy's flexibility, reduce monopolies, and drive scientific and technological advancement. Regional business development is essential for achieving broader national economic growth."

SMEs also address socio-economic challenges such as unemployment and poverty by creating new jobs, introducing innovations, and contributing to regional economic stability. As they diversify economic activity across regions, SMEs help reduce territorial monopolies and stimulate local economies. In this way, SME development contributes to global and local economic progress.

The experience of industrialized countries demonstrates that SME growth can become a significant factor in economic stability. In developed nations, SMEs account for 50 to 70 percent of GDP, proving their importance to national economies. In Saudi Arabia, the growth of SMEs is expected to have similar outcomes, contributing significantly to GDP and playing a crucial role in regional and national economic development. Respondent O12 noted:

"The development of regional businesses is key to ensuring balanced economic growth, as national growth depends on strong local economies."

SMEs in industrialized economies also support entrepreneurship and innovation, helping to lower poverty and reduce income inequality. Saudi Arabia's SME sector is poised to drive similar changes, especially as national pride and a sense of responsibility motivate SME owners to create jobs and contribute to the country's socio-economic development.

In conclusion, Saudi Arabia's promotion of SMEs is vital for employment generation, economic development, diversification, regional development, and entrepreneurship. Entrepreneurial traits such as innovation, creativity, risk-taking, and the support of family and cultural values play a pivotal role in SME success. With continued government and private sector support, SMEs will play an increasingly significant role in Saudi Arabia's economic future, particularly in realizing the country's Vision 2030 goals.

4.2. Challenges Faced by SMEs in Saudi Arabia

4.2.1. Fees and Fines

A significant challenge for SMEs in Saudi Arabia is the increasing burden of taxes, fees, and fines imposed by various government bodies, including the General Authority of Zakat, the Ministry of Labour, and the Ministry of Commerce. These financial obligations create substantial difficulties, impacting daily operations and leading to stress and financial strain. Many SME owners and employees have expressed concerns about the unpredictability of these fines, which often seem to be imposed without warning, hindering their growth. As one respondent (O1) observed:

"The barriers are the harassment from the Ministries. They ask us about [Zakat] Islamic, Council, and Ministry of Labour's fees. In the last two years, the council introduced a levy called [ijazah], a monthly fine for going against their rules. You get a fine and can't contest it."

These fines are often so high that they erode SME profitability, with little recourse for challenging them. Another respondent (O4) expressed frustration:

"The most difficult aspects are the fees from the Ministry of Labour [Maktab Alamal] and the fines imposed by the council, which are exceedingly high."

Respondents also highlighted the perceived inequity in enforcement, where government staff face no penalties for mistakes, while businesses are quickly fined for infractions. As respondent O8 observed:

"There should be rules for both SME owners and government staff. Government staff don't face punishments for being wrong, but if I get fined, even when not mistaken, it affects my business."

4.2.2. High Operating Expenses

High operating costs are another significant barrier for SMEs. Respondents emphasized that rising costs of resources and rent, combined with fines and regulatory burdens, place immense financial pressure on them. Government policies that do not differentiate between SMEs and multinational enterprises (MNEs) are also criticized. Given their smaller size and lower profit margins, respondents argued that SMEs should not bear the same financial burdens as MNEs.

Respondent O19 highlighted the impact of these excessive expenses:

"I wish authorities would view SMEs differently from MNEs. SMEs make less money, and the financial strain has forced most to either cease operations or struggle to improve."

Similarly, another respondent (O26) observed:

"Most people have closed their businesses due to the high expenses..."

This situation has led to calls for government support to help SMEs compete with larger firms. Respondent O17 suggested:

"The councils should support SMEs by renting business premises or shouldering part of the cost. An SME cannot compete with MNEs. If the city council has a place to rent, I can only afford 20,000 Saudi riyals, but if Starbucks offers 50,000, the authorities should not compare SMEs to large firms."

4.2.3. Market Understanding and Competition

SMEs in Saudi Arabia also struggle with understanding and penetrating markets, competing against large corporations and family-owned conglomerates that dominate various sectors. These larger entities often benefit from economies of scale, established brand recognition, and better access to resources. SMEs also face challenges in competing with imported goods and have limited access to government contracts, which often favor larger companies. The lack of infrastructure and protection for SMEs, compared to MNEs, exacerbates these difficulties. Government policies and regulations often intensify these challenges. As one respondent (O14) noted:

"I face difficulty marketing my products as an SME. If I had expertise in marketing or someone to help, it would boost my business."

Another respondent (O24) highlighted the disparities between SMEs and MNEs in terms of marketing and purchasing power:

"Big companies have more exposure and can penetrate other markets, while we [SMEs] are small and invisible. Our purchasing power is different, especially with constantly increasing prices."

The COVID-19 pandemic exacerbated these challenges, with lasting impacts on SMEs. Even though the pandemic occurred years ago, its effects linger, particularly regarding rent and contract policies. As one respondent (O3) opined:

"After the coronavirus, there is an item in contracts called catastrophes/crisis times fees. This is embedded in all rents and contracts and affects us significantly."

4.2.4. Navigating Bureaucratic Processes

Navigating government bureaucracy presents another major challenge for SMEs. Obtaining the necessary licenses and permits often involves dealing with multiple government authorities, which can be time-consuming and complex. Frequent changes in regulations create uncertainty and increase compliance costs, making it difficult for SMEs with limited resources to keep up. These challenges can significantly impact their operations and profitability. Respondents expressed frustration with the constant introduction of new rules and regulations. While initially perceived as supportive, these reforms often complicate obtaining the necessary legal documents to operate successfully. As one respondent (O23) stated:

"What affects us most are the rules and regulations. We have new rules coming in every month. You have to learn, change, and implement them in your business. However, it's challenging for SMEs as they need more resources to implement these constantly updated regulations."

This challenge is compounded by the need to interact with multiple government agencies with different or sometimes contradictory mandates. This complexity leads to significant frustrations, particularly for new SMEs. As respondent O16 explained:

"There are many procedures to follow, and for new SMEs, these processes greatly affect us. Before starting your SME, you must deal with 7 or 8 different government entities."

Additionally, some respondents described harassment from government agencies. For instance, respondent O5 shared:

"I face much harassment from governmental organizations. Councils have become strict with unnecessary things, and the Saudi Food and Drug Authority got involved in areas beyond their jurisdiction. The Ministry of Human Resources and Social Development also harasses us, requiring a national presence in every SME. If they don't find Saudi citizens in your business, you're fined 20,000 riyals. This harassment from government agencies hinders our progress."

4.2.5. Challenges of Non-Nationals Owning SMEs

Meeting Saudization criteria is challenging for SMEs, especially in industries requiring specialized skills. The financial burden of hiring Saudis strains SMEs, compounded by a mismatch between workforce skills and job requirements, necessitating additional training. Balancing Saudization with the need for specialized knowledge is difficult. A significant issue is the dishonesty of some Saudis who collaborate with non-nationals to run SMEs under the guise of being Saudi-owned, exacerbating local competition and hindering business growth. As respondent O6 remarked:

"Some Saudis are opening businesses for non-nationals under their names... Tackling this cover-up will make young Saudi businesses succeed."

This dishonest practice harms young Saudi entrepreneurs, with up to 90% of SMEs in Saudi Arabia believed to be "cover-ups." Another respondent (O31) added:

"The government has targeted undercover non-nationals and now allows them to register as non-national business owners."

Due to its legislation, Saudi Arabia is unique in the issue of "cover-up" SMEs, which complicates business establishment without a sponsor. Although recent changes have been made, the problem persists and may take years to resolve fully.

4.2.6. Market Education

SMEs often struggle to align their needs with the skills produced by the educational system. Many Saudis prefer public sector jobs, making it difficult for SMEs to attract and retain talent. Employing foreign workers is costly and legally complex, and SMEs often lack the resources for training, which impacts competitiveness. Respondents highlighted the need for better education and training for small business owners and managers to adapt to market changes. Respondent O2 noted:

"We need immediate follow-up on market developments to update our policies."

There is a clear demand for government-supported training programs to help SMEs navigate the market, as respondent O3 suggested, emphasizing the need for continuous market awareness by averring that:

"I need support with a strategy to create a good business environment. Things can change quickly, making it more difficult to remain competitive."

The Vision 2030 reforms have further complicated the market landscape for SMEs, underscoring the need for more support in market education. Government-backed training initiatives could help SMEs develop successful strategies and remain competitive.

4.2.7. Financial Support

Securing funding is a significant challenge for SMEs, as bank lending criteria are stringent. Many SMEs lack the credit history or collateral needed for loans, and interest rates are typically higher than those for larger enterprises. The limited alternative funding sources further constrain SME growth. Financial support was a recurring theme in the interviews, with many respondents expressing dissatisfaction with its availability and accessibility. Respondent O1 remarked:

"The government doesn't give us anything but takes from us."

Others echoed this sentiment, noting the complexity of obtaining financial support and the stringent criteria required. Respondent O9 highlighted challenges in the construction industry:

"There is no financial support for our type of SMEs..."

Some respondents were aware of specific funding initiatives, such as Hadaf, which supports SMEs that employ nationals. However, most found funding to be challenging and unsuitable for their needs.

In sum, while government initiatives like Saudization offer potential benefits, the overall complexity and difficulty in accessing financial support remain significant barriers to SME growth in Saudi Arabia.

5. Discussion and Conclusion

SMEs are increasingly pivotal in Saudi Arabia's dynamic economic transformation. This evolution aligns with the Kingdom's Vision 2030, which seeks to invigorate the private sector and reduce the nation's dependence on oil revenues [7]. As engines of economic diversification, SMEs hold the potential to significantly contribute to non-oil GDP by fostering growth in sectors such as manufacturing, tourism, healthcare, and technology. Studies by Damoah and Peprah [22] and Abed [2] reinforce these findings, highlighting the critical role of SMEs in economic growth and diversification.

The role of SMEs in job creation is particularly significant, offering employment opportunities that align with the Saudization strategy, especially for women and the youth. This finding supports existing literature [3, 4]. This helps reduce unemployment rates and supports a more inclusive workforce across various sectors [3]. Additionally, SMEs are at the forefront of driving innovation in Saudi Arabia, particularly within the technology sector, where their agility in adopting new technologies could position the Kingdom as a regional tech leader. These findings are consistent with Wright and Zhao [1] and OECD [3] who concluded that SMEs drive innovation, technological advancement, and productivity. Expanding the SME sector also nurtures an entrepreneurial spirit across the country, inspiring more individuals to start businesses and stimulating economic activity. Furthermore, SMEs contribute to more balanced regional development by creating opportunities beyond major urban centers, helping to address regional economic disparities [29].

However, the SME sector in Saudi Arabia faces several formidable challenges. A key issue is the limited access to capital, as traditional financial institutions often classify SMEs as high-risk, leading to restrictive lending conditions and elevated interest rates [30]. The complexity of regulatory compliance is another barrier, with cumbersome bureaucratic procedures and frequent regulatory shifts diverting resources from core business activities [7]. There is also a notable skills gap, with a mismatch between the expertise required by SMEs and the skills produced by the current educational system [23]. This gap is further widened by the challenges SMEs face in attracting and retaining qualified Saudi nationals while adhering to Saudization policies [7].

In addition to these hurdles, SMEs face stiff competition from large enterprises and imported goods, which can limit their market opportunities and access to lucrative government contracts [7]. Despite the advantages of digital technologies, many SMEs struggle with the costs and expertise needed for effective digital transformation and are also vulnerable to cybersecurity threats [7]. A conservative business culture and a societal preference for public-sector employment further constrain SME growth and innovation.

The interplay between the opportunities and challenges facing SMEs in Saudi Arabia is complex and interdependent. While SMEs can potentially drive job creation, they often encounter difficulties sourcing and retaining the skilled labor necessary to sustain their operations [7]. Similarly, although SMEs are well-positioned to foster innovation, their limited financial resources frequently curtail their ability to invest in research and development [3]. In this context, government intervention is crucial to unlocking the full potential of the SME sector.

In summary, Saudi Arabia's SMEs occupy a critical position in the nation's economic landscape. Their alignment with the Vision 2030 goals underscores their potential to drive economic diversification, job creation, and innovation. However, realizing this potential requires a concerted effort to overcome significant challenges. A more robust financial ecosystem tailored to the needs of SMEs is essential, potentially through government-backed loan guarantees, targeted venture capital, and alternative financing mechanisms. Simplifying bureaucratic processes and ensuring a stable regulatory environment would enable SMEs to concentrate on growth rather than compliance.

Addressing the skills gap through targeted educational reforms and training programs aligned with labor market needs is imperative. Furthermore, initiatives that support digital transformation and enhance cybersecurity capabilities will be vital in maintaining SMEs' competitiveness and innovative capacity. Cultivating a culture of entrepreneurship and risk-taking, and promoting entrepreneurship as a viable and attractive career path, is crucial for the long-term success of SMEs. Additionally, facilitating greater access to export markets and government contracts could substantially increase the growth potential of the SME sector.

The future success of Saudi Arabia's economic reform efforts is closely linked to the performance of its SMEs. While the challenges are significant, the opportunities are equally promising. A collaborative approach involving the government, private sector, and academia must empower SMEs to become the foundation of a dynamic, innovative, and prosperous Saudi economy. The development of SMEs in Saudi Arabia is not just a reflection of the country's economic aspirations but a key driver of its broader social transformation. The Kingdom's ability to achieve its Vision 2030 objectives and beyond will largely depend on its capacity to navigate these challenges and harness the opportunities that lie ahead.

6. Recommendations

Based on the analysis of the prospects and challenges for SMEs in Saudi Arabia, the following recommendations are proposed to enhance the growth and sustainability of SMEs, aligning with the Kingdom's Vision 2030:

First, establish a dedicated SME bank or fund that offers specialized financial products tailored to SMEs' needs. To reduce lender risk, implement government-backed loan guarantee programs. Additionally, develop alternative financing sources, such as peer-to-peer lending and crowdfunding platforms, to provide SMEs with diverse funding options.

A single point of contact should also streamline the process for SME registration, licensing, and compliance. A regulatory impact assessment system should be established to evaluate how new laws affect SMEs. Moreover, an "SME Test" should be introduced for any proposed legislation to ensure that small businesses are not disproportionately impacted. The

educational curriculum should also be aligned with the needs of SMEs, emphasizing entrepreneurship and practical skills development.

Again, subsidies or tax incentives for SMEs investing in digital transformation are needed. Technology adoption centers that provide access to advanced technologies at affordable rates and offer specialized cybersecurity support services for SMEs should be established. A nationwide program should be developed to train SME owners and employees in essential digital skills.

The government should implement a quota system that allows SMEs to participate in bidding for public contracts. It should also provide export assistance services, including market analysis and facilitation of international trade. Additionally, it should develop an e-commerce platform specifically designed to enhance SMEs' market reach.

Finally, the government should integrate entrepreneurship education into school curricula early and launch a national campaign to raise awareness about entrepreneurship. Creating mentorship programs that connect SME owners with experienced business leaders to foster knowledge exchange and support.

Coordinated efforts among various government agencies, private sector stakeholders, and educational institutions are essential to effectively implement these recommendations. The success of these initiatives will largely depend on continuous evaluation and adaptation based on feedback and evolving market conditions.

Future research may investigate the full effects of the current and future reforms not only in Saudi Arabia but also in other states. Longitudinal studies that interview the same cohort of SME owners, managers, and employees may benefit from comparing and understanding the reforms' long-term effects. The role of women in SMEs could also be investigated.

7. Implications of the Study

The findings of this study offer critical insights into the role of SMEs in Saudi Arabia's economic transformation and provide actionable implications for policymakers, industry stakeholders, and educational institutions. The successful integration of SMEs into the broader economic fabric is vital for realizing the ambitious targets in Vision 2030. This study's implications are multifaceted, addressing economic policy, social equity, educational reform, technological advancement, and collaborative governance.

First, the study highlights the urgent need for targeted economic policies that support SME growth. Creating specialized financial institutions and implementing government-backed loan guarantees are essential for mitigating the financial constraints that SMEs face. By simplifying regulatory processes and reducing bureaucratic burdens, policymakers can create a more conducive environment for SME operations. These interventions are crucial for enhancing the contribution of SMEs to non-oil GDP, thereby advancing the Kingdom's economic diversification agenda.

Again, the growth and empowerment of SMEs have significant social implications, particularly in promoting inclusive economic development. SMEs are positioned to be key players in job creation, especially for women and youth, which aligns with Saudi Arabia's Saudization objectives. Additionally, by fostering SME growth in less developed regions, the study implies a pathway toward reducing regional inequalities and promoting balanced economic development across the country. Nurturing an entrepreneurial culture from a young age also suggests a shift in societal norms, encouraging innovation and self-reliance among future generations.

Further, the study underscores the need for educational reforms that align with the evolving demands of the SME sector. This involves integrating entrepreneurship and practical skills into the educational curriculum, thereby better preparing the workforce to meet the needs of SMEs. Such reforms are essential for addressing the existing skills gap and fostering a mindset of adaptability and continuous learning, which are crucial in a rapidly changing global economy. The study's recommendations suggest that a more responsive educational system will be instrumental in supporting the sustainable growth of SMEs.

Moreover, the study emphasizes the necessity of a collaborative approach to SME development, involving coordinated efforts from government agencies, private sector stakeholders, and educational institutions. The successful implementation of the study's recommendations requires ongoing dialogue and partnership among these entities, ensuring that policies and programs align with SMEs' real-time needs. Additionally, the study implies the need for continuous monitoring and evaluation mechanisms, allowing for the adaptive management of SME support initiatives in response to changing economic conditions.

Finally, the study's findings have strategic implications for the broader Vision 2030 initiative. SMEs are pivotal to achieving the vision's economic diversification, innovation, and social development goals. The practical support and development of the SME sector will be instrumental in reducing the Kingdom's reliance on oil revenues and building a more resilient and diversified economy. The study implies that by addressing the identified challenges and implementing the recommended strategies, Saudi Arabia can significantly advance towards its Vision 2030 objectives, fostering a more dynamic and sustainable economic future.

The implications drawn from this research underscore the importance of targeted interventions across economic policy, social inclusion, education, technology, and collaborative governance. These interventions are essential for unlocking the full potential of SMEs, thereby driving Saudi Arabia's progress towards a diversified, innovative, and inclusive economy.

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