

# Critical success factors for small businesses in the Kingdom of Saudi Arabia (KSA)

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**Abstract.** Small and medium-sized enterprises (SMEs) play a vital role in the economic progress of any country because they are the backbone of development. They create job opportunities for the citizens and contribute to a country's GDP. In the past, SMEs in the Kingdom of Saudi Arabia were hindered by various factors, including limited access to appropriate sources of funding, harsh regulations, slow digitization, and poor skills and experience by entrepreneurs. However, the government's efforts to diversify the Kingdom's economy, which for a long time depended on oil, have overturned these limitations into success factors. Therefore, the critical success factors for small enterprises in Saudi Arabia, as discussed in this paper, include increased access to funding, reformation of complex regulatory procedures, technological advancement, and entrepreneurial training and mentorship.

**Keywords:** Small and medium-sized enterprises (SMEs), KSA, GDP, Employment opportunities, economy.

## 1 INTRODUCTION

Small and medium-sized enterprises (SMEs) play a significant role in the contemporary business world as they create job opportunities, generate revenue, and contribute to economic growth and diversity. According to Gherghina et al. (2020), formal SMEs contribute up to 40% of the GDP and up to 60% of job opportunities in emerging economies, and these numbers are estimated to rise if these economies consider the informal sector. In the Kingdom of Saudi Arabia, SMEs contribute approximately 20% of the country's GDP compared to 70% in more advanced economies. The SME Authority (SMEA), a government agency established in 2015 to promote small businesses in KSA, cites that many SMEs in KSA are inhibited by limited access to commercial finance, slow digitization, and complex regulatory procedures (Al-Tit et al., 2019). The agency aims to empower SMEs in KSA in line with the Vision 2030 agenda to boost SMEs to create job opportunities and boost the Kingdom's GDP by increasing their access to commercial financing from 5% to 20% by 2030. In addition, the government has implemented various initiatives to transform the SME sector in Saudi Arabia, including opening Monsha'at support centers to train, mentor, and advise SMEs and entrepreneurs and formulating new regulations. To this end, the critical success factors for small enterprises in Saudi Arabia include increased access to funding, reformation of complex regulatory procedures, technological advancement, and entrepreneurial training and mentorship.

## 2 INCREASED ACCESS TO FUNDING

Increased access to appropriate financing has played a critical role in the creation, survival, and growth of SMEs in KSA. Under Vision 2030, the Kingdom of Saudi Arabia plans to ensure that the contribution of SMEs to the Kingdom's GDP increases from the current 20% to at least 35% (Al-Tit et al., 2019). To do this, the government plans to facilitate SMEs' access to funding by

encouraging banks and other financial institutions to allow up to 20% of their loans. Banks and other financial institutions in KSA allocate only 5% of overall loans to SMEs. Thus such an initiative will increase their financial access, which is critical for their growth. Increased access to funding will allow more entrepreneurs to innovate, expand to new markets, improve efficiency, and provide job opportunities to millions of people in KSA.

Additionally, the KSA government established the Saudi Industrial Development Fund (SIDF) to support SMEs in numerous areas, including food and beverages, wood, textiles, furniture, plastics, and petroleum products (Narayanan, 2022). The SIDF offers mid-term and long-term loans to entrepreneurs wishing to start small businesses in the local industrial sector, promoting innovation and creating industrial investment opportunities for local entrepreneurs. In 2020, the SIDF provided \$4.5 billion to support small businesses and help them cope with the effects of the COVID-19 pandemic (Narayanan, 2022). As a result, SMEs contributed approximately \$57 billion to Saudi Arabia's economy in 2020, equivalent to 20% of the GDP. In line with Vision 2030, the SIDF aims to continue supporting SMEs in the local industrial sector by providing financial aid to ensure they keep up with the latest developments.

Furthermore, the Saudi Credit and Savings Bank (SCBS) is a monumental government entity that gives KSA citizens access to development loans to increase their contribution to the Kingdom's economic progress. The SCBS fosters the success of SMEs in KSA by providing loans to small businesses and entrepreneurs at reduced interest to encourage them to start businesses in different industries (Narayanan, 2022). Also, the bank offers interest-free loans to low-income individuals to help them venture into business and uplift their well-being.

### **3 TECHNOLOGICAL ADVANCEMENT**

SMEs play a significant role in developing countries' economic progress, and they are essential at both micro and macro levels. According to Gherghina et al. (2020), SMEs are the cornerstone of development because they create massive employment opportunities and substantially contribute to a country's GDP. As such, they must incorporate the latest technologies to increase their efficiency and velocity, improve customer experiences, transform internal business models, and increase their competitive edge. According to Georgios et al. (2019), advanced technologies such as the Internet of Things (IoT) have resulted in the collaboration of people and machines to communicate, making the digitization of business a global interest. SMEs worldwide recognize that their competitors are using more digitized processes to transform their businesses. In light of this, SMEs in KSA can digitize their business processes to increase their revenue, innovation, efficiency, and competitiveness. A KPMG report published by Arab News maintained that SMEs in KSA should utilize third parties to expedite digitization to be able to access sufficient technical skills and experience needed to establish new digital solutions to their problems (Narayanan, 2022).

Technological innovation is a notable area of focus in KSA. A recent media report by Arab News maintained that global brands such as Snap and Google are interested in investing in KSA (Georgios et al., 2019). Meanwhile, the KSA is fervent in leveraging the benefits of technological innovations in diverse areas, including education and logistics. With advanced research and technology centers such as King Abdulaziz City for Science (KACST) and underway plans for NEOM, a technology-based mega-city, SMEs in KSA have a massive potential for growth. For instance, KACST launched the BADIR program in 2007 to support technology-based small businesses and facilitated technological innovation (Narayanan, 2022). Specifically, the program seeks to develop and activate technical business incubators to foster entrepreneurship and transform research and technical projects into adequate business opportunities. Also, the BADIR program focuses on supporting and encouraging innovation,

entrepreneurship, and technology business incubators by providing a conducive environment for the creation and growth of technology start-ups.

#### **4 REFORMATION OF COMPLEX REGULATORY PROCEDURES**

Good regulatory practices (GRP) create a conducive environment for innovation, trade, investment, and entrepreneurship. As a result, GRP fosters healthy regional competitiveness and economies. According to More & More (2023), a wide range of regulatory changes in the KSA has substantially boosted the growth and expansion of SMEs in the country. For instance, after the COVID-19 pandemic, the government created a loan deferral program to help SMEs deal with and manage its impact for three months (More & More, 2023). The program helped SMEs defer \$45 billion (SAR 167 billion) in payments from the pandemic's beginning in March 2020 to September 2020. The government extended the program a few more times in 2021 to facilitate economic growth and create job opportunities in the private sector.

Additionally, KSA Cabinet approved the new company law on June 28, 2020, to boost entrepreneurship. Saudi's National Center for Family Enterprises chairman asserted that the new company law would be critical in dispensing a stimulating and incubating environment for trade and investment, mainly supporting SMEs and family businesses (Narayanan, 2022). This law eliminated many restrictions, including regulations inhibiting the incorporation, practice, and exit phases, coupled with restrictions on company names. In line with the new law, KSA's Cabinet approved the SMEs Bank System to enable SMEs to acquire all their products and services online without establishing different branches.

#### **5 ENTREPRENEURIAL TRAINING AND MENTORSHIP**

In line with Vision 2030, KSA has been paying attention to entrepreneurship education and training to stimulate innovation, entrepreneurship, and the growth of small businesses. For instance, the KSA government established the Monsha'at support center, Saudi Arabia's SMEs Enterprises General Authority, in 2016 to facilitate the growth of the SME sector in the country (Tripathi, 2019). Monsha'at offers three primary programs for SMEs: training, advisory, and mentorship to promote their evolution and growth. The program also helps SMEs access government fee refunds and other direct and indirect financing programs. Through these programs, Monsha'at aims to achieve the goals outlined in KSA's Vision 2030, which include minimizing the unemployment rate from 11.2% to 7%, increasing the number of women entrepreneurs in the workforce, and increasing the contribution of SMEs to the country's GDP (Tripathi, 2019).

#### **6 Conclusion & Recommendations**

Small and medium-sized enterprises (SMEs) are essential today because they create job opportunities and contribute to a country's GDP. SMEs in KSA comprise approximately 20% of the Kingdom's GDP. This figure is relatively low because SMEs in more advanced economies like the United Kingdom and the United States contribute approximately 70% to their GDPs. Therefore, in line with the Vision 2030 agenda, the KSA government plans to boost SMEs to create job opportunities and increase their contribution to the Kingdom's GDP to at least 35% by 2030. To do this, the current research recommends that SMEs leverage key success factors, including appropriate financing, technological advancement, reformed regulatory procedures, and training and mentorship. The KSA government already fully supports SMEs' efforts to grow and flourish as it has established various initiatives to make it easier for them to access financing and enable entrepreneurs and small business owners to acquire training and mentorship. Also, the government has revised and reformed complex regulatory procedures to make it easier for citizens to innovate, invest, and start businesses. Finally, KSA is keen on leveraging the benefits of technological innovations in diverse areas

with substantial growth potential. Therefore, this study found that SMEs in KSA must incorporate the latest technologies to increase their efficiency and velocity, improve customer experiences, transform internal business models, and increase their competitiveness. On this basis, future research should focus on how well SMEs have leveraged these success factors and whether they are on the right track in helping the Kingdom achieve its Vision 2030 goals

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