

SMEs Capabilities and Needs Assessment Eastern Province, Saudi Arabia.

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Abstract

This article presents an assessment of sixty existing SMEs located in the eastern province of Saudi Arabia, that are members of chamber of commerce and industry. The assessment aims identifying the type and extent of capabilities and problems faced by SMEs, also the relation between them and the governmental authorities. It can be considered as base information to help designing a plan for SMEs development at the province. Collecting data for analysis and evaluation were implemented through a specific questionnaire. A list of existing SMEs was developed and classified according to its activity categories. It was found that most of the managing directors of manufacturing SMEs are not the owners, while in non-manufacturing sectors, entrepreneurs manage their enterprises themselves. Over seventy five percent have a problem of marketing. Finance is a crucial problem for non-manufacturing sectors. The article covers various areas such as training needs assessment, lack of commercial information, Exhibitions, legal status, feasibility study, know-how, and others. The article includes initiatives to undertake via enterprises recommendations and suggestions.

Introduction

The Chamber of Commerce & Industry, Eastern Province, is dedicated to the services of the business community. The Small and Medium Enterprises Development Center (SMEDEC) is the chamber's addition to its service range.

SMEDEC's goal is to support private sector initiatives in the eastern province, Saudi Arabia, particularly focusing on improving SMEs competitiveness using the chamber's members as a targeted group. On Sep. 2000, the SMEDEC's first working plan was approved by the chamber's governing board. The period from Oct.1 to Dec.31, 2000 was defined as the inception phase and the period Jan.1 to Jun.30, 2001 was defined as the pilot phase. SMEDEC's life at the first seven years (until Jun. 2007) is defined as iterative, which implies that the original working plans will be reviewed and redefined during that period, to ensure that SMEDEC sustains to present the best strategy to achieve its goal in a changing environment . This study is considered as base information to help for SMEs development at the eastern province, SA.

Objectives

- 1- Identify SMEs sectors, that SMEDEC will provide services to them.
- 2- Define and classify SMEs at eastern province, to different categories and sectors, according to number of laborers and capital.
- 3- Assessment SMEs capabilities, needs and problems faced by them.
- 4- Draw a SMEs picture, that showing type of industry, geographical concentration, working environment, production processes, marketing and finance.
- 5- Verify to how extent, the owners have the entrepreneurial aptitude.
- 6- Listen to the entrepreneur's, interests, problems, and expectations and adopt their suggestions.
- 7- Check the role of governmental and non-governmental organizations in supporting SMEs.
- 8- Evaluate the performance, time consumed, effort and resources to optimize delivering SMEDEC's services.
- 9- Benefit from the findings, results and recommendation to build effective working plans for SMEDEC.

Methodology

A printout for a list of chamber's members was implemented by the help of the chamber's information center . A preliminary definition was given to the industrial sector as follows: up to 20 workers (small enterprise), 21-100 workers (medium enterprise), the capital must be less than 15 million Saudi riyals for both. The eastern region was divided into five different geographical areas. A sample survey list was developed containing SMEs to be field visited and to fill questionnaires during face to face direct interviews with entrepreneurs. A vehicle plan and a specific methodology were innovated to approach SMEs effectively starting from the first enterprise's call to the end of the visit. A specific questionnaire was developed including 48 questions, covered the following areas:

- 1- Enterprise's profile, Activity, main products/services, capacity, legal status, capital and its source.
- 2- Human resources, organizational structure, laborers issues, and training.
- 3- Feasibility study, strategic planning, and future needs.
- 4- Marketing, Exporting, Exhibitions, Standards, Quality, raw materials, new products/services, type & status of machinery, and technology level.
- 5- Finance, Relation with banking sector, financial situation and return on investment.
- 6- License, Environment, Relation with governmental and non governmental organizations.
- 7- Needs assessment, information, and Entrepreneurs' suggestions.

Sample Survey

A sixty SMEs was visited and were divided into four sectors:

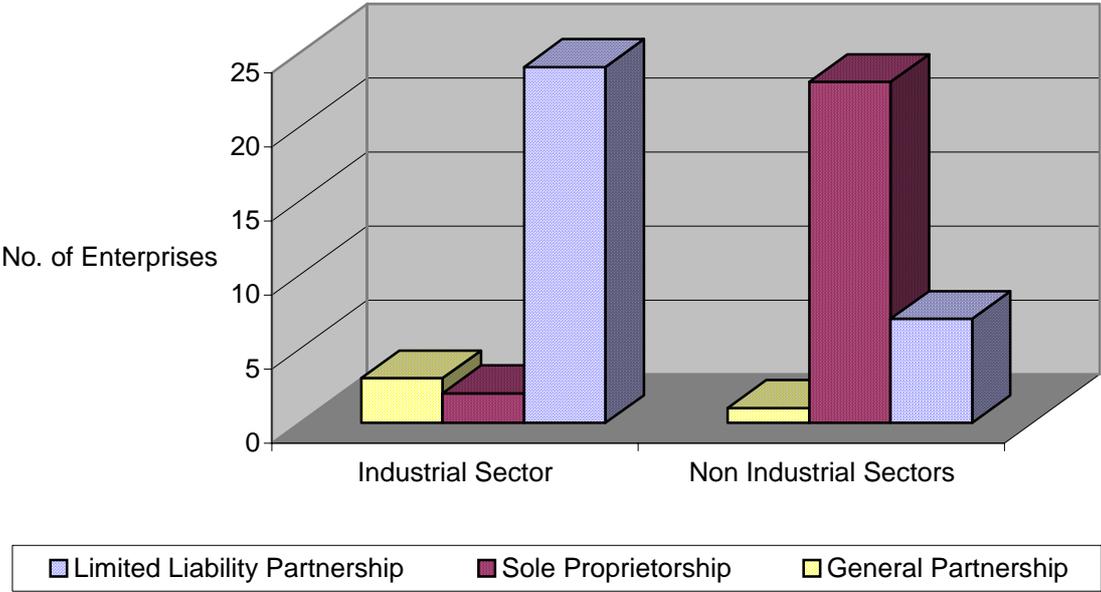
- 1- Industrial (29 enterprises), 11 chemicals, 7 Metals, 6 food and 5 miscellaneous.
- 2- Commercial (15 enterprises), 3 agency companies, and 12 retail companies.

- 3- Services (15 enterprises), 6 maintenance enterprises for machineries, equipments and vehicles, 2 cyber coffees, 7 miscellaneous.
- 4- Contracting, (1 enterprise).

Findings

As shown in Fig. (1), **legal entity** for industrial sector as follows: 81% general partnership or limited liability partnership, and for non industrial sectors: 73% sole proprietorship, 22% limited liability partnership, 5% general partnership.

Fig.(1)Legal Entity



Most of industrial enterprises at the first and second industrial cities are limited liability partnership or/and family business, that administrated centrally. For the non industrial sectors, especially the services sector, most of enterprises belong to sole proprietorship.

Who runs SMEs in the eastern province ?

A. Industrial Sector

Figure (2) shows the industrial sector management differentiation as follows:

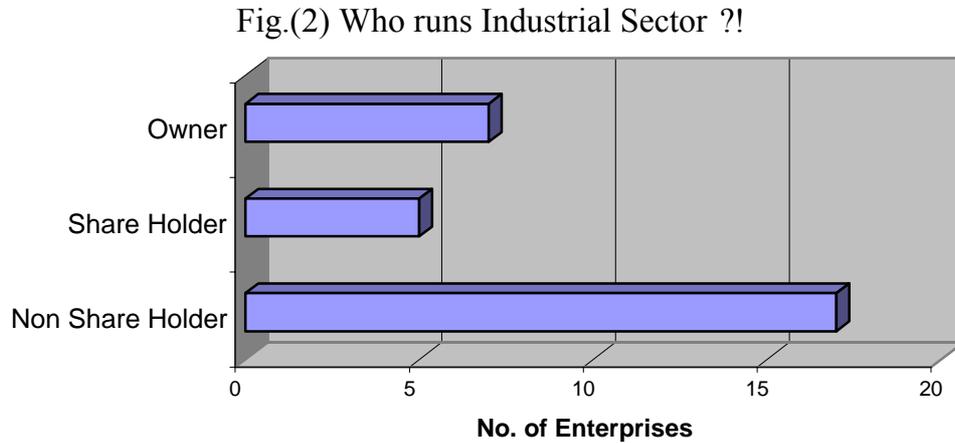


Figure (2) indicates that most of the managing directors for the industrial sector is day-to-day managing that sector, are not the owners themselves, they are qualified specialists pertained to each enterprise activity.

B. Non industrial sectors

Figure (3) shows the Pattern of management of the non industrial sector :

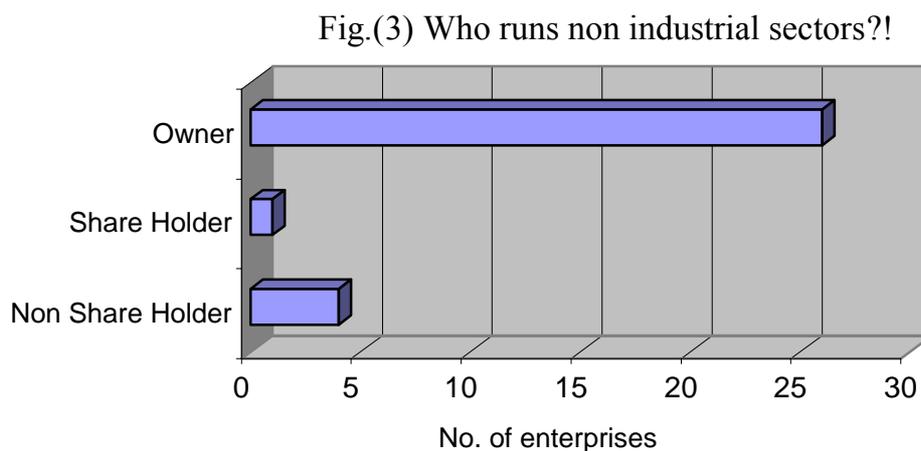
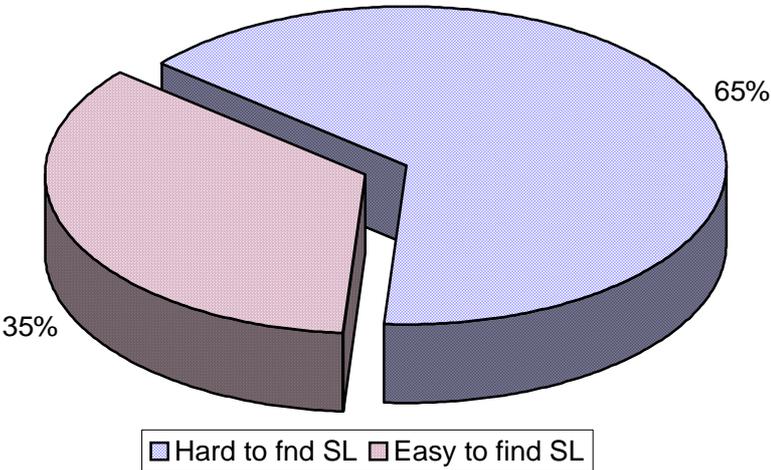


Figure (3) indicates that the owners are managing day to day their enterprises, they are really entrepreneurs.

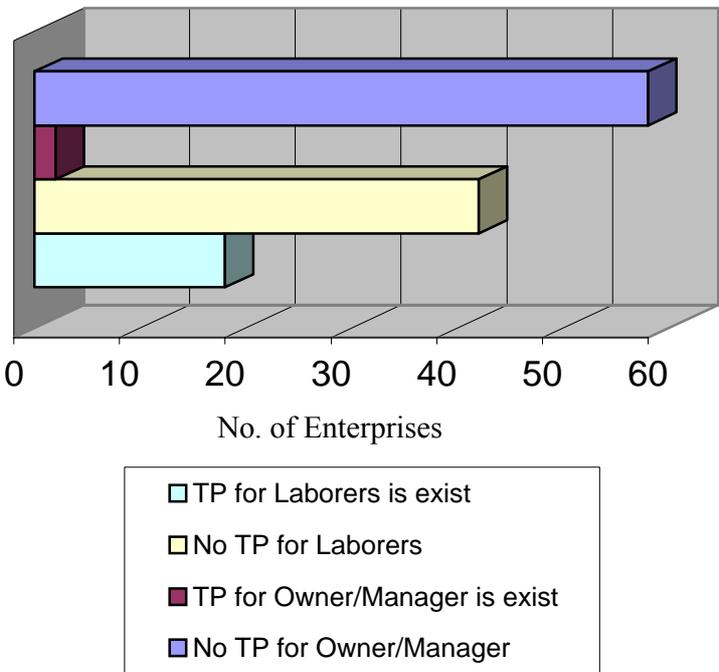
The availability of skilled, specialists, well trained labor is not easy, most of SMEs face that problem as shown in figure (4)

Fig. (4) The availability of skilled labour (SL)



Giving attention towards **training** is not encouraged for most of SMEs, as shown in figure (5) below:

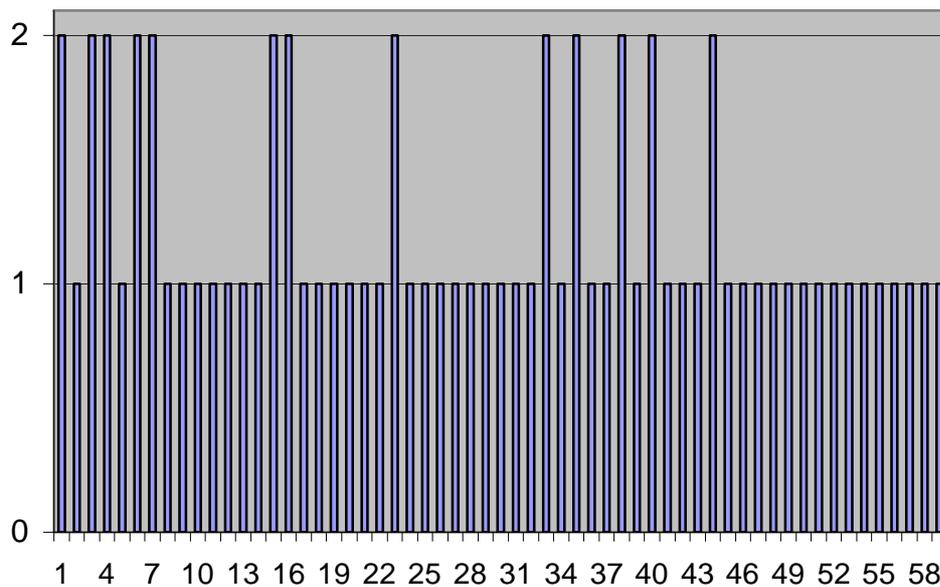
Fig. (5) Existing of Training Program (TP)



They believe that training is not priority, low-impact activity and highly financial overheads.

Marketing weakness is a common problem at the province, as shown in figure (6), a high degree of competition is exist .

Fig. (6) Investigation of Marketing Weakness

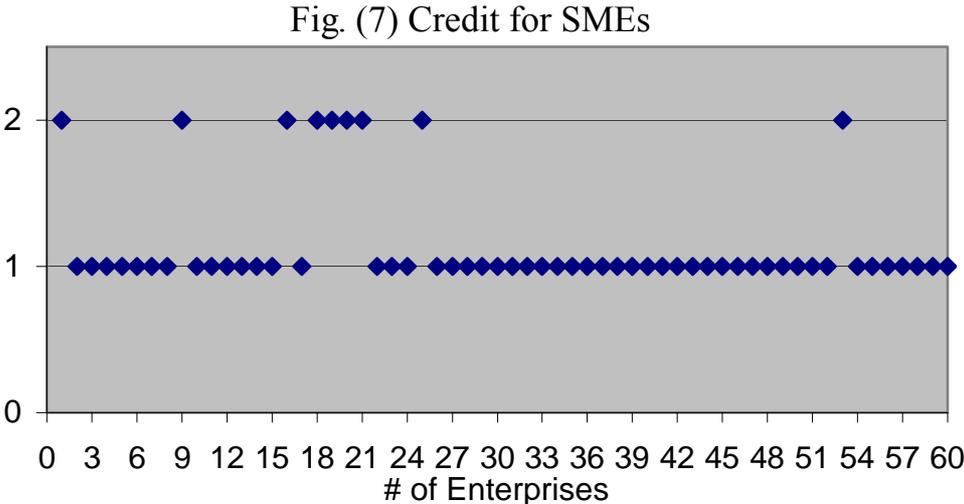


The above graph indicates the urgency of improving marketing for most SMEs. At the graph, # 1 indicates a lack of marketing enterprises (78% of SMEs surveyed have a problem in marketing their products/services), while # 2 indexes to enterprises that not complain from marketing weaknesses.

Marketing weakness due to external effects such as: constriction of governmental procurement, license permission for similar activities at the same geographical area, bonding between customers and foreign brands, Foreign contracting companies haven't been obligated to crutch local enterprises by 30% of total contracting value.

Marketing weakness due to internal reasons such as : the unsuccessful policy of the keys decision at the enterprise level, lack of advanced marketing techniques and marketing mix (4Ps).

Finance is a crucial problem, especially for the majority of SMEs in Eastern Province, 21 enterprises out of 29 industrial enterprises faced problems getting loans from banking sector; moreover, 30 enterprises out of 31 non industrial enterprises faced the same problem, as shown at the following figure:



Lack of credit channels is existing; guaranties required are over entrepreneurs' capabilities, many of collaterals are required.

Common Problems faced by SMEs in Eastern Province

- ⊖ Absence of unified development strategy and policy for SMEs.
- ⊖ Lack of credit channels.
- ⊖ Marketing weakness due to external effects such as: constriction of governmental procurement, license permission for similar activities at the same geographical area, bonding between customers and foreign brands, Foreign contracting companies haven't been obligated to crutch local enterprises by 30% of total contracting value.
- ⊖ Marketing weakness due to internal reasons such as: the unsuccessful policy of the keys decision at the enterprise level, lack of advanced marketing techniques and marketing mix (4Ps).

- ⊖ Lack of subcontracting and other linkages with large companies.
- ⊖ Difficult to compete with large companies and imports.
- ⊖ Lack of representation and participation in policy matters.
- ⊖ Lack of information on market and new products.
- ⊖ Difficult to find and retain competent employees.
- ⊖ Lack of interest in training.

Conclusion

The Small and Medium Enterprises Development Center (SMEDEC) , which established by the Chamber of Commerce & Industry, Eastern Province, have surveyed and analyzed sixty SMEs in four geographical areas at the province.

Study's findings indicate the following:

Regarding legal entity, for industrial sector: 81% general partnership or limited liability partnership, for non industrial sectors: 73% sole proprietorship, 22% limited liability partnership, and 5% general partnership.

The managing directors for the industrial sector are: 24% owners, 13% one of the share holders, and 63% a qualified Saudi or non Saudi specialist pertained to the enterprise' activity. The managing directors for non industrial sectors: 80% owners, 7% one of the share holders, and 13% specialist, non share holder.

65% of the sample are suffering finding highly skilled, well trained laborers. Only 6% are giving attention towards training for managers, while 32% have specific programs for training laborers.

A 79% of industrial sample implemented feasibility study before starting the project, while only 13% of non industrial sample achieved feasibility study.

More than 78% of the total sample is suffering from Marketing weakness. More than 80% of the owners are participating in marketing their products/services. Only 22% are participating in exhibitions.

Over 93% of non industrial sectors are finding difficulties to get loans from banks, while this percentage is 72% in industrial sector, a lack of credit channels is exist, guaranties required are over entrepreneurs capabilities, many of collaterals are required.

Training needs are priorities as follows: 88% new marketing techniques, 72% financial & accounting, 76% improving sales skills, 53% quality assurance, 68% specific training according the activity of the enterprise, 33% software application.

Information needs as follows: 56% local market info. 42% international markets, and 88% on similar studies and info., related to the same enterprise' activity.

The common external problems facing SMEs at the province include: Finance, no unified strategy or/and policy for SMEs development, Entrusted relationship with governmental institutions, Marketing Weaknesses, Lack of interest towards information, Difficulty to find competent labor.

The common internal problems include: Weakness of entrepreneurial skills, inexperienced marketing staff, and imitation of the same activities at the same geographical areas, resulting smite competition.

Most of entrepreneurs were enthusiastic and appreciate visiting at their locations and listen to their complaints, while, a few numbers of entrepreneurs were suspected, may be because of entrusted relationship with the official institutions.

Recommendations

- 🌀 Establishing a unified organization for SMEs support and development, may includes: governmental decision making persons, Saudi council of chamber of commerce & industries, SMEs owners, NGOs, technological and educational institutions.
- 🌀 Establishing a specific mechanism fund for lending SMEs, starting with 500 million riyals.
- 🌀 Adding an article to the legal book, which gives the privilege to the SMEs national products when compete with the import by 3% margin.
- 🌀 Complement with large companies by innovating a mechanism to give SMEs more roles to work as subcontractor or feeding industries.

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