

Impact of Lack of Financial Resources on The Progress of Small and Medium-Sized Enterprises in Saudi Arabia

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Received: August 11, 2025, Accepted: November 27, 2025, Published: December 10, 2025

Abstract

The present state of SMEs in Saudi Arabia is a topic of discussion since it's considered one of the most influential countries in the Arab region. Since Saudi Arabia is a growing economy, holding immense dominance as an oil exporter in the global market, it is important to employ strategies that maintain the longevity of the resource. A major segment overcoming this dependence is Small and Medium Enterprises (SMEs), which is one of the fastest-growing industrial sectors in the country's economy. The present study revolves around identifying the Impact of a lack of financial resources on the progress of SMEs in Saudi Arabia. The methodology for this project is quantitative. For the quantitative study, a survey was conducted among the employees (N=500) of 100 different small and medium-sized companies in Saudi Arabia. The inferential results indicated that Saudi Arabia is significantly impacted by the coefficients considered in the study. It was found that the insufficient size of the loan or maturity has a high impact on the hindrance to the progress of the SMEs in Saudi Arabia. Factors considered in this study will be used for further research work with a bigger sample size for a better understanding. Studies related to SMEs in various Middle East countries with regions can be conducted to compare the situation of SMEs in Saudi Arabia and what problems faced by SMEs in it.

Keywords: SMEs; Saudi Arabia; Financial Resources.

1. Introduction

1.1. Background of the study

In the backdrop of extensive globalization and expansion of economies, Small and Medium Scale Enterprises (SMEs) play the role of key drivers in the development of any country by employing the maximum workforce. Janämsä, Tähtinen, Ryan, & Pallari (2011) identified that SMEs encourage skill development and utilise the opportunities and resources that influence growth. In general, an SME is commonly defined based on the number of people working in the enterprise and varies vis-à-vis different countries (Ardic, Mylenko, & Saltane, 2011, p.123). It is also defined based on gross value of assets, turnover, and ownership structure of the organization (Inyang, 2013, p.7). It is observed that during a crisis, SMEs emerge as potential stabilizers in the downfall period.

The major role these enterprises play in providing jobs to the labour class should not be neglected in the economy because of their significant contribution. Moreover, due to the huge presence of manpower engaged in SMEs in the overall Arab economy, it has become a representative for efficiency and growth (Alasrag 2010).

Despite the economic prosperity achieved by the Kingdom of Saudi Arabia, which has catapulted the Asian and African economies to new heights, it also has its share of regulatory, social, and political challenges. Saudi Arabia's main concerns are heavy reliance on oil, increasing unemployment rate, traditional authoritarian system, an obstinate minority of Saudi Shiites, and depleting foreign reserves (Manfreda 2016).

In this research, the main aim is to observe the challenges and growth opportunities faced by small and medium-scale enterprises in Saudi Arabia. This section provides a review of the nature of the business of SMEs, their growing presence in the Middle East, and factors impacting their growth in relation to the lack of financial resources in Saudi Arabia.

1.2. Nature and business of SMEs

SMEs are often characterized based on different measures, such as annual turnover, gross value of assets, commonly on the number of employees working in the enterprise, and the ownership structure of the agency.

According to The World Bank (2015), globally, 600 million jobs would be needed in the upcoming years to take in a growing workforce, and most of the regular jobs are created by SMEs. Hence, the role of these enterprises can't be underrated in the long run. Recent evidence from Saudi Arabia indicates that SMEs have become central to achieving inclusive growth, particularly in job creation and youth employment. The IMF (2024b) noted that financial sector reforms—especially those improving SME access to credit—have contributed



to sustained growth in non-oil GDP. Moreover, Monsha'at (2024) reported a steady rise in women-owned enterprises and tech-based startups, marking a structural shift in the SME landscape aligned with the Vision 2030 targets (IMF, 2024b; Monsha'at, 2024; Alqahtani & Hussain, 2024).

These organizations employ a wide range of manpower, especially the less educated, unskilled, and underprivileged sections of society. Moreover, SMEs are one of the capital contributors in the development of a marketable economy (Philip 2010). To employ the masses, the work profiles of the enterprises vary accordingly and are categorized into four broad categories: customer-oriented SMEs, product-oriented SMEs, entrepreneurial-oriented firms, and others that lack any strategic orientation (Hagen et al. 2012). These organizations handle diversified workforces employing people as per their needs.

One of the major sections of the SME segment, the Entrepreneurial Orientation (EO) Enterprises, is often reflected as a symbol of competition, growth, and better and exceptional performances. These organizations are emboldened with entrepreneurial mindsets and recognize opportunities for economic growth (Kraus et al. 2012). They positively escalate the growth of the organization and show a stronger impact on the economy. Meanwhile, it is seen that the new firms with entrepreneurial postures in maintaining intangible resources exhibit a strong growth (Anderson & Eshima, 2013). In general, it is observed that EO firms significantly influence learning orientation, which affects innovativeness and improves the performance of the organization (Rhee et al. 2010).

Secondly, customer-oriented SMEs adopt the practice of catering to the services of the customers' needs. They gather relevant information on the requirements of the customers and frame their policies accordingly to satisfy the distinct segments (Recica, 2014). Keeping a record of customers' preferences on what they need increases client satisfaction levels and raises their loyalty towards the organization.

So, the CO Enterprises must be more customer-focused and regularly check the trends to stay competitive (Mahmoud 2011). These types of organizations play an indispensable role in developing countries because of the presence of fewer business-class customers who prefer to rely more on Product-Oriented Enterprises (POE).

The Product-Oriented SMEs, on the other hand, are linked to the selling of a product under a brand name. PO Enterprises envisage a link between brand authenticity and trust in the brand, which is highlighted due to three factors: Consistency, Customer Base, and Congruency seen in the various departments of the brand (Eggers et al. 2013). Further, many SMEs these days are focusing on expanding their brand by introducing innovativeness in the new millennium. It makes them highly competitive and necessitates them to make their product innovative continuously to build an image (Hafeez Haroon et al. 2012). Currently, the concept of Corporate Social Responsibility (CSR) is becoming popular in the context of SMEs.

CSR is defined as the responsibility of business in terms of various expectations of economic, ethical, legitimate, and other stakeholders towards society (Khan et al. 2012). In the Saudi context, sustainability and corporate responsibility among SMEs are increasingly recognized as growth enablers. The World Bank (2024) and Carvajal & Didier (2024) emphasize that responsible financing and sustainability-linked credit are reshaping SME behavior, encouraging transparency and ethical governance. These shifts align with SAMA's (2023) Financial Stability Report, which underscores the importance of environmental, social, and governance (ESG) criteria in business lending practices (SAMA, 2023; Carvajal & Didier, 2024; World Bank, 2024). It protects and improves society by bringing positive benefits.

SMEs make a significant contribution to the economy as they provide employment opportunities for more labor-intensive production processes and nurture entrepreneurship for overall growth. Inyang (2013) stated that CSR is emerging as a strategy for SMEs due to compelling pressures of moral responsibilities towards society. This involves obligations such as policies for the betterment of employees working in the organization, providing good quality products to consumers, or enthusiastic measures for an eco-friendly environment.

It would not only benefit the enterprise in low costs, but also enhance the image of the brand and employee morale. But there are several barriers linked with the adoption of this practice; SMEs usually suffer from financial resource constraints.

Moreover, there is a lack of awareness of sustainable development in these organizations (Adapa & Rindfleish, 2013). They also lack adequate support services in the implementation of these programs, and constant involvement of bureaucrats restrains them from enforcing these policies effectively.

In a nutshell, SMEs play a significant role in socio-economic development in any economy. They are the main source of employment generation and increased output in both developed and developing countries. Also, they lead to the development of an industrial region, rural economy, and promote entrepreneurship in a nation (Oreoluwa 2011). Considering developed countries such as the US and Japan, SMEs' contribution is more than 99% to the entire business of the countries (Pandya 2012).

Several measures have been introduced to evaluate sustainable development at the corporate level abroad, such as social indicators for environmental protection, economic indicators for wages of workers, and financial indicators for efficient use of resources (Kocmanová et al. 2011). The different types of SMEs most popularly present in the world today are demonstrated in Figure 1.

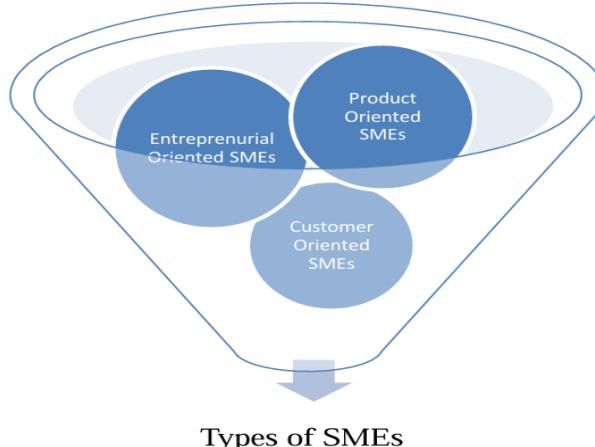


Fig. 1: Picture Illustrating Types of SMEs Present Across Countries.

This figure illustrates the major categories of SMEs based on their strategic orientation: entrepreneurial, customer-oriented, product-oriented, and others. These categories explain differences in how SMEs operate, compete, and leverage resources in various countries.

1.3. Economic state of Saudi Arabia

The Saudi economy has undergone a notable transformation between 2020 and 2025, driven by ambitious diversification policies and financial sector modernization. According to the IMF (2024a), the Kingdom's non-oil sector expanded by over 5% annually, supported by SME growth and increased foreign investment. The Saudi Central Bank (SAMA, 2023) also reported improved access to finance and stable credit conditions, while Monsha'at (2024) documented a record number of new business registrations among young entrepreneurs (IMF, 2024a; SAMA, 2023; Monsha'at, 2024).

Saudi Arabia is one of the most dominant players amongst Arab nations, and has emerged as a strong economy in exporting oil to the West (BBC 2016c). Economically, the economy of Saudi Arabia has grown strongly between 2003 and 2013 (Ahmed et al. 2015). The transition phase of dependence on oil is reducing, and the working population is increasing.

Despite the challenges faced due to the authoritarian system and resistance to reform, the report stated that unemployment will rapidly increase and the fiscal position of the country will deteriorate (Local News 2016). A McKinsey report stated that productivity-led transformation would create 6 million new jobs by 2030 in these sectors-mining and manufacturing, petrochemicals, retail and wholesale trade, tourism, healthcare, finance, and others (Kibsi et al. 2015).

Economic Situation: KSA, once a flourishing economy for providing cheap oil in the market, had a firm place in the global market, but over the years, oil prices have been on a continuous slump.

In 2016, Saudi Arabia marked a decelerated growth in economic activities because of weak oil prices at the global level. Consequently, the government slashed public spending and stalled many investment projects (Focus Economics 2017b). Economists noted that the Arab economy is going through difficult times, and it is estimated that financial challenges would increase due to decreased oil prices (Mikhin 2016).

According to a report by McKinsey, the Organization of the Petroleum Exporting Countries (OPEC) is assuming the price of an oil barrel will reach US\$80 in 2020 (Al-Kibsi et al., 2015, pg 35). In addition, KSA has outlined a comprehensive strategy for overall development through its 'Vision 2020' initiative. It outlines the emergence of a prosperous economy guaranteeing welfare and higher job opportunities (GE, n.d.).

On similar lines, Vision 2030 has been drawn around three themes: a vibrant society to have a strong foundation for a prosperous country, a thriving, robust economy to build an education system as per market needs, and an ambitious nation delegating responsibility at each level with transparency and accountability (Toberge & Curtis, 2016, pg 13).

To fulfil this dream, the National Transformation Program was developed to identify the challenges faced by the country and address them specifically. It aims to contribute significantly towards job creation, involving the private sector, digitization of various platforms such as infrastructure, economic sectors, and other initiatives boosting the economy (KSA, 2016, pg 10).

The Kingdom is trying to diversify into new business segments and reduce its dependence on oil by introducing 20 employment opportunities for the youth. To accentuate this, the Saudization drive was introduced in 2011 to replace foreign expatriates with Saudi nationals, but has not been quite successful due to the availability of cheaper foreign labour to work in the private sector, and also, ineffective training is not provided to prepare for the market (Koyame-marsh, 2016, pg 1).

But, the KSA is constantly evolving its short-term employment strategies to equip an educated workforce and increase its competitiveness in higher valued sectors (OECD, 2011, pg 3), and its recent Vision 2020 and Vision 2030 programs were unveiled to this effect. Figures 2 and 3 represent the economic performance of KSA in terms of GDP, unemployment, and per capita income.



Fig. 2: GDP and Employment Status of KSA.

Source: IMF DataMapper, World Economic Outlook (WEO), October 2025.

This figure shows long-term patterns in Saudi Arabia's GDP growth and employment levels. It highlights fluctuations in economic performance linked to oil prices and demonstrates how SME development aligns with broader non-oil economic trends.

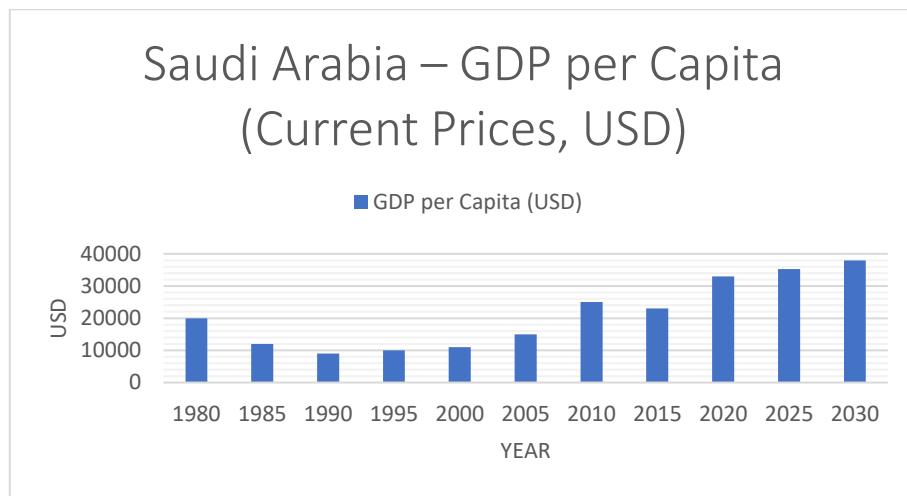


Fig. 3: Per Capita Income of KSA.

Source: IMF DataMapper, World Economic Outlook (WEO), October 2025.

This figure presents changes in Saudi Arabia's GDP per capita over time. It reflects economic shifts caused by global oil cycles and shows the gradual rise in income levels, especially with diversification efforts under Vision 2030.

The economic, social, and environmental goals of the Vision 2030 of KSA are represented in the form of a graphic in Figure 4 below.



Fig. 4: Vision 2030 of Saudi Arabia.

This figure summarizes the three pillars of Vision 2030: A Vibrant Society, A Thriving Economy, and An Ambitious Nation. These pillars guide national policies that directly influence SME growth, financing, and economic diversification.

a) Problem Statement

The Kingdom of Saudi Arabia holds immense dominance as an oil exporter in the global market. Since the world these days is being represented as a global market, it is important to employ strategies to maintain the longevity of the resource. A major segment overcoming this dependence is Small and Medium Enterprises (SMEs), which is one of the fastest-growing industrial sectors in the Arab economy (McKinsey, 2016). Though they provide high employment and entrepreneurial opportunities to the region, most of the SMEs suffer from a lack of sufficient funds to operate. Further, firms need credit to expand and modernize their tools, which they are not able to secure due to their inability to provide the required collateral to banks in exchange for loans. The research is essential to understand the financial challenges and business prospects of SMEs in Saudi Arabia. Furthermore, such research has not been conducted before, so the researcher aims to understand the challenging aspects continuously faced by these enterprises.

b) Significance of the Study

SMEs not only provide employment but also inculcate leadership skills in individuals. The study will prove significant in obtaining an in-depth knowledge about the scope for growth of SMEs in KSA. Despite the presence of literature on the suggested topic, it is not available in English, and this study will be useful for international researchers. It will also practically contribute solutions to the problems of SMEs by highlighting deterrents to their success. This study would provide a broad base for future research on the same topic and would aid in understanding the importance of SMEs in the Kingdom of Saudi Arabia.

c) Aim and Objective

The research aims to identify constraints affecting the overall success of the enterprise. This study aims to identify the challenges and prospects for business growth faced by SMEs in Saudi Arabia.

The specific objective underlying the aim is to identify the financial factors impacting the establishment and operations of an SME in the Kingdom of Saudi Arabia.

d) Research Question

For this study, the following research question is aimed to be addressed:

- What are the financial factors influencing the working operations of SMEs in Saudi Arabia?

2. Literature Review

2.1. Introduction

The role of Small and Medium Enterprises (SMEs) in the economic area of any country cannot be underrated because they are the backbone of industrial development and operate at par with their large counterparts in an economy. In the context of Saudi Arabia, SMEs have become a central pillar of Vision 2030's economic diversification plan, contributing over 45% of private sector employment and playing a growing role in non-oil GDP (Monsha'at, 2025; OECD, 2023). Recent reports highlight that SME lending and access to finance are expanding rapidly, driven by targeted policies from the Saudi Central Bank (SAMA, 2023) and international support frameworks (IMF, 2024a).

The sector contributes significantly to the GDP of both inculcates entrepreneurial skills within people (Uma 2013). They are represented as a model of economic development as they yield significant returns with low investments and less intensive operations. The section intends to present a theoretical framework to understand the economic model of the history of SMEs and their overview across the world. To gain a deeper insight into the topic, the researcher discusses the economic advantages of SMEs and various obstacles to their growth. Therefore, the challenges SMEs face will be observed to investigate the reasons behind their stunted growth in the region. "This study particularly focuses on the Saudi context, addressing gaps in English-language literature on SMEs, especially regarding financing, digital adoption, and policy impact."

2.2. Definition of SMEs

Small and medium-scale enterprises, popularly known as SMEs, have gained immense popularity during the last few decades owing to several reasons. SMEs today contribute significantly to the economic performance of most countries due to their adaptability, scalability, and flexibility in operations. Recent evidence emphasizes that SMEs are crucial drivers of inclusive and sustainable growth, particularly in emerging economies such as Saudi Arabia, where they represent over 90% of registered businesses and contribute about one-third of GDP (Monsha'at, 2025; OECD, 2023). However, despite the widespread popularity of the phenomenon, there lack of a universal definition for the term.

Each country refers to SMEs differently; they are usually autonomous or found in partnerships and employ a larger workforce than large-scale firms.

The dominance of private sector firms is prevalent in countries and is the backbone of any economy. There are various measures to identify an SME, such as the number of employees, the nature of business, capital invested, or annual turnover of the organization.

According to Devos, Landeghem, & Deschoolmeeste (2013), in the European Union, to classify a firm as an SME, its turnover should be less than €50 million and its balance sheet of €43 million. Further, for Asian countries such as Malaysia, annual turnover for a small firm must not exceed RM 10 million, whereas a medium-sized firm has an annual turnover between RM 10 and 25 million (Abdullah & Bakar 2000).

On the other hand, the UAE is a rich country in the Middle East, and it defines an SME as having an annual turnover between AED 50-150 million (International Monetary Fund 2015).

The next definition is based on the number of employees working in the organization also varies according to different nations. In some Asian countries, small and medium-sized firms have fewer than 50 employees, whereas in most countries in the European Union, SMEs have fewer than 250 employees (U.S. International Trade Commission n.d.).

In the Middle East, the definition is heterogeneous amongst countries comprising the region, whereas in Jordan, SMEs employ not more than 249 people (Organisation for Economic Co-operation and Development, 2014).

Thirdly, the nature of business also defines how an SME functions; it is observed that SMEs form a heterogeneous group visible in the service sector, trade, small agricultural farms, and manufacturing enterprises. (Lukacs n.d.).

SMEs also rely on their capital structure, which evolves as they grow in their business cycle (Abdulsaleh & Worthington, 2013).

Other factors that contribute to identifying an SME are ownership type, location of the firm, industrial sector in which the enterprise is operating, and structure of assets.

In general, SMEs do not make use of conventional marketing tactics because of limited resources, and the networking that takes place is in the form of personal contacts and social networks to increase the popularity of the business (Gilmore et al. 2001).

Most of the firms now are resorting to social networking to achieve their objectives of marketing objectives (Michaelidou et al. 2011).

Wamba & Carter (2016) suggested in their research that the adoption of social media has a significant impact on the utilization of SME resources.

Different prominent establishments and regions of the world define SMEs differently based on a specific set of parameters, such as the number of employees, capital invested, annual turnover, and value of fixed assets. The table below shows a comparative overview of these different definitions. Recent studies also note that with the expansion of digital ecosystems and e-commerce, definitions of SMEs are being revisited to account for hybrid and online business models, especially within the Saudi market, where fintech and social entrepreneurship are rapidly growing (Aljuhani, 2024; Al Faraj & Al-Shammari, 2024).

Table 1: Definitions of SME Across Various Establishments Worldwide

Establishment	Number of employees	Capital invested/ total asset value (USD)	Annual turnover (USD)
World Bank	300	15000000	15000000
MIF-IDB	100	(none)	3000000
African Development Bank	50	(none)	(none)
Asian Development Bank	No official definition. Uses the definition of individual countries		
UNDP	200	(none)	(none)

Source: Gibson & Vaart (2008).

Since this study is concerned only with Saudi Arabia, it is pertinent to review the definition of SMEs in Saudi Arabia. To classify a firm as an SME, it should have fewer than 20 employees, with a Capital invested (total asset value) to be 20 million riyals. (Arab Labour Organisation 2008)

2.3. Factors determining an SME in Saudi Arabia

This section highlights different factors affecting an SME in the Kingdom of Saudi Arabia. They are presented as follows:

2.3.1. Capital

Capital is an integral and significant resource for all enterprises to work smoothly. The capital structure decision makes a firm competitive with the other in the market (Cempirek & Gruncharov, 1990).

It is further bifurcated into two components: Equity and debt. Equity is defined based on selling ownership rights to secure finance, whereas debt is an agreement in which a company borrows and repays it, along with interest, in a certain period (Kumar, 2009).

In general, SMEs' funding takes place through the financial market in the form of loans, bonds, venture capital, leasing, and finance based on assets. These days, mostly SMEs in both developed and developing countries rely on asset-based finance to fulfill their working capital needs to support their domestic and international trade (Cusmano 2015). Though conventional lending from banks also exists, the specific financial segment has grown in the last decade to maintain liquidity. Firms obtain funds based on the value of assets, which include inventory, machinery, equipment, and real estate, rather than credit-based borrowing. It is observed that there are various other Islamic financing options for SMEs to fund their organization.

Recent evidence indicates that Islamic finance continues to expand as a vital source of funding for Saudi SMEs, supported by national initiatives to enhance Sharia-compliant financial inclusion under Vision 2030. The Saudi Central Bank (SAMA, 2023) and IMF (2024) highlight that asset-based Islamic products have become increasingly accessible to micro and small enterprises, particularly through digital banking platforms.

Based on asset-based funding, schemes such as Murabahah, Ijarah, and Salam are available to these firms 39 whereas based on equity-based funding, money ventures such as Musharakah, Diminishing Musharakah, and Mudharabah are presented before them in order to fund their organizations (MIFC 2016).

a) Asset-Based Funding

Murabahah: According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the funding forms a contract between a financier and the client through which the buying and selling of assets take place at a certain profit margin (Sultan et al., 2011, p. 2). The transaction is based on transparency with respect to actual costing and additional expenses incurred.

Ijarah: In this form of leasing, the transaction takes place after one party leases assets or equipment to the lender at a decided rental fee or when the financier leases assets to the borrower for a certain rental fee or sells them at the end of the lease period (Ameer, 2014, p. 126). The conventional leasing retains the ownership with the lessor, but the lessee is permitted to use the asset for a given period of time.

Salam: This is a sale contract in which an advance payment is made for the agricultural commodities that are to be delivered in the future. It is utilized to provide working capital to SMEs (MIFC, 2016, p. 7). Salam is beneficial for agricultural products trading and is usually observed in short-term trading.

b) Equity-Based Funding

Musharakah: It is a form of partnership in which two or more parties provide capital jointly to a venture and share their profits and losses based on a pre-agreed ratio and proportionate capital contributed respectively. In this type of venture, the partners are involved in a business relationship 40 there is no fixed amount to keep the relationship, it is dependent on the amount contributed accordingly (ALFA University, 2011, p. 53).

Diminishing Musharakah: This form of agreement takes place when an entrepreneur buys investment shares of the other partners until that person owns 100% of the venture (Hanif, 2011, p. 22). Under declining Musharakah, buying and selling of equity units are independent of the partnership contract and are used mostly for house financing. It has managed to replace the conventional mortgage system.

Mudharabah: It is a partnership between a capital provider and an entrepreneur who acts as a manager. They share their profits and losses based on pre-decided ratios and capital provided, respectively (Dariah, Sundaya, & Malik, 2015, p. 228). The parties are involved in trading where one provides the business capital, and profits are shared based on a decided, approved agreement between them.

In the Saudi context, these Islamic finance instruments have played a growing role in SME development. Recent studies confirm that hybrid funding models combining traditional and Islamic mechanisms can significantly improve liquidity and resilience among local enterprises (Alshebami, 2024; Al Faraj & Al-Shammary, 2024).

2.3.2. Employment

SMEs occupy a key role in employment creation and boost the economic growth of countries. They are competitive and adapt accordingly to survive in the time of recession (Katua 2014). The small and medium-scale enterprises have become an important instrument in Saudi Arabia to achieve industrial growth. They contribute to job creation, overall increased productivity, and generate income in Saudi Arabia while shifting focus from the public sector to private sector firms (Elasrag 2012).

Recent data reveal that SMEs in Saudi Arabia now employ nearly 46% of the private-sector workforce, with continuous government support for entrepreneurship training and financing (Monsha'at, 2025; SME Finance Forum, 2024). These developments reflect a major policy shift toward fostering innovation-led private employment.

The private sector plays a critical role in the MENA economies for the economic development of the region (Sani Abdullahi et al. 2015). To stimulate growth, MENA governments should increase private sector employment and foster entrepreneurship amongst youth (Katua 2014).

In line with these recommendations, Saudi Arabia's entrepreneurship ecosystem has become one of the most dynamic in the MENA region, supported by programs such as the Monsha'at "SME Monitor" and "Entrepreneurship World Cup," which have enhanced startup survival and job creation (Monsha'at, 2024; Rahatullah, 2023).

A positive outlook is seen in KSA in terms of employment generation; despite various challenges, female entrepreneurs are coming up and managing more small and medium-sized enterprises in comparison to the past. Danish & Smith (2012) referred in their study that women have to face different practical and administrative barriers in running a business in comparison to males, such 42 as- provision of resources, mentoring, and other areas that require male representation in the firm.

2.3.3. Strategic orientation (operational strategy)

Strategic orientation is a concept evident in management, entrepreneurship, and marketing. The orientation defines a set of rules or guidelines on how to conduct business in a firm. It defines dimensions of an enterprise to achieve its objectives (Liu & Fu, 2011).

In the past few years, SMEs have evolved their strategies continuously, and the literature majorly defines three types of strategic orientation of SMEs in terms of their functioning: Marketing orientation, learning orientation, and entrepreneurial orientation (Ejdyns 2015). Further, additional types of orientation are also defined as per the requirements of the firm, such as brand-oriented firms, service-oriented enterprises, defender orientation, or prospector orientation, and others.

The firms having market orientation involve an understanding of clients and competition in the business market and execute their strategies to ensure client satisfaction (Narver et al. 1998). While the enterprises having a learning orientation aim at creating and utilizing their knowledge to gain a competitive advantage (Ejdyns 2015).

Lastly, Entrepreneurial oriented firms develop an entrepreneurial mindset in their decision-making and show an autonomous and aggressive approach towards taking risks (Felgueira & Rodrigues, 2012). Recent research indicates that Saudi SMEs with a clear entrepreneurial orientation exhibit stronger adaptability, innovation, and growth potential, especially when supported by adequate financial literacy and resource availability (Alshebami, 2024; Al Faraj & Al-Shammari, 2024). An SME needs to conduct market research to understand its strategies against other competitive firms.

Saudi Arabia is trying to bring a change in their orientation and focusing on franchising as a format in SMEs to bring success to business (Sadi & Henderson, 2011). Franchising is growing eventually in KSA, but still a small number of small and medium-sized enterprises are striving to become franchisees because of a lack of legal, financial, and marketing developments (Alharbi 2014).

In addition, a strong group of women entrepreneurs in KSA showed their skills in managing a firm, but faced challenges with respect to gender bias and depreciated marketing strategic tools in order to support services, apart from other challenges (Ahmad, 2011). Hattab (2011) highlighted that because of limited market expansion, women-led enterprises are more inclined towards a consumer-oriented business strategy. Contemporary studies reaffirm this pattern, showing that women-owned SMEs in Saudi Arabia increasingly adopt hybrid market and digital strategies to expand brand presence and compete regionally (Aljuhani, 2024; Alqahtani & Hussain, 2024).

2.3.4. Marketing and financial operations

a) Financial Operations

Financing is one of the strong drivers in the economic growth of an economy, and SMEs' financial operations involve adopting accounting norms- BASEL II/III enterprise (Alrashidi & Baakeel, 2012). BASEL II forms a set of harmonized frameworks to compute the calculation of capital measures, whereas BASEL III is a global regulatory standard on adequacy and liquidity of capital to strengthen bank capital requirements introduced under BASEL II (International Finance Corporation, 2011, p. 18). BASEL III norms are an opportunity for the Middle East region to state new rules and encourage a strategic approach towards business decision-making in terms of asset choice and allocating capital towards new ventures (Diemers et al. 2014).

The central bank of Saudi Arabia- Saudi Arabian Monetary Agency (SAMA) - is constantly improving its norms and has introduced BASEL II and other requirements to encourage capital borrowings amongst SMEs. Furthermore, SAMA has remained active in presenting BASEL III requirements, but still, there are no critical laws with respect to payments and settlement of securities in the existing legal framework (International Monetary Fund 2012). Moreover, the current capitalization of these banks is making it easier for them to comply with the BASEL III standards (Ravichandran & Ahmed, 2015)

Recent analyses emphasize that Saudi financial institutions are aligning more closely with Basel III and ESG-compliant lending frameworks, creating safer credit channels for SMEs and supporting Vision 2030 goals (OECD, 2023; IMF, 2024).

Capital investment ensures the availability of sufficient capital to sustain operating losses. But over the years, SMEs have been facing an issue of easy access to liquid cash to carry out their operations effectively. Moreover, there is an absence of adequate financial support throughout the life of SMEs (Chamber 2016).

Saudi Arabia is advancing towards economic growth, and with the formation of new rules and regulations, it is also creating a framework to enable global outflows and state-building (Young 2015).

b) Marketing Operations

A business is identified by the marketing skills it displays to continue its operations. Creating a value of the product through adequate marketing adds to the brand management (Gundala & Jack, 2014). Marketing skills involve planning, promotion through advertisements, and communicating with customers to keep up with their preferences (Ahmad, Pirzada, & Khan, 2013).

It helps firms innovate continuously and bring new products to the market to enhance their growth (Skoko 2012). SMEs contribute towards market planning and through social networks to increase the overall attention towards the business (Sadi & Iftikhar, 2011).

Irregular or insufficient Market Planning is a major determinant of evaluating business performance. The essential features of marketing operations in SMEs include developing competitiveness through diversity and building direct relationships with customers with limited funds (Nummela 2010). In general, SMEs have a marketing policy, which is developed on customer relationships (Sadi & Iftikhar, 2011). Bouazza, Ardouman, & Abada (2015) cited in their research that the effective factor of marketing skills is evident because of limited resources, such as finance and personnel. As observed in studies, marketing in small firms is considerably different from large-scale firms. Most SMEs either lack skills or are unstructured in their process. Majorly, all employees are responsible for marketing because of a lack of a necessary market expert to handle the wing effectively (Hadi 2015). SMEs are generally into niche markets and consider their target audience accordingly.

The enterprises involved in the retail sector on a smaller scale generally consider customers in a region and are not able to expand into a larger area. To increase their sales, managers at all hierarchical levels participate in executing marketing and sales operations in a firm (Fu 2011).

SMEs in the Middle East face various challenges with respect to marketing because of the skills they possess. They suffer from the hindrances of executing marketing operations on a larger scale. Basically, SMEs are informal, unstructured, and change as per dynamic norms of industry, so they do not achieve much growth, and only a small percentage of SMEs are competitive in the long term (Gundala & Jack, 2014).

Nevertheless, current trends show growing professionalization and market formalization among Saudi SMEs through branding initiatives, innovation hubs, and partnerships with universities and private accelerators (Al Faraj & Al-Shammari, 2024; Al Omran, 2025).

2.3.5. Technology

Knowledge of technology plays an essential role in enhancing the competitiveness of an organization. Proprietors are evolving continuously and taking up new technology to grow their business (Handoko et al. 2014).

In general, SMEs operate in niche markets and do not have much access to technology, so a small percentage receiving the new technology and innovating their processes have a strong chance to enforce their competitive edge (Audretsch et al. 2012). SMEs are adopting and

acknowledging the use of information and communication technology (ICT) in enhancing job creation and economic growth of the country (Elbeltagi et al. 2013).

In recent years, Saudi SMEs have increasingly integrated digital tools such as artificial intelligence, cloud computing, and blockchain to optimize operations and financial transparency, aligning with Vision 2030's digital transformation goals (OECD, 2024; Monsha'at, 2025). SMEs in the KSA are in a transition phase and are facing difficulties in adopting a technology-based orientation to be successful. They have not invested much in e-commerce because of a lack of adequate training and development and a comprehensive strategy to expand the program effectively (Almoawi & Mahmood, 2011). However, national initiatives like "Digital Saudi SME" and partnerships with global technology providers have accelerated the digital adoption rate, providing SMEs with training, infrastructure, and digital literacy programs (Ministry of Communications and Information Technology, 2024; Alqahtani & Hussain, 2024). Clegg, Somali, & Gholami (2010) cited in their research that the government is active in forming policies to promote e-business adoption in KSA.

Some of the sectors, such as petrochemicals, real estate, and others in KSA, are slow in the adoption of new technology due to the impact of internal eruptions in the organization or stringent external policies of the government (Al-Hudhaif & Alkubeyyer, 2011).

2.3.6. Geographical presence

The growing presence of SMEs is an intensive strategy to earn a bigger market share and revenue or profits (Rumanti & Syauta, 2013). The location of the Middle East between Europe and Asia makes it an attractive place to become a trading hub. Mostly Australian companies have strong dominance in the Middle East region, and SMEs hold great potential in Australian export industries such as mining, agriculture, and other industries (Watson 2016).

The emergence of e-commerce has broken geographical boundaries, reduced handling and logistics costs. According to Saha, Prasad, & Singh (2012), e-commerce is the most convenient mode of communication where interaction takes place without any geographical limits. But the Middle East region is still untouched by the glorious impact of technology. This situation is gradually changing, as Gulf Cooperation Council (GCC) countries invest in digital trade infrastructure and smart logistics corridors to enhance cross-border SME participation in e-commerce (World Bank, 2024; SME Finance Forum, 2024).

The firms in KSA have shown slow progress in the implementation of an online retailing environment. AlGhamdi, Drew, & Alhussain (2012) stated in their research that entrepreneurs lacked trust in the online shopping environment in the KSA, thus estimating a sluggish growth in the retail environment globally.

According to a report by the World Trade Organization (2016), SMEs are heterogeneous and differ accordingly in terms of location and scope. An impact of location is controlled logistics and sourcing networks that are reduced based on the determinants defined.

When it comes to SMEs, the location of a firm must be decided based on low production costs. Moreover, the feasibility should be taken care of; if the product is fragmented into different parts and exported after assembling, it is advisable to keep the firm near the export processing area to reduce the logistics cost (Freeman et al. 2012).

Recent data show that Saudi Arabia's strategic logistics initiatives—such as the National Transport and Logistics Strategy (NTLS) and the Saudi Export Development Authority's programs—have positioned SMEs closer to international supply chains, improving export readiness and cost efficiency (Saudi Exports, 2025; Al Faraj & Al-Shammari, 2024).

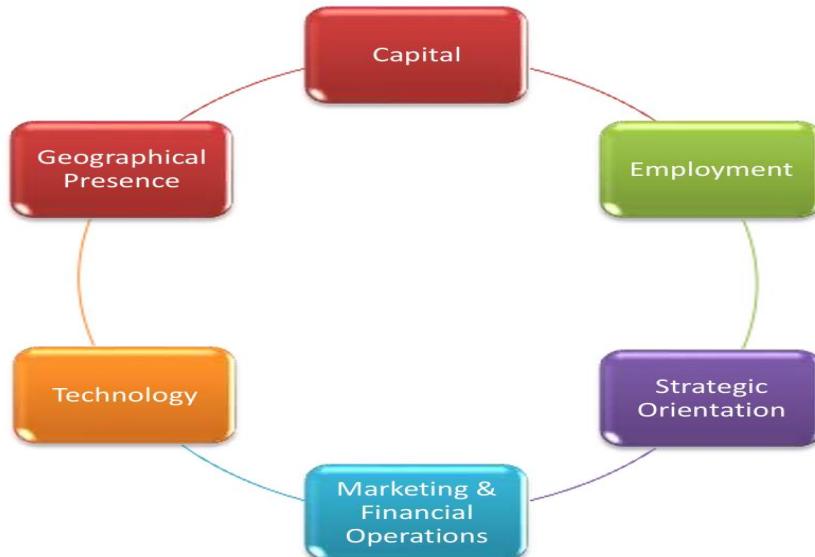


Fig. 5: Pictorial Representation of Characteristics of SMEs.

This figure highlights the core features of SMEs, including flexibility, limited resources, customer focus, and adaptability. Understanding these characteristics helps explain why SMEs face financial, technological, and operational constraints.

2.4. Challenges faced by SMEs in Saudi Arabia

SMEs are a very important factor in the development of the economy and employment in Saudi Arabia. Despite this fact, SMEs are continuing to face several obstacles to expansion, competitiveness, and sustainability, even within the context of significant economic reforms in the context of Vision 2030, as documented by Ramady (2010) and OECD (2024). The challenges faced by them are multidimensional, ranging from financial, technological, strategic, regulatory, to human resource issues.

1) Access to Finance

Adequate financial resources remain the most obvious stumbling block to the growth of SMEs in Saudi Arabia. Such initiatives as the Kafalah Program and the Saudi Venture Capital Company (SVC) exist to promote them, but, in practice, many SMEs cannot benefit from

them due to complicated eligibility criteria, high collateral requirements, and a bank preference for short-term loans aimed at capital-intensive industries (Alqahtani & Hussain, 2024; AlTally, 2023). Alternative Islamic financing options like Murabahah, Musharakah, and Ijarah have been made available to SMEs; however, awareness and adoption gaps have reduced the effectiveness of this initiative (SAMA, 2023; Alshebami, 2024). About 70% of SMEs in developing economies complain of poor access to credit, which critically constrains their operational capacity and potential for expansion (Rocha et al., 2011).

2) Technology Adoption

Technological readiness remains one of the main non-financial barriers. Most SMEs in Saudi Arabia have poor access to digital tools such as artificial intelligence, cloud computing, and blockchain essential for operational efficiency and competitiveness (OECD, 2024; Monsha'at, 2025). Lack of adequate training and low levels of digital literacy, with diffuse organizational resistance to change, dampen the propagation of e-commerce and digital business models (Almoawi & Mahmood, 2011; Alqahtani & Hussain, 2024). Initiatives like "Digital Saudi SME" have increased capacities and skills, but there are still implementation gaps.

3) Marketing and Strategic Challenges

Most SMEs rely on informal networks and operate in the local markets, having very limited marketing strategies and skills. Resource constraints limit their scaling-up capabilities, branding, or expanding into larger markets. Branding initiatives, innovation hubs, and university partnerships have helped to a certain degree; however, most SMEs remain uncompetitive in terms of efficiency in expanding their businesses.

- 4) Regulatory and Legal Challenges The development of SMEs and their internationalization are still hindered by complex regulatory frameworks, bureaucratic procedures, and restrictive business laws. This view is supported by Ramady (2010) and OECD (2024). While Vision 2030 introduced reforms aimed at simplifying the processes of registration and compliance, unequal implementation across sectors has resulted in uncertainty for entrepreneurs.
- 5) Human and Social Challenges The shortage of skilled labor, managerial expertise, and professional development opportunities restricts SME performance. Even for women entrepreneurs, despite the opening up of new opportunities under Saudi social reforms, social and administrative barriers continue to hinder their entry into certain sectors.

While finance plays an important role, the development of SMEs in Saudi Arabia can be impacted by several interrelated factors: financial, technological, strategic, regulatory, and human. Meeting such multidimensional challenges is necessary to improve SME competitiveness, sustainability, and stand in line with the goals of Vision 2030.

3. Conceptual Framework

The empirical investigation of previously conducted studies on similar or related issues to SME management in Saudi Arabia is presented in this part, to identify the key issues and concepts significant to conducting this research work further. We will also present the conceptual framework for this research study, as well as provide a hypothesis for this study.

3.1. Empirical review

A study on SMEs in emerging economies was conducted by Rahman & Lodorfos (n.d.) to understand the barriers to entering global markets. The study was conducted by collecting primary data from 212 companies, and mixed methods were used to analyze it. It was established by the authors that internationalization is the key factor for the growth of SMEs in developing economies.

According to Elasrag (2012), for developing economies of the Middle East region, SMEs represent a huge share in companies operating in the region as well, and this sector is also a major employment provider in the region. This sector is also considered a significant GDP contributor, and the governments in the region must enhance the competitiveness amongst companies to boost economic growth.

Ahmad (2012) has presented a paper on the main constraints and problems faced by micro, small, and medium-sized entrepreneurs (MSMEs) in Saudi Arabia. A mixed research methodology was adopted for the research work, which used both quantitative and qualitative methods. A survey was conducted for 177 MSMEs located in Saudi Arabia and which is a larger sample size covering a broad geographic area. The data collected was statistically analysed to determine factors hindering the growth of MSMEs in the country. The study has identified some of the major challenges faced, such as a lack of financial support, bureaucratic hindrances, corruption, strict government policies, an unpredictable legal system, and an unfriendly business atmosphere. The study also provides recommendations for policy making to promote and strengthen entrepreneurs for simulated business development.

Rahatullah Khan (2013) has critically reviewed the initiatives taken by the government of Saudi Arabia for promoting entrepreneurship. This paper identifies a huge potential for feasible interventions in policy making on the part of the government of Saudi Arabia to trigger growth in entrepreneurship for boosting the economic development in the country. The study has used both primary and secondary data analysis for understanding the business ecosystem of the country. The research work has identified strategic challenges, institutional challenges, and enterprise-level challenges as the main obstacles in triggering entrepreneurship development. In addition to this, the study also identifies huge opportunities and scope for government reforms in the business sector of Saudi Arabia.

Welsh & Raven (2004) have presented an exploratory study on SME management in the Middle East, which is a lucrative and rapidly growing marketplace. This study scrutinizes the multifaceted links between retail SMEs management and perceptions of employees on consumer services. The results suggested that the main difference in the management methods in the Middle East and Eastern countries is due to deep-rooted cultural characteristics. The study provides recommendations to global retailers for conducting business in the Middle East to understand and incorporate the social norms for smooth business operation in the region.

3.2. Key elements identified from review of literature in relation to SMEs in Saudi Arabia.

The environment of SMEs operation in Saudi Arabia can be characterised by the political, social, and technological situation of the country. The major challenges faced by the SMEs include bureaucracy, corruption, hierarchy, unskilled labour, access to technology, a rigid legal system, and cultural and religious restrictions. However, despite the constraints faced by SMEs, there are advantages of operating SME in Saudi Arabia, a boost in economic activity, curbing of monopoly, blending in the modern economy, employment, and entrepreneurship opportunities. The proposed conceptual framework model for the management of SMEs in Saudi Arabia is shown in the following figure.



Fig. 6: Conceptual Framework Model for Management of SMEs in Saudi Arabia.

This figure outlines the conceptual model used in the study, showing how factors such as financial resources, strategy, technology, and market conditions influence SME performance and operational progress.

3.3. Hypothesis development

Considering the conceptual framework developed above, the varied significant hypotheses that would be determined through this study are enumerated below:

H01- The progress in the SMEs sector of Saudi Arabia is hindered due to a lack of financial resources.

Justification: The major roadblock to the progress of SMEs is the limited access to financing services and the lack of credit. SMEs have very limited financial resources at their disposal, which restricts their business operations. The lack of financial aid is due to perceived risks related to SMEs, social norms against charging interest on loans, and more. Therefore, only 10% of the SME are using financial services.

4. Methods

4.1. Introduction

Research methodology is defined as a methodical or academic procedure that is utilized in gathering the necessary data; it can be fundamentally regarded as a procedure used in the process of decision-making. According to Kothari (2004), research methodology is the outline that is utilized while conducting a particular research work, and to accomplish the objectives of the research conducted, a suitable research methodology must be selected by the researcher.

The Research methodology could be categorized into different sub-methods for collecting different information as per the requirements of the research study conducted, such as research approach, research philosophy, research purpose, research design, sampling methods, data collection methods, and so on. This section includes a brief description strategy selected for the research, the methods that will be used for data collection, the sample size selected, and sampling methods, and the data analysis methods that could be used in analyzing gathered data. This section will also provide a suitable justification for the selected methods and how they will aid in accomplishing the objectives. After the selection of the research methodology, their implementation method and level of success are studied from similar research works. The validity and reliability of the study conducted are also included in this section. Also, the ethical and accessibility issues in the context of this work and the limitations of this study will be included in this section.

4.2. Research philosophy, design, methods & approach

Research philosophy is a key technique for collecting and analyzing data, determining the necessary information for a study. According to Kothari (2004), it encompasses the nature, data, and context of the research topic. The main types of research philosophy include realism, interpretivism, and positivism.

Positivism emphasizes objective investigation and relies on data collected by the researcher, minimizing personal beliefs (Anon 2005). Interpretivism is a participative approach that values the researcher's perspective and facilitates an interactive analysis of research problems (Newman & Benz, 1998). Realism focuses on actual beliefs and compares individual reactions to general viewpoints on real-life situations (Newman & Benz, 1998). For this study, the positivist paradigm with an ontological objective was deemed appropriate as it integrates individual interpretations and provides objectivity in analyzing SMEs in Saudi Arabia, aiding the researcher in making informed recommendations.

Research Design: Research design serves as the framework for conducting research, guiding data collection in an efficient manner (Newman & Benz, 1998). It helps establish the correct path for gathering and analyzing data.

Research Method: Research methods clarify the aims of the study and address research problems effectively. They can be classified into exploratory, descriptive, and explanatory research (Newman & Benz, 1998).

Exploratory research provides insights into the problem and is flexible to explore issues (Mackey & Gass, n.d.). Descriptive research outlines the characteristics of the topic and uses methods like case studies and surveys (Mackey & Gass, n.d.). Explanatory research tests connections between variables, offering an in-depth understanding when knowledge of the topic is limited (Mackey & Gass, n.d.).

The researcher has used both descriptive and explanatory research design in conducting this study so that a clear conclusion could be formed for this research study.

The descriptive research design method is selected here as it aids the researcher in understanding the issues concerning the working conditions of SMEs in Saudi Arabia. This design aids in depicting the data collected in the most accurate way possible and thus increases the authenticity of the work. As the research work also focuses on identifying the challenges and opportunities associated with SMEs' operation, an explanatory research design is also a suitable research design for this research study, enabling the researcher to provide suitable suggestions.

Research Approach: Research approach is defined as a procedure for accumulating and choosing information that can improve the legitimacy and validity of the research work conducted. The research approach method is broadly classified into two ways quantitative approach and the qualitative approach. With a quantitative approach, data is gathered in numerical form so that it can be measured, whereas with a qualitative approach, the data collected cannot be measured but is more conceptual in nature than quantitative data (Newman & Benz, 1998).

The quantitative research approach was selected for this research work as it uses deductive logic. For this study, the researcher has formed a hypothesis initially, and then data is collected to determine if the hypothesis can be proved empirically through the evidence collected in the form of quantitative data.

In this study, a Structured Survey was used as the research Strategy. This method is selected because the research topic concerns a wider geographic area and covers a larger demographic. It is feasible to use the survey method because it is cost-effective and flexible in nature.

4.3. Sampling plan

Sampling is the process of collecting samples from a selected population for research in a time- and cost-effective manner. There are two main types of sampling methods: probability sampling and non-probability sampling. In probability sampling, every element in the population has an equal chance of selection, while in non-probability sampling, this is not the case (Cochran, 1999).

Key attributes of sampling include the selection of the sample population and sample size. The sample population is crucial for effective research, and an insufficient sample size can negatively impact reliability, while a large sample can increase costs and time (Teddlie & Yu, 2007). Common probability sampling methods include Simple Random Sampling (SRS), Stratified Sampling, Cluster Sampling, Systematic Sampling, and Multistage Sampling. SRS offers each sample an equal chance of selection, while Stratified Sampling divides the population into groups (strata) based on the research variable and samples from each. Cluster Sampling selects entire clusters randomly from defined groups, and Systematic Sampling is based on specific intervals (Teddlie & Yu, 2007). For this study, 100 SMEs from various sectors in Saudi Arabia were chosen, including Finance, Manufacturing, Healthcare, and more.

Inclusion Criteria: Companies must be SMEs, located in Saudi Arabia, at least one year old, and Private or semi-private enterprises.

Exclusion Criteria: Foreign Nationals, Large companies, State-owned enterprises

Sampling Approach: Cluster probability sampling was selected due to the large geographical area covered. This method is cost-effective and requires less administrative expenditure, making it suitable for the study.

4.4. Data collection and analysis

The researcher employed primary and secondary research methodologies.

Primary Research: A quantitative survey will be administered to 100 companies in Saudi Arabia, using a structured questionnaire to gather general information about SMEs and their financial obstacles. **Secondary Research:** Additional insights were gathered from various sources, including academic journals, blogs, reports, and conferences. **Ethical Considerations:** Informed consent was secured from participants, ensuring voluntary participation and anonymity, while all secondary sources were properly cited to uphold research ethics.

Data Analysis Procedures: After selecting the research topic and reviewing literature, the next step is data analysis, which transforms raw data into knowledge and tests hypotheses. SPSS software is used for analyzing primary quantitative data, focusing on the financial challenges faced by SMEs in Saudi Arabia. Descriptive and explanatory analysis methods provide insights into findings, supported by tables and graphs. This analysis aids in understanding SME operations and offers recommendations to overcome challenges.

Validity and Reliability: Validity and reliability are key components in quantitative research. Validity stands for ensuring that the research meets its goals, while reliability assesses the consistency of results. Validity types include content, construct, and criterion validity. This study tested content validity using pilot testing of a questionnaire with 100 SME employees. Reliability is evaluated with statistical methods, assuming normal distribution, and measured using tools like Cronbach's alpha. A value above 0.60 indicates acceptable internal consistency.

5. Results

a) Data collection and analysis.

This research examines the impact of financial resource scarcity on SMEs in Saudi Arabia. Data was collected from 500 employees across nearly 100 SMEs using closed-ended questionnaires. The analysis, supported by existing literature, highlights the uniqueness and similarities with previous studies. Initial pilot test results established the questionnaire's validity. The findings include demographic data, insights into the SME structure, and perceptions of financial obstacles. The study concludes by discussing the acceptance and rejection of the proposed hypotheses.

Pilot Study: A Pilot test is conducted before conducting actual research to find out existing problems, if any, in the study in terms of questionnaire and methods, so that the mistakes can be recognized and modified before the actual research. Since this study employed 500 responses—a large scale of subject, the establishment of appropriateness of the research instrument and method was imperative, and hence comes the contribution of pilot tests. Pilot test results of Saudi Arabia depicted a mean variance in the range of 2.2 to 3.7, establishing the appropriateness of the questionnaire used and method of data collection. Further, the variance made the varying degree of impact of financial obstacles on the management of SMEs evident.

Table 2: Descriptive Statistics Establishing Validity of Data

Descriptive Statistics	Mean	Std. Deviation
Access to Finance	2.3700	1.30775
Need for a loan	3.3200	1.30948
The size of the loan or maturity is insufficient	3.5600	1.20034

5.1. Descriptive analysis

Descriptive analysis has been conducted in the present study to describe the data collected using frequency analysis. Herein, the demographic profile and the general background of the respondents have been described.

Demographic profile

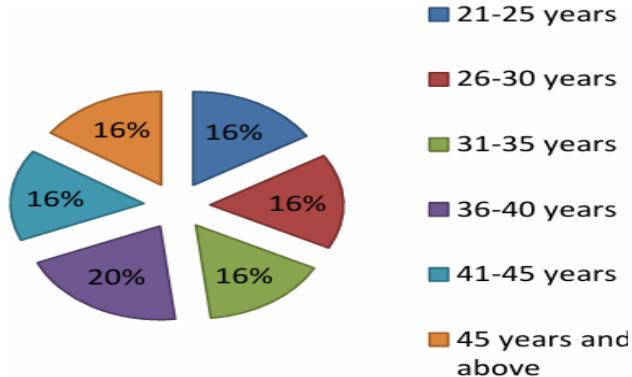


Fig. 7: Distribution of Respondents by Age Group (Saudi Arabia).

The pie chart illustrates the age distribution of the respondents. It shows a balanced representation across all age groups, where each of the categories (21–25, 26–30, 31–35, 41–45, and 45 years and above) represents 16% of the sample, except for the 36–40 age group, which accounts for the highest proportion at 20%. This indicates that the workforce within Saudi SMEs is relatively evenly distributed across age ranges, with a slight predominance of employees in their late thirties, suggesting a mature yet active professional population contributing to business operations.

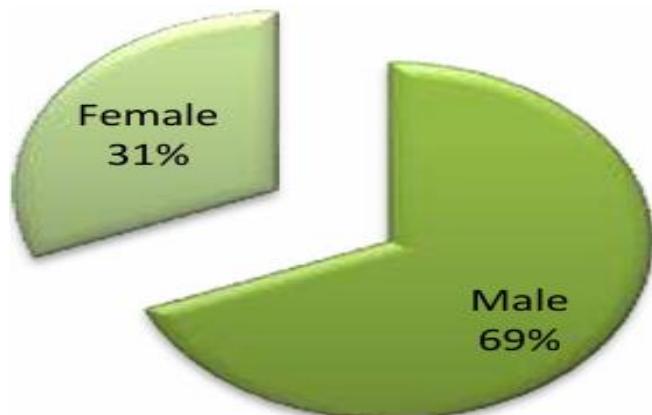


Fig. 8: Gender Composition of Respondents in Yemen and Saudi Arabia.

As shown in Figure 8, male respondents constituted 69% of the sample, while females represented 31%. This gender imbalance reflects the still-limited participation of women in Saudi SMEs, despite recent reforms under Vision 2030 encouraging female entrepreneurship and workforce inclusion. The lower female representation may also indicate continued financial access barriers for women-owned enterprises, which could be explored in future research.

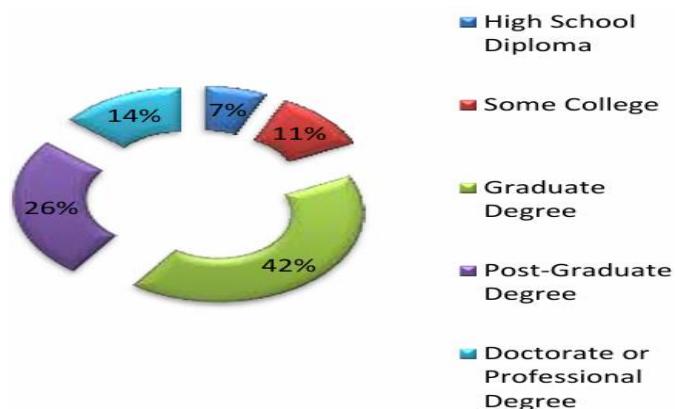


Fig. 9: Highest Educational Qualification of Saudi Respondents.

As shown in Figure 9, 42% of respondents held a graduate degree, 26% had a post-graduate degree, and 14% possessed a doctorate or professional qualification. Only a small portion (18%) had education limited to high school or some college. This indicates that most SME employees in Saudi Arabia are well-educated, which may contribute positively to managerial and operational efficiency. However, despite

the relatively high educational levels, access to financing remains a key challenge, suggesting that financial constraints are not primarily linked to educational background but to systemic and institutional factors.

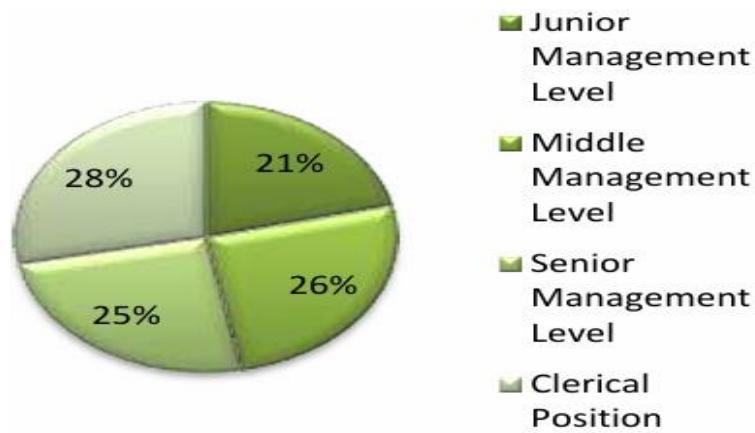


Fig. 10: Job Position / Level of Respondents Within Their Companies (Saudi Arabia).

As illustrated in Figure 10, respondents were fairly distributed across different organizational levels, with 28% in clerical positions, 26% in middle management, 25% in senior management, and 21% in junior management roles. This distribution indicates that a significant portion of respondents occupy decision-making or supervisory roles, allowing for reliable insights into the financial realities faced by SMEs. The balanced representation across hierarchical levels also strengthens the validity of the findings, as both managerial and operational perspectives are reflected. Notably, the presence of 28% clerical employees suggests that operational staff often experience the direct effects of limited financial resources, such as delayed payments and reduced capital availability.

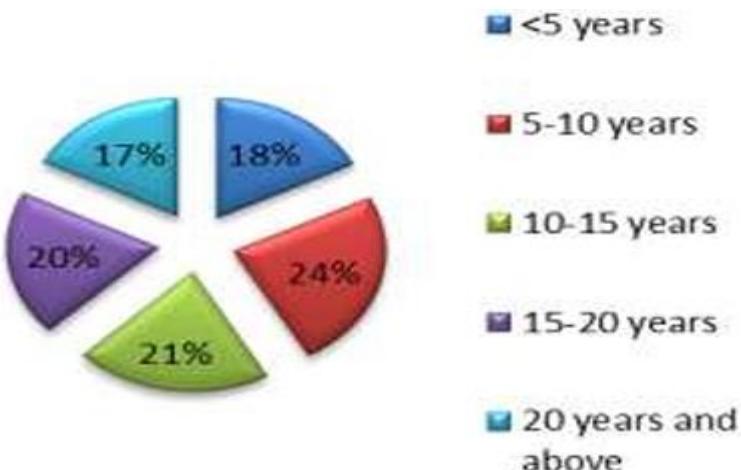


Fig. 11: Years of Industry Experience of Saudi Respondents.

Figure 11 illustrates the distribution of respondents in Saudi Arabia based on their years of industry experience. The largest group (24%) had between 5 and 10 years of experience, followed by 21% with 10–15 years and 20% with 15–20 years. Respondents with less than 5 years of experience represented 18%, while those with over 20 years made up 17%. This indicates that the sample includes a balanced mix of both early-career and highly experienced professionals, ensuring a broad perspective on SME financial challenges.

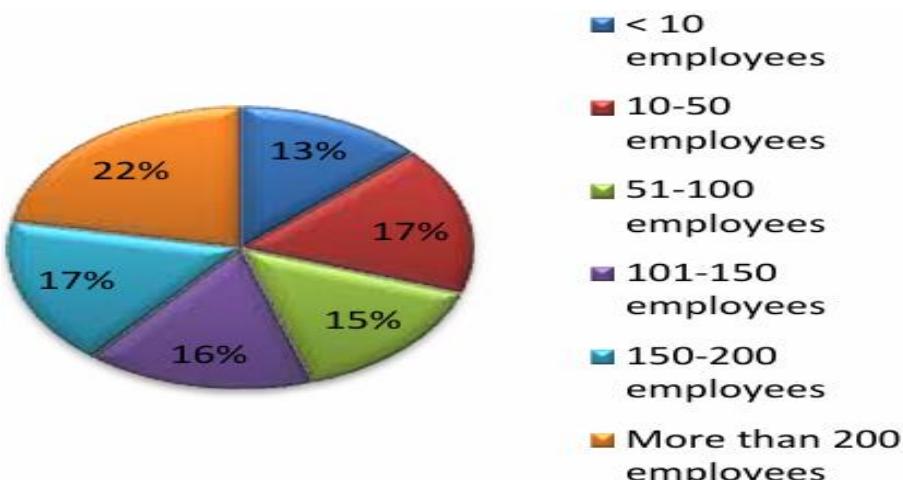


Fig. 12: Company Size by Number of Employees (Respondent Firms).

Figure 12 illustrates the distribution of company sizes among the surveyed Saudi firms based on the number of employees. The largest proportion of firms (22%) reported having more than 200 employees, followed by those with 150–200 employees (17%) and 10–50 employees (17%). Firms with 51–100 and 101–150 employees represented 15% and 16% of the total sample, respectively, while the smallest group—companies with fewer than 10 employees—accounted for 13%. This distribution indicates that the study sample includes a balanced representation of small, medium, and large enterprises, allowing for comprehensive insights into the impact of financial resource constraints across different organizational scales.

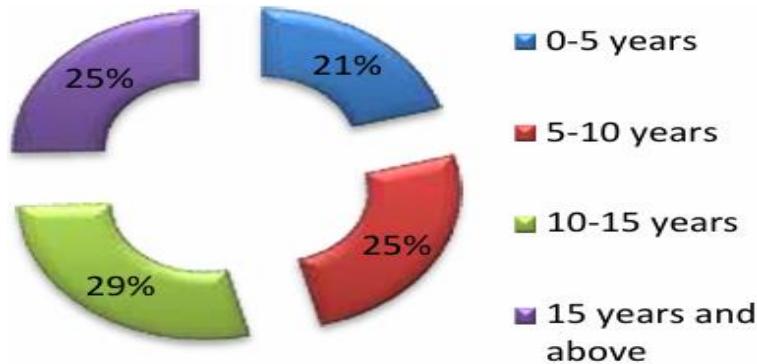


Fig. 13: Age of the Respondent Companies (Years Since Establishment).

Figure 13 shows the distribution of the respondent companies according to their years of establishment. The majority of the surveyed firms (29%) have been in operation for 10–15 years, followed closely by those established for 5–10 years (25%) and those with more than 15 years of business activity (25%). Meanwhile, newly established firms operating for less than five years constitute 21% of the sample. This pattern suggests that the sample encompasses a balanced representation of both emerging and mature enterprises, providing valuable insights into how firm longevity influences the availability and management of financial resources among SMEs in Saudi Arabia.

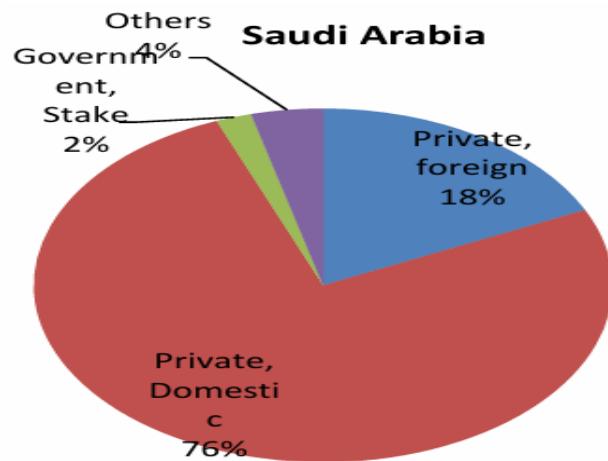


Fig. 14: Ownership Structure of Firms in Saudi Arabia (Private, Foreign, Public).

Figure 14 illustrates the ownership structure of the surveyed firms in Saudi Arabia. The majority (76%) are privately owned domestic enterprises, reflecting the dominant role of local entrepreneurs in the SME sector. Only 18% of firms have foreign ownership, indicating limited international participation. Meanwhile, government stake and other ownership types represent a small portion (2% and 4%, respectively). This ownership pattern highlights the reliance of the Saudi SME ecosystem on local financing and entrepreneurship, which aligns with the country's Vision 2030 emphasis on private sector empowerment.

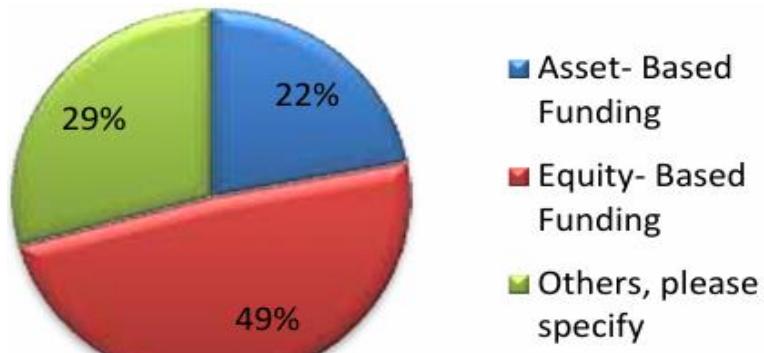


Fig. 15: Primary Types of Capital Funding Used by Respondent Firms.

Figure 15 illustrates the primary types of capital funding utilized by SMEs in Saudi Arabia. Nearly half of the surveyed firms (49%) rely on equity-based funding, suggesting a preference for ownership-based capital sources rather than debt financing. Meanwhile, 22% depend

on asset-based funding, such as loans secured by physical assets, and 29% use alternative funding methods. This distribution underscores the limited diversification of financing channels available to SMEs, reinforcing the study's finding that access to financial resources remains a key constraint to their growth.

5.2. Inferential analysis

Inferential analysis has been conducted in the present study to establish a relationship between the dependent and independent variables. Further, it has facilitated conducting the hypothesis testing in the study. Herein, an analysis was conducted to examine the impact of financial resources on the growth of SME's in Saudi Arabia. The statistical tests used here are correlation and regression analysis. The hypothesis being tested in the present section has been stated as follows-

Ho-1- There is no significant impact of the lack of financial resources on the progress of SMEs in Saudi Arabia.

HA-1- There is a significant impact of the lack of financial resources on the progress of SMEs in Saudi Arabia.

5.2.1. Correlation analysis

Correlation analysis is a statistical technique used to assess the relationship between the variables. In the present study, correlation has been used to assess the relation between the dependent variable and the independent variables. Correlation values lie between -1 and +1, negative values show inverse correlation, and positive values show direct correlation.

Correlation between the dependent variable and the independent variables is given in the table below. In the following section, the correlation analysis of hindrance in the progress of the SMEs with the financial factors for Saudi Arabia has been conducted. It can be inferred from the table below that the hindrance in the progress of SME's in Saudi Arabia is statistically significant and positively correlated with all the financial factors.

In the case of Saudi Arabia, out of all the financial factors, the size of loan/ insufficient maturity was found to possess the maximum Pearson correlation value of 0.86, depicting that it has the maximum impact on the hindrance in the progress of SME's in Saudi Arabia.

Table 3: Correlation Analysis

Correlations	Pearson Correlation	Significance Level
Hindrance in Progress		
High Interest Rates	0.813	0
Complex Application Procedure	0.845	0
High Collateral Requirements	0.821	0
The application would not be approved	0.84	0
Informal Payments	0.786	0
Need for a loan	0.829	0
The size of the loan or maturity is insufficient	0.866	0
Correlation is significant at the 0.01 level (2-tailed).		

Thus, it was found that the size of loan/ insufficient maturity possesses the maximum Pearson correlation value, stating that it is one factor that has the maximum relation with the hindrance of SMEs in Saudi Arabia. Thus, it can be stated that as the size of the loan increases, the progress of the SMEs is hindered. Further, it can be inferred from the correlation tables that all other financial factors have a similar relation with the hindrance of progress of SMEs in their respective areas.

5.2.2. Regression analysis

Regression analysis is a statistical technique that is used to find the impact of independent variables on the dependent variable. In the present hypothesis, financial factors have been taken to be independent variables, while hindrance in the progress of the firm is taken to be the dependent variable. On conducting regression analysis on Saudi Arabia, taking financial factors to be independent variables and hindrance in the progress of the firm to be the dependent variable, the following results have been achieved.

Table 4: Model Summary for Regression Analysis

Model Summary		R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984a	.969	.968	.19995	
a. Predictors: (Constant), High Interest Rates, Complex Application Procedure, High Collateral Requirements, Application would not be approved, Informal Payments, Need for a loan, Size of loan or maturity is insufficient.					

The above table of model summary presents an adjusted R-squared of .984. Thus, it can be stated that the independent variables that are the financial factors included in the model explain 98.6 % variation in the dependent variable, or 98.6 of % changes in the dependent variable are due to changes in the independent variables. The rest of the variation in the dependent variable can be attributed to some other factors, which are not included in the study.

Table 5: ANOVA Table for Regression Analysis

ANOVAa		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	611.952	7	87.422	2186.629	.000b
	Residual	19.670	492	.040		
	Total	631.622	499			

a. Dependent Variable: C28 Hindrance in Progress

b. Predictors: (Constant), High Interest Rates, Complex Application Procedure, High Collateral Requirements, Application would not be approved, Informal Payments, Need for a loan, Size of loan or maturity is insufficient

Further, the above table presents a very high value of F (2186.629) and high significance (.000). It can be stated that the coefficients included in the model are non-zero and contribute to the model fit. Based on the above analysis, the null hypothesis can be rejected, and it

can be stated that there is a significant impact of financial factors on the hindrance of progress of SMEs in Saudi Arabia. The following is the coefficient table of the regression analysis. The following table shows how different coefficients contribute to the overall regression model fit.

Table 6: Coefficient Table for Regression Analysis

Coefficients a		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	Model	B	Std. Error	Beta			
1	(Constant)	-.035	.028			-1.225	.221
	High Interest Rates	.151	.017			.173	.000
	Complex Application Procedure	.151	.012			.180	.000
	The application would not be approved	.126	.011			.147	.069
	Informal Payments	.139	.011			.161	.000
	Need for a loan	.131	.019			.146	.000
a. Dependent Variable: Hindrance in Progress		.160	.013			.183	.000

It can be inferred from the table above that all the coefficients are statistically significant at the significance value of .000. This means that all the coefficients taken into consideration in the present study contribute to the model fit. Out of all the coefficients, the size of the loan or maturity are insufficient, was found to possess the highest value of the standardized coefficient value (.183). This means that it contributes maximum to the hindrance to the progress of the firm.

Thus, it can be stated that if the size of the loan being provided to the SME is not sufficient, then it will prove to be a hindrance to the progress of the SME. This is due to the reason that if the funds with the SME are insufficient, then the SME will not be able to make proper investments that will lead to hindrance in the growth of the SMEs.

The finding of the study is supported by the previous study conducted by Udell (2006). This study also found that the size of the loan impacts the progress of SMEs due to insufficient investments. Thus, this study is in sync with the findings of the present study. Further, an unstandardized coefficient value of .160 states that for every 1 unit change in the size of the loan or maturity are insufficient .160 unit changes take place in the dependent variable, which is a hindrance to the progress of the SMEs.

The second-highest value of the standardized coefficient (.180) was found to exist by the variable complex application procedure, stating that if the loan application procedures are complex, then the progress of the SMEs will be hindered. As the loan application procedures are complex, it will lead the SMEs to wait for a longer time to get the loan approval, which then leads to loss or wastage of many other resources. This all causes the SMEs to face hindrances in their growth and development. In a study conducted by Agwu (2010), it was stated that complex loan procedures cause the SMEs to be tangled in different non-mandatory aspects of business, due to which their very limited resources are wasted, leading to a decline in growth. This study supports the findings of the present study.

Further, an unstandardized coefficient value of .151 states that for every 1 unit change in the complex application procedure, a .151 unit change takes place in the dependent variable, which is a hindrance to the progress of the SMEs. Based on the above discussion, it can be stated that there is a significant impact of market stagnancy and lack of infrastructure on the managerial problems encountered by SME's in Saudi Arabia.

In the case of Saudi Arabia, the size of the loan/ maturity and the insufficient and complex application procedure were found to be the factors leading to the hindrance in the growth of SMEs. Thus, it can be stated that the 180 right size of the loan, the interests associated with it, and the processes/ procedures of acquiring the loan directly impact the growth and development of SMEs in Saudi Arabia. Thus, the banks should properly weigh all their measures, policies, and methods associated with the distribution of loans to the SMEs so that no SME suffers or loses any type of opportunity as a result of insufficient funds. The banks will have to loosen their policies a bit to accommodate the requirements of the SMEs in Saudi Arabia.

5.3. Summary

Based on the data analysis and inferences aspect of the study, and the descriptive and inferential analysis presented in this section, the inferential results found that the size of the loan and insufficient maturity have a high impact on the hindrance in the progress of the SMEs in Saudi Arabia.

Governance norms and trade regulations: The study found that government norms and trade regulations are causing hindrance in the progress of SMEs in the country. Thus, it is recommended to the ruling authority of the country to update its norms and trade-related regulations so that it can facilitate the functioning of the SMEs, thereby leading to their progress. "Business registration procedures can also be simplified and bureaucracy reduced by establishing comprehensive support centers that offer integrated advisory and administrative services to SMEs."

Financially inhospitable environment: The study indicates that the size of the loan or maturity is inadequate, and a high rate of interest acts as a deterrent factor for the growth of SMEs in Saudi Arabia. From this discovery, it is suggested that the banking sector of the country change its policies on business loans provided to SMEs so that working capital required for the growth of the sector is readily available to these organizations at a much lower interest rate and with improved maturity percentages. "Financing programs specifically designed for SMEs with low interest rates and longer repayment periods can be launched, along with incentives for banks to streamline loan procedures through performance-based regulatory incentives."

Social Infrastructure improvement- Though Saudi Arabia is renowned for its world-class infrastructure but when it comes to social infrastructure, the study found that the SMEs lack in social infrastructure, which is leading to managerial setbacks. Thus, it is suggested to the managers of the SMEs to focus on the development of social infrastructure like mobile, internet, networking, and technology like social media. This helps the organizations in not only growing and developing in the country but will facilitates developing on the global platform as well. "In addition, government-supported digital centers and training schools can be established to improve access to social infrastructure such as high-speed internet, communication platforms, and digital technologies."

Technology Adoption and Digital Transformation: Besides the issues of financial and social infrastructure, there are also technology adoption challenges that SMEs must surmount in Saudi Arabia. Limited access to modern tools, automation, and digital platforms can reduce operational efficiency and make enterprises less competitive. Encouragement toward innovative technologies and government-supported training programs for the SMEs themselves will enhance productivity and enable them to integrate more effectively into international value chains. "Providing grants or financial support to SMEs for investing in automation, software solutions, and digital tools, alongside mentorship programs to promote digital transformation and increase awareness regarding the benefits associated with technology, will be helpful.

Gender disparities and workforce inclusion: The demographic findings from the study showed that women's participation in SMEs is still limited, at 31%. Building on the social reforms in Saudi Arabia and the initiatives of Vision 2030, female entrepreneurship should be encouraged, and women's access to finance, mentorship, and training should be eased. Greater gender diversity in the SME sector can contribute to a better pool of talent and ensure more sustainable economic growth. Women entrepreneurs could be assisted through financing and training programs that offer them better access to markets, finance, and business development services, leading to increased women's participation in the economy.

Overall, financial constraints remain a critical barrier; however, technology adoption, social infrastructure, and gender inclusion will provide a more holistic approach toward the development of SMEs in Saudi Arabia, meeting both national reform objectives and global competitiveness trends.

7. Conclusions

In this section of the study, the themes identified as relevant to the research questions will be presented as follows:

What are the factors influencing the progress of SMEs in Saudi Arabia?

Many previous studies have been done in the past to analyze the working status and environment around them based in different geographical areas (Saura et al. 2008; Poulose and Sudsarsan 2014; Nanjundeswaras and Swamy 2014; Blome and Schoenherr 2011). However a very limited research has been conducted in the same field in Saudi Arabia, thus the present research is based on studying the SMEs in Saudi Arabia. The first research question that was developed in accordance with the research topic aimed at exploring the factors that influence the progress of SMEs in Saudi Arabia. Through corresponding identification of the theme, it could be said that the research findings done in this study have established that certain financial determinants cast a strong influence on the working operations of SMEs in the said country.

Specifically, after conducting primary data analysis, the study has indicated the following:

First: non-acceptance of the loan application throttles the operational progress of SMEs in Saudi Arabia. To justify this finding, the study presents that loans act as a resource that aids the SMEs to grow their business in situations when available capital fails to do so. Thus, when loan applications are rejected by funding organizations, firms face big financial setbacks, which manifests in the form of a lack of adequate funding for supporting business growth.

Second: the size of the loan or maturity amount. When the size of the loan applied for and the maturity amount are insufficient, it causes maximum hindrance to the operational progress of the SMEs. While furnishing reasons in correspondence to the interpretation made, this study has referred to empirical sources, which suggest that when the size of loans or maturity amount is insufficient, it leads to a scarcity of funds available to these SMEs. As a result, they are unable to make proper investments that would foster business growth.

Third factor: is the level of complexity of the loan application procedure. Thus, primary findings made in the study report that when the loan application procedure is complex, the SMEs must wait for a long time to get loan approvals. Therefore, there is a loss or wastage of many other resources that might have otherwise fostered operational growth of these firms.

The findings have been further established with scholarly findings, which also remark that complicated loan procedures make SMEs entangled in various non-mandatory aspects of business, due to which very important limited resources available with these firms also get wasted. Eventually, it leads to the decline of business growth.

Finally, the study has found that in Saudi Arabia, the size of the loan/maturity and insufficient and complex application procedures are the primary hindrances. In addition to other factors that remain constant as hindrances to business growth, including the right size of the loan, the interest associated with it, and the procedures of acquiring the loan. Therefore, the study findings establish the theme that the progress of SMEs in Saudi Arabia is dependent upon some cardinal factors.

SME Finance Forum. (2024, February 29). SME Lending: Paving the Way to KSA's Vision 2030. Available at: <https://smefinanceforum.org/post/sme-lending-paving-the-way-to-ksas-vision-2030>

Acknowledgments

I am deeply grateful to all individuals who contributed to the success of this research project. Their support, insights, and encouragement were invaluable throughout the process.

Funding

This research was self-funded by the author and did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Conflict of Interest

The author declares that there are no conflicts of interest related to this research.

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