

The Growth and Challenges of SMEs in Abu Dhabi

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Abstract—Small and medium size enterprises (SMEs) are increasingly becoming important due to their significant impact on the economic growth of a country. Specifically, in Abu Dhabi, the capital city of the United Arab Emirates, SMEs have become the backbone of the city's economy. Despite their significant economic contributions and exponential growth, SMEs face many challenges. Contextualized within the business environment that emphasizes innovation as one of the ways to enhance competitive advantage, this paper presents an overview of the growing landscape and the challenges SMEs face in Abu Dhabi. In this regard, the business process management approach will be proposed to focus on the need for SMEs to be innovative. This discussion serves as a contextual background for research that aims to investigate the adoption of business process management as an approach to enhance the innovativeness of SMEs, which eventually facilitates the achievement of competitive advantage among SMEs.

Keywords—*business process management, challenges, growth, innovation, small and medium-sized enterprises (SMEs)*

I. INTRODUCTION

SMALL and Medium Enterprises (SMEs) and business start-ups are increasingly becoming more popular in today's global economy. [1] highlighted that some of the reasons behind their recent meteoric rise in popularity are that they are relatively easy to operate and establish. Like the rest of the world, SMEs and business start-ups are booming in the United Arab Emirates (UAE). These business setups provide many

benefits in improving the country's economic performance and growth trajectory. For instance, the DCCI (Dubai Chamber of Commerce and Industry) released statistics indicating that SMEs are the biggest contributor to employment opportunities in the private sector. They are estimated to contribute to approximately 90% of all private sector jobs. Such contributions have a remarkable and huge effect on the country's growth. This situation is based on the fact that employment is a key driver of an economy's GDP and contributes to its overall stability [2].

Considering the strong impact of SMEs on the economic growth of a country, there is a need to investigate how SMEs are successful. Accordingly, the output from the investigation can be used as guidance for the government to plan strategically for the development of SMEs in the country. Further, recognizing that socio-cultural factors influence the success of SMEs, an investigation of the success factors of SMEs in a particular context, especially in the Middle East, is necessary. Other factors considered in the analysis include employee skills (acquired education) or financing projects, which have become more of an issue for most ex-pats in the UAE.

This paper discusses SMEs' growing landscape, particularly in Abu Dhabi, the capital city of the United Arab Emirates. Specifically, this paper presents the challenges and the critical success factors faced by entrepreneurs in Abu Dhabi. This discussion serves as a contextual background for research that aims to investigate the success factors of SMEs in the Middle East, drawn from the perspective of Business Process Management. The paper is organized into three main sections. After the introduction, the second section describes the landscape of SMEs in Abu Dhabi, while the third section focuses on the challenges SMEs entrepreneurs face. The fourth section presents the success factors of

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SMEs, highlighting the success factors of SMEs based on the perspective of Business Process Management. Finally, section five presents the conclusion of this paper, which includes suggestions for future research. It is expected that authors will submit carefully written and proofread material.

II. THE GROWING LANDSCAPE OF SMES IN ABU DHABI

SMEs are the backbone of the UAE's economy, making up about 95% of all business establishments in the whole UAE. These business installations constitute about 43% of the total labour force and produce about 40% of the aggregate income from value addition activities in the country's economy. Abdelghaffar contends that those numbers in Abu Dhabi, the UAE's capital, are even higher, with an estimated 60% of the SMEs contributing the largest workforce share (2012). In response to this, the UAE's government focuses on improving the performance and contribution of the SME sector to render these businesses competitive enough in the global market [3].

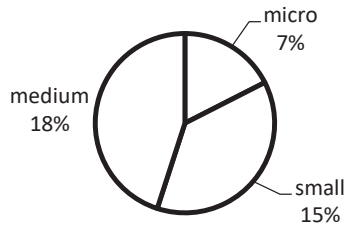
One of the unique elements of the entrepreneurial ecosystem of Abu Dhabi is that approximately 82.5% of entrepreneurs are not full-time business traders but rather conduct their businesses jointly with other occupations, many times in state-owned or government organizations. This part-time business practice is additionally the result of cultural issues. Researchers have contended that risk aversion is one of the biggest obstacles to creating businesses in Abu Dhabi. This factor has hindered the growth of entrepreneurs in Abu Dhabi [4].

Concerning employment, about 42% of the whole workforce in Abu Dhabi works in SMEs. It is also important to note that the total workforce employed in SMEs in Abu Dhabi constitutes about half of the workforce [5]. Regarding labour productivity, SMEs have a lower direct contribution to the gross value-added value within the economy. The value is lower than that registered with the direct contributions of employment. It, therefore, means that the SMEs' labour productivity is significantly less than that

of bigger business establishments, which leads to less to no growth for SMEs in the UAE [6].

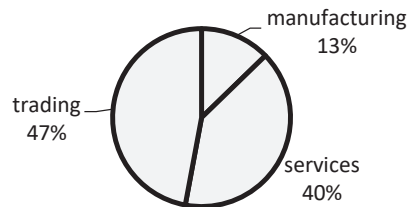
Based on global comparisons between Abu Dhabi and other cities of countries in a similar tier as the UAE, the results indicate a sharp contrast in the level of productivity on a Purchasing Power Parity (PPP) ratio. This situation is after making comparisons with cities such as Seoul and Singapore. Research [7] has outlined some reasons why Abu Dhabi ranks lower than these cities, including limitations owing to the low expansion of ICT services, thus resulting in low productivity in service sectors. Manufacturing and trading perform much better given that ICT solutions' dependence on these industries is still in its infancy. Other reasons highlighted include the limited focus of the business on development, training, and improving employees' skills owing to the transitory nature of the workforce, as well as the low focus on long-term business improvements. To tap into opportunities and innovate, SMEs will need to internationalize. However, they will require platforms to create business relations.

Economic Contributions by Size



(a)

Economic Contributions by Sector



(b)

Fig. 1. (a): Economic Contributions of SMEs by Size and (b): Economic Contributions of SMEs by Sector

The economic contributions of the SMEs in Abu Dhabi concerning size and sector are presented in Fig 1(a) and Fig.1(b). As shown in these figures, both the medium (18%) and small size (15%) enterprises are the main contributors to the economy of Abu Dhabi. The main economic contributions according to sectors are trading (47%) and services (40%) respectively.

Based on the above statistics, it can be concluded that the SMEs in Abu Dhabi contribute significantly to the country's economic development, in which their primary contribution is trading and services. In comparison to large organizations, SMEs are experiencing a lack of productivity. The lack of productivity of the SMEs is due to the lack of innovation among the SMEs. Efforts need to be taken to improve their productivity, considering its significant contribution to the nation's economy.

III. CHALLENGES FACED BY THE SMEs

Challenges faced by SMEs have also been identified. These challenges often limit the growth and development of the industry that has employed many individuals within the country. Based on the literature analysis, there are six challenges faced by SMEs in Abu Dhabi. The six challenges are represented in Fig. 2.

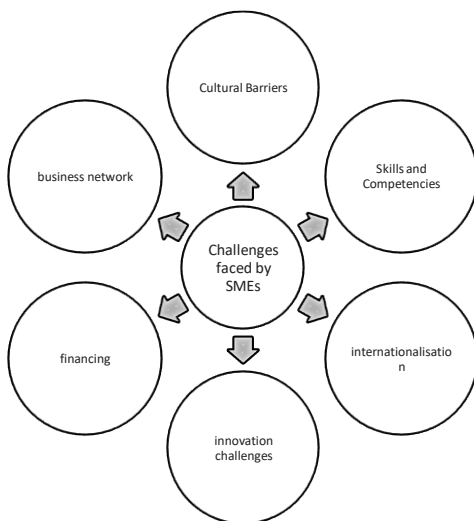


Fig. 2. Fig 2: Challenges faced by SMEs

One of the biggest challenges is the cultural barriers. Cultural barriers are cultural expectations or rules that impede or prevent an individual or individuals from equal participation or inclusion in certain activities [2]. These negative attitudes against people who fail in business activities hinder higher rates of individuals willing to start a business within Abu Dhabi and the larger UAE. An individual who fails in business in the UAE is criticized and seen as a societal failure. Surveys conducted within UAE show that 33% of citizens are afraid of failure, thus preventing them from initiating business plans [8]. This figure is nevertheless common among OECD countries.

Another major challenge faced by SMEs in Abu Dhabi is education-related barriers. Despite business opportunities being available within the country, very few individuals have the requisite skills and competencies to start and excel in a business. This situation speaks volumes about education systems not only in Abu Dhabi but also in the UAE. The education system has been unable to provide sufficient and capable human resource capital to fuel the demand for knowledgeable individuals capable of satisfying the business needs of the UAE market [9].

The third major challenge faced by the UAE SMEs is the internationalization barriers. Only 4% of UAE-owned SMEs are estimated to export almost 75% of all products (services and goods) produced within the country. This figure sharply contrasts with the 14% of all SMEs operating within the country. The significantly low proportions of UAE entrepreneurs doing business at the international level shows that these companies require a lot of support in tapping into fresh and uniquely placed opportunities within the country while at the same time getting help from the stakeholders, including the government [10].

The fourth challenge relates to innovation challenges. UAE lags in terms of R&D, and this has negatively impacted the ability of firms to participate efficiently and at the same level as other international players. Companies based in UAE have little participation and involvement in the technology sector, primarily

owing to cultural dispositions and the high risk involved in technology and associated use and abuse. Research indicates that new UAE-run businesses managed by UAE nationals are primarily situated in low-tech areas. Firms with high innovation have been found to have the potential to turn into high-growth firms. In a survey done by Global Entrepreneurship Monitor, it was found that there can only be two ways of assessing innovation: business competitiveness degree and product originality. The level of innovativeness can be compared to the level of technology of the products produced by the UAE companies.

The fifth challenge relates to finances. Research notes that obtaining a business loan from a financial institution in Abu Dhabi is a big challenge. The practice in the country over the years has been providing personal loans through the employing agency or organization. Perhaps the dismal performance of local businesses in the UAE has played a part in strengthening the part-time culture of doing business as opposed to a full-time business. This financing challenge is why many SMEs in the UAE fail [11].

The sixth challenge relates to the ineffective business links within the country. SMEs act as foundations and pillars upon which businesses and eventually the economy grows. Despite being paramount to economic growth, the networking structures are still in their infancy, noting that besides lack of networking with regards to communication, there are very few business networks within the city and the whole country. The lack of this interrelationship and business-business connectivity means there are no structures upon which SMEs can develop. Further, the lack of these structures translates to zero support and thus hampering the whole process of SME development.

Among all the challenges identified above, the lack of innovation among SMEs has become an important agenda that needs to be addressed considering the emphasis of the city and the UAE on achieving innovation for sustainable growth and competitive advantage of the SMEs. In this regard, the focus of this discussion is to propose an approach that can enhance the innovativeness of SMEs.

According to [12], innovation from the organization is associated positively with performance innovation and assists in understanding best which capabilities can potentially affect competitive advantage that can give economic rent. The research also indicates that either organization or administrative Innovation has a significant and positive impact on a company's performance in terms of growth, financial, internal process and customers. Furthermore, the innovation of processes and products has been found to have a very important role in the performance of an organization. Innovation is taken as an important factor that can help in the generation of lots of benefits for an organization for it to get a competitive advantage.

Research conducted by [13] in Taiwan to determine the relationship between service innovation, market orientation, and innovation performance shows that innovation has mediating results in innovation performance. This study showed that the innovation of products increases the profit rates while the innovation process increases efficiency and profits. Product implementation, the innovation of institution and process enables flexibility of organizations in their various operations, and it enables companies to improve the products quality and the competitiveness of the technology. Based on the above mentioned, this study hypothesizes that innovation has a relationship with the productivity of SMEs.

IV. BUSINESS PROCESS MANAGEMENT APPROACH

Many researchers have investigated SMEs' innovativeness, and these factors are extensive and varied. However, for this discussion, this paper proposes adopting business process management (BPM) to enhance the innovativeness of SMEs. Many of the issues analyzed can be mitigated by using knowledge-centred business process management systems that cultivate good business practices for achieving success factors. This paper advocate that BPM is vital to improving the growth and productivity of SMEs since it deals with increasing knowledge using ICT [14].

Concerning business process management, [15] outlined the critical success factors of Business process management in SMEs. These factors have been gathered from various studies on SMEs and the main factors contributing to SMEs' success. These factors include performance measurement and appraisal, continuous improvement capabilities, client value orientation, supplier management and relationships, and customer relationships and orientation. Others include benchmarking, use of ICT, employee inclusion, involvement and empowerment, education training and motivation of workers, and availability of high-quality human resources. Financial services are also important as they help align organizational goals, which is another vital factor determining the success of SMEs. Leadership and managerial support are also important aspects of professional and organizational culture. [16] argued that the elements of BPM have a positive relationship to innovation capability and productivity. According to them, innovations tend to have an incremental and radical relationship, contributing to various firm performances. It is a very important business performance determinant despite the upheaval of markets the firm conducts. The innovation process can be seen as an effective driver who assists in innovation enhancement and trade performance in an organization. To have expansions of new services and products quality, newness, exceptionalities, and reliability coming from their competitors lead to innovations of services instead of enhancing the overall performance of organizations, including financial and marketing.

V. CONCLUSION

SMEs play a key role in the growth and development of an economy. They create employment and generate income for the government through tax. In Abu Dhabi, SMEs are the backbone of the UAE's economy, making up about 95% of all business establishments in the whole of UAE. SMEs in Abu Dhabi face myriad challenges, including lack of funding, challenges with education, slow R&D,

internationalization barriers, and cultural dispositions. Contextualized within the era that emphasizes knowledge, it is important for SMEs to be innovative to achieve their competitive advantage. In this case, adopting business process management is viewed as an appropriate approach that enhances innovativeness in achieving competitive advantage.

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