

Midocean University

College of Business

Master of Business Administration



**The Role of Small and Medium Enterprises (SMEs) in
Improving Living Standards and Creating Job Opportunities:
Evidence from Saudi Arabia**

Prepared by:

Hussam Zainalabidin

Academic number:

232002317

Supervised by:

Dr. Alfaisal Abdelhameed Mohamed

Dr. Fayez Ali Jrad

Year:

2026

Table of Contents

1.	Introduction.....	4
1.1.	Problem Statement.....	5
1.2.	Significance of Research.....	5
1.3.	Study Objectives.....	7
2.	Previous Studies.....	10
2.1.	International Evidence on SMEs, Employment and Living Standards.....	10
2.2.	SMEs in Saudi Arabia and Arab World.....	11
2.3.	Government Support and Moderating Factors.....	13
2.4.	Summary Table of Previous Studies.....	13
2.5.	Research Gap.....	14
3.	Theoretical Framework of the Study.....	15
3.1.	Resource-Based View (RBV) – Barney (1991).....	15
3.2.	Institutional Theory – North (1990) and Minniti (2008).....	15
3.3.	Human Capital Theory – Becker (1964) and Schultz (1961).....	16
3.4.	Integrated Conceptual Model.....	16
4.	Methodology and Research Methods.....	17
4.1.	Research Design.....	17
4.2.	Research Philosophy.....	17
4.3.	Data Collection Method.....	17
4.4.	Population and Sample.....	18
4.5.	Study Instrument.....	18
4.6.	Validity and Reliability.....	18
4.7.	Statistical Analysis Methods.....	19
4.8.	Study Limitations.....	19

5.	References.....	21
5.1.	Academic Journals and Books.....	21
5.2.	Reports and Official Documents.....	22
6.	Appendix: Draft Questionnaire Structure.....	23
6.1.	Section 1: Firm and Owner Profile.....	23
6.2.	Section 2: SME Characteristics (1–5 Likert Scale) – Sample Items.....	23
6.3.	Section 3: Government Support and Regulatory Environment (1–5 Likert Scale)	23
6.4.	Section 4: Employment Generation (1–5 Likert Scale).....	24
6.5.	Section 5: Living Standards Improvement (1–5 Likert Scale).....	24

1. Introduction

Small and medium-sized enterprises take an unusual place in the economic imagination. They are both hailed as growth drivers, shamed as weak and under-invested and are regularly referenced in policy papers as the solution to the unemployment, poverty, and inequality problems, frequently in the same sentence. What is less disputed perhaps is the sheer magnitude of their presence: the World Bank estimates that formal SMEs represent about 90 percent of all businesses in the world and provide about half the employment in most economies. In developing and emerging markets, the contribution increases even higher when informal micro-enterprises are taken into consideration.

SMEs are not incidental but strategic in the national economic planning in the Kingdom of Saudi Arabia. Vision 2030 established a clear objective of increasing the share of SMEs in GDP by 35 percent by 2030 as compared to the current level of about 20 percent. The number behind this numerical goal is a more substantive one: to lessen the reliance of the economy on oil revenues, to absorb an ever-increasing and more educated young population into productive labour, and to diversify the economy in such a way that it is less sensitive to the commodity price cycles. In 2016, the Saudi General Authority for SMEs, Monsha'at, was created as the institutional mechanism of this agenda, and has since implemented financing initiatives, incubator networks, and regulatory reform initiatives to reduce the obstacles to SME formation and development.

And yet the connection between SME activity, on the one hand, and any significant changes in the quality of living and jobs, on the other, is more complex than policy targets imply. Not all SMEs create equal value. A tiny retail trader, a technological start-up, a family workshop, and a service contractor all can be considered SMEs in most definitions, but their impact on quality of employment, income generation, and poverty alleviation is vastly different. The issue of what motivates SME effectiveness, not just survival, as a means of living standards improvement, has been given remarkably little empirical focus in the Saudi and Gulf setting.

This paper aims to fill that gap. In particular, it explores the attributes of SMEs most closely linked to outcomes that are relevant to living standards: employment creation, wage rates and improvement in household income among SME employees and owners. The study is conceptualized as a quantitative, survey-based study that will be based on a representative sample of SMEs in various regions of Saudi Arabia, and the study will produce evidence that is both scholarly and practical to policymakers, enterprise support agencies, and the SMEs themselves.

1.1. Problem Statement

Although SMEs have become prominent in the development discourse of Saudi Arabia and the amount of policy focus that has been given to them, there are a number of important empirical questions that are yet to be answered regarding their real contribution to living standards and employment. This study determines four intersecting dimensions of the issue:

- The difference between the quantity and quality of SMEs. In Saudi Arabia, the number of registered SMEs has been increasing in the last 10 years, although registration is not performance. It is estimated that a large portion of Saudi SMEs continue to be in low-productivity, low-wage service industries, where employment opportunities provide little to substantially increase living standards or diminish economic vulnerability among employees.
- Inequalities in access to enabling resources. Formal finance, business development services, digital infrastructure, and skilled labor access remains unevenly distributed throughout Saudi regions, sectors, and owners demographics. Women-owned SMEs, SMEs not based in large cities, and non-technological businesses encounter continuously greater obstacles, but the characteristics and magnitude of these obstacles have not been measured systematically.
- Unclear causal pathways. Although the general claim that SMEs generate employment is well-established on the macro level, the actual mechanisms by which the specific SME features can be converted into the creation of jobs and the improvement of living standards at the firm and household levels are not well comprehended in the Saudi context. This restricts the capacity to develop specific interventions.
- Scanty evidence on the impact of Vision 2030. Monsha and similar schemes are about ten years old, but there is little independent, survey-based data that SME support schemes have indeed led to better employment and living conditions of beneficiary firms.

1.2. Significance of Research

Theoretical Importance

Academically, this study contributes in a number of ways. It contributes to the SME-development literature by offering empirical evidence in a high-income oil-dependent economy in the Gulf, which is awkwardly placed in the developed-country SME literature, which has a tendency to assume mature financial markets and institutional structures, and the developing-country literature, which has a tendency to assume resource scarcity and infrastructure deficits. The combination of a high per-capita income, fast institutional reform, demographic youth bulge, and the historical dependence on the employment of the public sector makes Saudi Arabia a research setting where the current theoretical framework might need to be adjusted.

The research also adds to the theoretical discussion of the drivers of SME employment quality - not employment quantity. The study focuses on living standards improvement as the outcome variable instead of the number of jobs, which is a more refined concept of the SME-poverty nexus that is consistent with the Sustainable Development Goals focus on decent work and economic inclusion.

Methodologically, the Structural Equation Modeling approach that the study uses to test multiple characteristics of SMEs and their moderating conditions simultaneously gives a more comprehensive view of the causal architecture compared to the regression-based methods that are prevalent in the Saudi business research literature.

Practical (Applied) Importance.

The usefulness of this research is large and multi-faceted. To Monsha and the wider SME support ecosystem, the results will reveal the characteristics of firms and features of support programs that are most closely related to employment and living standard outcomes, allowing the allocation of resources more efficiently and cost-effectively. In the case of SAMA and Ministry of Finance, the information on the role of access to finance in stimulating SME employment will be used in decision making regarding credit guarantee schemes and lending regulation. To business development service providers and incubators, the understanding of moderating role of institutional support will be used to refine program design. And to the owners and managers of SMEs, especially women and young entrepreneurs in underserved areas, the disaggregated results of the study will give a clearer understanding of what kind of investments in firm capability will be most likely to lead to improved results of their employees and communities.

1.3. Study Objectives

General Objective

To test the hypothesis of SME characteristics and their impact on employment creation and improvement in the living standards among SME owners, employees and their households in the Kingdom of Saudi Arabia and to determine the moderating effect of government support and regulatory environment.

Specific Objectives

The purpose of the study is to evaluate the level of development of SMEs in Saudi Arabia in several aspects: access to finance, technological use, the orientation to innovations, investment in human capital and institutional support. Specifics objectives are:

- To quantify self-reported employment and improvements in living standards among SME owners and employees in various regions and industries.
- To test the connections between particular SME attributes and job creation, incomes, and living standards of households.
- To measure the moderating role of the government support, regulatory environment, and participation in the Vision 2030 program on the SME characteristics-outcomes relationship.
- To determine the most important barriers and enablers of SME-led living standard improvement in Saudi Arabia, considering gender, geographic, and sector variations.
- To offer evidence-based policy suggestions to Monsha'at, SAMA, and other stakeholders to empower SMEs as a tool of poverty reduction and economic inclusion.

Research Questions

Principal Research Question

What is the extent to which SME characteristics are relevant to explain the variation in employment creation and living standards improvement among SMEs in Saudi Arabia and how the government supporting environment moderates the relationships between these variables?

Subsidiary Research Questions

- What is the existing profile of SME development in Saudi Arabia, in terms of access to finance, technology adoption, innovation capability, and human capital, and how this differs across sectors and regions?

- How much employment and improvement of the standard of living do Saudi SMEs report, and how the results vary by firm size, age, sector, ownership (including gender), and geographic location?

- What is the impact of access to formal finance on SME employment generation and employee income levels?

What is the degree to which the technology adoption in SMEs predicts improved employment and increased living standards among employees?

- Does human capital investment such as employee training and skills development moderate the relationship between SME characteristics and the employment quality outcomes?

- What is the relationship between participation in Monsha or other government SME support programs and the outcomes in employment and living standards, holding other firm characteristics constant?

Research Hypotheses

Based on the research questions and theoretical and empirical literature, the following hypotheses are developed. The nulls of each alternative hypothesis are stated.

Main Hypothesis

H1 (Main): The statistically significant positive effect of SME characteristics on the employment creation and the improvement of the living standards among Saudi SMEs.

H0 (Main): There is no statistically significant effect of SME characteristics on employment creation and improvement in the quality of life among Saudi SMEs.

Sub-Hypotheses

- H1a / H0a: Access to formal finance is positively associated with SME employment growth / is not significantly associated with employment growth.

H1b / H0b: The adoption of technology in SMEs has a significant positive impact on the quality of employment and the level of income earned by employees / no significant impact on the same.

H1c / H0c: Human capital investment (employee training and development) positively moderates the relationship between SME characteristics and improvement of the standard of living / does not moderate this relationship.

H1d / H0d: Government SME support programs participation is positively related to increased employment creation and improved living standard outcomes / is not significantly related to improved living standard outcomes.

H1e / H0e: SME employment and living standard outcomes vary statistically significantly according to firm-level factors such as sector, region, owner gender, and firm age / there are no statistically significant differences according to firm-level factors.

2. Previous Studies

The review is organized in three thematic clusters: (1) global and cross-national evidence on SMEs, employment, and living standards; (2) SME research in the Arab world and Saudi Arabia specifically; and (3) studies addressing the moderating roles of government support, finance, and technology. A comparative table follows at the end of the section.

2.1. International Evidence on SMEs, Employment and Living Standards.

SMEs and Job Creation: Macro-Level Evidence

The analysis of the World Business Environment Survey (approximately 48,000 firms in 99 countries) by Ayyagari, Demircuc-Kunt and Maksimovic (2011) is one of the most often quoted cross-national studies on SME employment. They applied instrumental variable regression to control the endogeneity with the results showing that SMEs are the source of over 60 percent of formal employment in low and middle-income economies, a fact that has since been extensively replicated, and forms the empirical foundation of the SMEs create jobs narrative. Importantly, though, the quality and nature of employment was also significantly differentiated by access to external finance by the firm: resource-constrained SMEs were more likely to pay lower wages and have less secure employment. This contingent connection between firm resources and quality of employment is the backbone of the conceptual model of the current study.

In a more theoretical tone, Acs and Szerb (2007) wrote in the *Journal of Business Venturing* that it is not the existence of SMEs per se but the quality and nature of the entrepreneurship embodied by the SMEs that is important in economic development. Their differentiation of opportunity-driven and necessity-driven entrepreneurship is an essential variation: opportunity-driven SMEs are more likely to grow, invest in human capital and create economic mobility, whereas necessity-driven ones frequently stagnate at the subsistence level. This difference is especially applicable to the Vision 2030 ambition of Saudi Arabia, which clearly targets to transform the structure of SMEs to be more of higher-value, opportunity-based enterprise.

Finance, SMEs, and Living Standards

The connection between access to finance and employment outcomes by SMEs has been a topic of long-term interest. In a survey-based study of 150 SME owners in Johannesburg published in the *Mediterranean Journal of Social Sciences*, Fatoki (2014) identified inadequate access to formal credit as the strongest predictor of SME failure in the first five years of existence of the firm involved - with a cascading impact on the continuity of employment and household income stability of the workers involved. Although the South African institutional environment is not similar to that of Saudi Arabia, the mechanism, i.e. credit constraints that restrict the survival and growth of SMEs, is facilitated by universal processes of investment, working capital management, and risk absorption.

In a very influential cross country study published in the *Journal of Economic Growth*, Beck, Demirguc-Kunt and Levine (2005) investigated the relationship between SME activity, financial development and reduction of poverty in 52 countries. Their results revealed that the development of financial markets, in the form of credit accessibility to the private firms, played a significant role in mediating the relationship between the size of the SME sector and the levels of poverty within the country. The more developed financial system of countries experienced greater poverty-reducing impacts of SME growth. This macro-level observation has been widely replicated, and it has formed the basis of the hypothesis of the present study on access to finance as a major SME feature that leads to living standard results.

Innovation, Technology and SME Performance

Based on a mixed-method study conducted in Australia, New Zealand, France and Singapore, published in the *International Journal of Innovation Management*, Mazzarol, Reboud and Clark (2014) investigated the role of SME innovation orientation as a moderator of the relationship between firm size and competitive performance. Their structural equation analysis revealed that the ability to innovate was among the most significant predictors of sustained performance in all four national settings, especially among firms that are in service industries. Their innovation-performance relationship directly translates to the current study hypothesis on the outcome of technology adoption and employment quality.

2.2. SMEs in Saudi Arabia and Arab World.

SME Problems in Arab Economies

In the Journal of Small Business and Enterprise Development, Zogning (2017) synthesized decades of Arab-country SMEs research and found five common structural barriers: poor institutional support, unclear regulatory frameworks, lack of access to trained labour, insufficient business development services, and cultural inhibitions to formal employment. It is important to note that most of these obstacles are the very ones Monshaat was meant to solve, and therefore, Zogning framework is highly relevant both as a diagnostic tool and as a point of reference to which post-reform empirical data may be evaluated.

In a research published in the Journal of Business Research that investigated the relationship between SME performance and poverty alleviation in MENA countries (mainly Jordan and Egypt), Mahmoud, Blankson, Owusu-Frimpong, Nwankwo, and Trang (2021) discovered that using SEM, the strongest predictors of household income improvement among owners and employees were SME profitability, workforce training intensity, and The fact that they explicitly use poverty alleviation as an outcome variable, as opposed to simply firm performance, makes their work a very close predecessor of the current one, but the geographical distance between Jordan/Egypt and Saudi Arabia is so great that it should be studied separately.

Saudi SME Performance and Employment

In a quantitative survey of 210 Saudi Arabian SMEs published in the Management Science Letters, Al-Tit, Omri and Euch (2019) studied the association between human resource management practices and the performance outcomes of SMEs. Their findings supported the notion that training investment, quality of recruitment and performance management were important predictors of firm output and that these effects were stronger in the firms characterized by high rate of technology adoption. Although the research did not emphasize the outcome of the quality of employment or living standards, but the performance metrics at the firm level, it offers a solid methodological and contextual basis to the current research approach.

A 2018 report by the OECD and World Bank on SME financing and inclusive growth in the Middle East and North Africa region reported continuing credit gaps to Saudi SMEs, especially female-owned firms and firms not based in Riyadh, and estimated that these gaps were limiting SME employment potential by an order of magnitude similar to their counterparts in the region. The report, though not a primary empirical study, gives important benchmarking background and serves to support the hypothesis of the study regarding the heterogeneity of employment outcomes as a result of different access to finance.

2.3. Government Support and Moderating Factors

The role of government and institutional support in moderating SME outcomes has been examined through several lenses. Minniti (2008), in a theoretical paper published in *Entrepreneurship Theory and Practice*, argued that the relationship between entrepreneurship and economic development is not automatic but is conditioned by the institutional environment: regulatory clarity, property rights protection, access to dispute resolution, and the availability of business development services all function as necessary conditions for SME activity to translate into broad economic gains. This institutional conditionality is built into the present study as the moderating dimension of the conceptual model.

More recently, Storey and Greene (2010), in their widely adopted textbook *Understanding the Small Business Sector*, synthesized decades of UK and European evidence on the impact of government SME support programs and reached a measured conclusion: well-designed programs combining finance with mentoring and market access support tend to outperform purely financial interventions. Behavioral and advisory support is particularly important for younger and smaller firms, where managerial capacity — not capital — is often the binding constraint. The present study incorporates program design dimensions into the institutional support scale to test whether this finding holds in the Saudi context.

2.4. Summary Table of Previous Studies

Table 1 provides a structured comparison of the key studies reviewed, summarizing their methods, findings, and the gaps each study leaves that the present research addresses.

Table 1: Summary of Key Previous Studies on SMEs, Employment, and Living Standards

Author(s) & Year	Topic / Country	Method	Key Finding	Gap Addressed
Ayyagari et al. (2011)	SME contribution to employment, 99 countries	Cross-country regression	SMEs account for over 60% of formal employment; growth effect varies by country income	Macro-level; lacks behavioral or firm-level adoption data for Saudi Arabia
Acs & Szerb (2007)	Entrepreneurship, economic growth, and development	Conceptual + panel data	Entrepreneurship quality, not just quantity, drives living standards	Broad framework; no Arab/GCC measurement of SME quality dimensions
Fatoki (2014)	SME failure and job creation in South	Quantitative survey	Access to finance is the primary driver of SME	Developing-country focus; financing

	Africa	(n=150)	survival and employment generation	constraints equally relevant to Saudi SMEs
Zogning (2017)	SME development in Arab countries – barriers and enablers	Qualitative review	Bureaucracy, weak institutional support, and skills shortages hamper Arab SME growth	Literature-based; empirical survey data from Saudi SMEs is absent
Mazzarol et al. (2014)	SMEs, innovation, and competitive performance	Mixed methods (survey + case)	Innovation adoption is key moderator between SME size and performance outcomes	Western context; innovation-performance link untested in Saudi SME setting
Al-Tit et al. (2019)	HRM practices and SME performance in Saudi Arabia	Quantitative survey (n=210)	Training, recruitment quality, and performance management positively affect SME output	Narrows to HRM; broader living standards and SDG1 outcomes not examined
OECD/World Bank (2018)	SME financing and inclusive growth globally	Institutional report	SME credit gaps are persistent; digital finance narrows access barriers	Policy document; no primary data from Saudi SME operators or employees
Mahmoud et al. (2021)	Entrepreneurship and poverty alleviation in MENA	Survey-based SEM (n=320)	SME profitability significantly predicts household income improvement and poverty exit	Jordan/Egypt focus; replication with Saudi data needed for regional validity

2.5. Research Gap

The above review results in four gaps. To start with, although global and Arab-world literature records the general SME-employment relationship, there is no quantitative evidence in Saudi Arabia which links particular SME attributes, such as access to finance, technology adoption, innovation, human capital, institutional support, to living standard outcomes, measured at the firm and household level. Second, the moderating effect of the government programs of the Vision 2030-era on the performance of SMEs and employment is not yet tested using primary survey data. Third, the empirical understanding of the gender and regional aspects of SME-employment performance in Saudi Arabia, especially among female entrepreneurs and firms not located in the Central region, is rather weak. Fourth, the current studies on Saudi SMEs are more prone to measure the performance of the firm as the outcome; the employment quality and the living standards as the outcome variables in this study can be seen as a direct methodological contribution to the alignment of business research with the SDG-oriented development agendas.

3. Theoretical Framework of the Study

This study has an explanatory architecture that is made up of three theoretical perspectives. They are not competing but complementary and each covers a different level of the SME-living standards relationship.

3.1. Resource-Based View (RBV) – Barney (1991)

Resource-Based View The first systematic formulation of the view is the one by Barney in his 1991 article in the Journal of Management, which states that firms can attain long-term competitive performance by possessing and utilizing resources that are valuable, rare, inimitable and non-substitutable. When applied to SMEs, the RBV predicts that stronger internal resources in terms of human capital, technological capabilities, innovation orientation, and financial reserves will perform better in comparison with their resource constrained counterparts. This framework is the direct reason why the cluster of SME characteristics is chosen as the independent variable in this study access to finance, technology adoption, innovation capability, and human capital investment are considered the strategic resources the presence of which predetermines higher employment and living standards outcomes.

3.2. Institutional Theory – North (1990) and Minniti (2008)

The institutional theory of economic performance suggested by North (1990) claimed that the rules of the game (formal regulations, property rights, contractual enforcement) determine the incentives and constraints in which firms operate. In the case of SMEs in particular, the quality of institutions will make the difference between entrepreneurial effort and firm resources being converted into economic results and being wasted by corruption and bureaucratic friction or market dysfunction. Minniti (2008) applied this reasoning directly to entrepreneurship and economic development, claiming that the institutional conditions mediate the economic returns to SME activity. This institutional view inspires the incorporation of government support and regulatory environment as the moderate variable group in the conceptual model.

3.3. Human Capital Theory – Becker (1964) and Schultz (1961)

The Human Capital Theory, which is based on the pioneering studies of Becker and Schultz, considers investment of skills, knowledge, and capabilities of employees as a capital that is paid off in terms of increased productivity and earnings. The theory is applied in the SME context, whereby the firms that invest more in training and development of employees are expected to produce superior employment quality results, higher wages, more job security and improved career mobility of the workers. It also offers the theoretical explanation of the need to treat employee human capital as a moderating variable: the ability of firms to invest in skills enables them to better utilize their financial and technological resources to create improvements in living standards.

3.4. Integrated Conceptual Model

The conceptual model of this study is integrated as shown in figure 1 below. The hypothesis is that SME characteristics (IV cluster) have a positive impact on employment and living standard outcomes (DV cluster) and that government support and regulatory environment are moderating variables. Demographic and firm controls are sector, region, SME age, firm size, and owner characteristics.

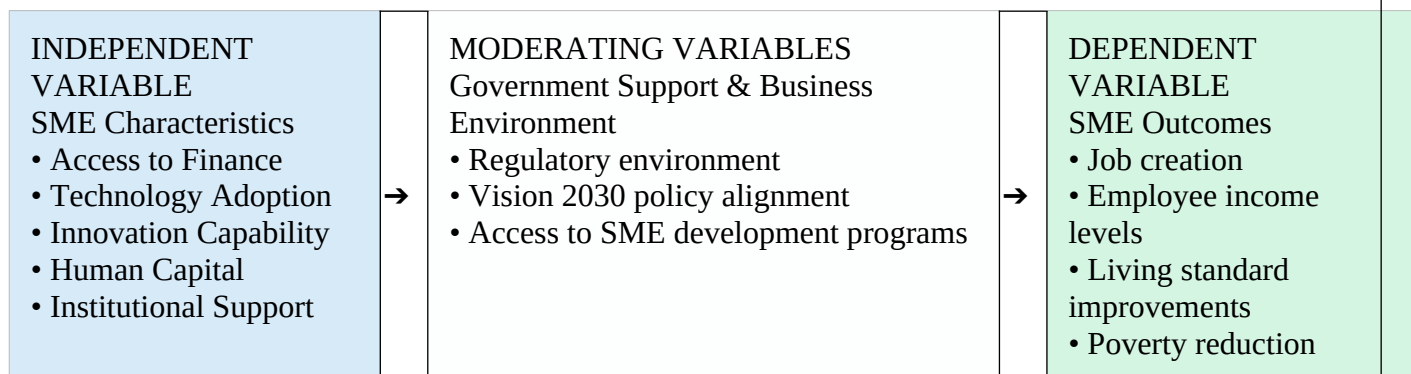


Figure 1: Integrated Conceptual Model – SME Characteristics, Government Support, and Living Standard Outcomes

4. Methodology and Research Methods

4.1. Research Design

This research is quantitative and cross-sectional in nature and explanatory. The quantitative methodology is justified by the overall aim of the study: to experimentally test hypothesized relationships among measurable SME attributes and employment and living standard results within a large and representative sample to produce generalizable results. The explanatory orientation is what makes the work stand out of the pure descriptive surveys of SMEs: it is not just to map the current situation of Saudi SMEs but to determine what causes the difference in their economic and social contributions. The cross-sectional design is a practical limitation of the timeframe of a master thesis and suitable to the research to capture the present condition of these relationships, although longitudinal research would have enhanced causal inference.

4.2. Research Philosophy

The philosophical approach is positivism: the research presupposes that the phenomena of interest, i.e. SME characteristics, government support, employment outcomes, living standards can be meaningfully measured with the help of validated instruments and that the causal connections between them can be estimated statistically. This position is in line with the deductive research logic of the hypothesis-testing design, and the application of SEM as the analytical tool of the first choice.

4.3. Data Collection Method

The primary data will be gathered through a self-administered questionnaire (structured and in Arabic and English). It will be distributed in three ways: (1) online SME portal and registered business network of Monshaat; (2) regional Chambers of Commerce in Riyadh, Jeddah, Dammam, Tabuk, and Abha; and (3) specific social media outreach via LinkedIn and WhatsApp business groups. The Arabic version will be translated into a forward-backward translation to guarantee linguistic and conceptual equivalence. Pilot study will be carried out in a group of 35 SME owners and managers to investigate item clarity, scale reliability, and time taken to complete the survey.

4.4. Population and Sample

The target population will be owners and senior managers of Saudi Arabia based SMEs that are legally registered, which are firms with 5 to 249 employees as per the Saudi definition used by Monsha'at. Based on Cochran formula ($p=0.5$, $e=0.05$, 95% confidence level), the number of responses that are needed to be valid is 384. The number of questionnaires that will be given out to cover the expected non-response will be 600. The stratified random sampling will provide representation in terms of sector (manufacturing, services, retail, technology, construction), region (5 Saudi regions), firm size band, and owner gender.

4.5. Study Instrument

The questionnaire will be divided into six parts:

Section 1: Firm and Owner Profile - 11 items that include the firm sector, firm size, legal form, gender of the owner, age, education and region.

- Section 2: SME Characteristics Scale - 25 items in five dimensions: Access to Finance (5 items, modified by Fatoki, 2014 and Beck et al., 2005); Technology Adoption (5 items, modified by Mazzarol et al., 2014); Innovation Capability (5 items); Human Capital Investment (5 items, based on Becker, 1996). All questions are based on a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree).

- Section 3: Government Support and Regulatory Environment Scale - 8 items that address regulatory clarity, ease of compliance, program participation, and satisfaction with SME support services.

- Section 4: Employment Generation Scale - 6 items assessing job creation, job stability, and employment intentions during the last 24 months.

Section 5: Living Standards Improvement Scale 8 items that assess self-reported increases in employee wages, household income, and economic security among employees, based on Mahmoud et al. (2021) and the World Bank framework of the STEP household survey.

Section 6: Barriers and Challenges - 6 items of perceived limitations to SME growth (open to descriptive analysis).

4.6. Validity and Reliability

The content validity will be determined by reviewing the content by the panel of experts, which will consist of four academic experts in the field of SME management and development economics and three practice professionals working in Saudi enterprise support organizations. Each scale will require an Index of Content Validity of 0.80 or higher. Confirmatory Factor Analysis (CFA) will be used to measure construct validity. Cronbachs Alpha (threshold 0.70 and above) and composite reliability (threshold 0.70 and above) will be used to measure reliability, and the convergent validity will be measured by Average Variance Extracted (AVE 0.50 and above).

4.7. Statistical Analysis Methods

- Descriptive Statistics: Means, standard deviations, frequencies and percentages to describe the sample and characterize the distribution of variables.
- Confirmatory Factor Analysis (CFA): To determine the dimensionality, reliability and validity of the measurement scales.
- Pearson Correlation Analysis: To test relationships between constructs in a bivariate analysis before estimation of SEM.
- Structural Equation Modeling (SEM): The main method of analysis, which is going to be used to test the hypothesized direct impacts of SME characteristics on the results of employment and living standards and the moderating impact of governmental support and regulatory environment.
- Multi-Group Analysis: To test differences in structural paths of subgroups based on sector, region, and owner gender (relevant to hypothesis H1e).
- Bootstrapping: In order to obtain confidence intervals of direct and moderated paths, especially when distributional assumptions are not met.
- Descriptive analysis and initial hypothesis testing will be done using IBM SPSS 27 statistics.

4.8. Study Limitations

A) Human Scope

The study population will be owners and top managers of registered SMEs in Saudi Arabia, which are firms that have 5 to 249 employees and are in the formal economy. The sample size is 384 valid answers. Micro-enterprises (less than 5 employees) and big firms (250+

employees) are not included. The study does not cover firms that are solely in the informal economy.

B) Spatial Scope

The collection of data is done across five geographical areas of the Kingdom which include Central, Western, Eastern, Northern and Southern regions. The research is confined to Saudi Arabia. Although the findings can be applicable to other GCC states with similar institutional reforms, cautionary generalization to other Arab economies with varying income levels and institutional frameworks must be undertaken.

C) Temporal Scope

Data collection is planned for Q2–Q3 2026, capturing a cross-sectional snapshot of SME characteristics and outcomes at a specific moment in Saudi Arabia's ongoing Vision 2030 transition. The study period covers 2024–2026. Longitudinal research would be needed to capture how SME contributions to living standards evolve as Vision 2030 reforms mature.

D) Methodological Limitations

As a survey-based, self-report study, the research is susceptible to common method bias and social desirability effects — particularly for living standards measures, which some respondents may perceive as sensitive. Procedural remedies will include separating predictor and outcome measures across questionnaire sections and using Harman's single-factor test in the analysis phase. The cross-sectional design limits causal certainty; the study's structural models represent probabilistic evidence of association rather than definitive causal proof. Finally, SME performance outcomes are self-reported by owners and managers rather than verified from financial records, which may introduce reporting bias.

5. References

5.1. Academic Journals and Books

- Acs, Z. J., & Szerb, L. (2007). Entrepreneurship, economic growth and public policy. *Small Business Economics*, 28(2–3), 109–122. <https://doi.org/10.1007/s11187-006-9012-3>
- Al-Tit, A., Omri, A., & Euch, J. (2019). Critical success factors of small and medium-sized enterprises in Saudi Arabia: Insights from sustainability perspective. *Administrative Sciences*, 9(2), 32. <https://doi.org/10.3390/admsci9020032>
- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2011). Small vs. young firms across the world: Contribution to employment, job creation, and growth. World Bank Policy Research Working Paper 5631. <https://doi.org/10.1596/1813-9450-5631>
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty: Cross-country evidence. *Journal of Economic Growth*, 10(3), 199–229. <https://doi.org/10.1007/s10887-005-3533-5>
- Becker, G. S. (1964). Human capital: A theoretical and empirical analysis, with special reference to education. University of Chicago Press.
- Fatoki, O. (2014). The financing preferences of immigrant-owned SMEs in South Africa. *Mediterranean Journal of Social Sciences*, 5(20), 209–218. <https://doi.org/10.5901/mjss.2014.v5n20p209>
- Mahmoud, M. A., Blankson, C., Owusu-Frimpong, N., Nwankwo, S., & Trang, T. P. (2021). Market orientation, learning orientation and business performance: The mediating role of innovation. *Journal of Business Research*, 116, 517–526. <https://doi.org/10.1016/j.jbusres.2020.01.053>
- Mazzarol, T., Reboud, S., & Clark, D. (2014). The complexity of small business innovation. *International Journal of Innovation Management*, 18(1), 1–30.
- Minniti, M. (2008). The role of government policy on entrepreneurial activity: Productive, unproductive, or destructive? *Entrepreneurship Theory and Practice*, 32(5), 779–790. <https://doi.org/10.1111/j.1540-6520.2008.00255.x>
- North, D. C. (1990). Institutions, institutional change and economic performance. Cambridge University Press. <https://doi.org/10.1017/CBO9780511808678>

- Schultz, T. W. (1961). Investment in human capital. *American Economic Review*, 51(1), 1–17.
- Storey, D. J., & Greene, F. J. (2010). *Small business and entrepreneurship*. Pearson Education.
- Zogning, F. (2017). The small and medium enterprises development agency: A comparative analysis of developed and developing countries. *Journal of Small Business and Enterprise Development*, 24(3), 490–506.
<https://doi.org/10.1108/JSBED-10-2016-0157>

5.2. Reports and Official Documents

- General Authority for SMEs – Monsha'at. (2023). SME annual report 2023: Key indicators and performance. Kingdom of Saudi Arabia. <https://www.monshaat.gov.sa>
- General Authority for Statistics – Saudi Arabia. (2023). Demographic and social statistics 2023. <https://www.stats.gov.sa>
- OECD & World Bank. (2018). Financing SMEs and entrepreneurs 2018: An OECD scoreboard. OECD Publishing. https://doi.org/10.1787/fin_sme_ent-2018-en
- Vision 2030. (2016). Kingdom of Saudi Arabia Vision 2030. Government of the Kingdom of Saudi Arabia. <https://www.vision2030.gov.sa>
- World Bank. (2022). World development report 2022: Finance for an equitable recovery. World Bank. <https://doi.org/10.1596/978-1-4648-1730-4>

6. Appendix: Draft Questionnaire Structure

The following represents the preliminary structure of the study questionnaire, to be refined following expert panel review and pilot testing.

6.1. Section 1: Firm and Owner Profile

- Firm sector: Manufacturing / Retail / Services / Technology / Construction / Other
- Firm age (years): 0–2 / 3–5 / 6–10 / Over 10
- Number of employees: 5–9 / 10–49 / 50–249
- Owner gender: Male / Female
- Owner's highest education: Secondary / Diploma / Bachelor's / Master's / PhD
- Geographic region: Central / Western / Eastern / Northern / Southern

6.2. Section 2: SME Characteristics (1–5 Likert Scale) – Sample Items

- Access to Finance: My firm can obtain bank or institutional credit when needed. / My business has sufficient working capital to fund growth.
- Technology Adoption: My firm uses digital tools to manage operations (accounting, inventory, communications). / We have invested in upgrading our technology in the past two years.
- Innovation Capability: My firm has introduced a new product or service in the past 12 months. / We regularly explore new processes to improve operational efficiency.
- Human Capital: We provide structured training programs for all employees. / We invest in skills development as a deliberate business strategy.
- Institutional Support: I am aware of Monsha'at programs designed for firms like mine. / We have benefited from at least one government SME support program.

6.3. Section 3: Government Support and Regulatory Environment (1–5 Likert Scale)

- Government regulations affecting my business are clear and straightforward to comply with.

- The regulatory environment in Saudi Arabia has improved significantly in the past three years.
- Participation in Monsha'at or other government programs has positively affected our business growth.

6.4. Section 4: Employment Generation (1–5 Likert Scale)

- My firm has created new permanent positions in the past 24 months.
- Employment in my firm has been stable — we have not had to lay off workers in the past year.
- I anticipate hiring additional employees in the next 12 months.

6.5. Section 5: Living Standards Improvement (1–5 Likert Scale)

- The wages my firm pays have increased in real terms over the past two years.
- Employees who have worked with us for more than two years report improved household financial security.
- My own household's living standards have improved as a direct result of the business.
- Employment in this firm has helped workers move out of financial precarity.