



IMPACT OF COVID 19 ON SME OF IN SAUDI ARABIA

Dr. Ahmad Murtaza Alvi, Assistant Professor
College of Finance, Department of Business Administration
Saudi Electronic University, Saudi Arabia, Riyadh

ABSTRACT

Small and Medium Enterprises (SMEs) have an essential role in the economy's stability around the world, particularly in developing countries. In several countries, more than ninety percent of all companies are small and medium enterprises if they have less than 250 employees. According to the International Labor Organization, many of these establishments could be classified within the micro-enterprises, which have less than ten workers. Whereas most companies worldwide are suffering under the COVID-19 pandemic, SMEs, in particular, are vulnerable and might lack enough cash flow to keep their operations. It is reported that 58 percent of the existing small and medium-sized companies showed a decrease in their sales compared to the last year in the same months. About (51%) declared a sales decline of more than 50%, while many of them were unable to continue their activity. By providing adequate support, small and medium-sized enterprises may be able to recover economically. Governments can help get this chance and enhance the long-term sustainability of public finances through adequate tax initiatives. The tax authorities worldwide, especially in developing countries as the informal sector is keep growing, play an essential role in assessing and monitoring SMEs' challenges and needs and providing the needed help.

Small and medium enterprises contribute to promoting growth, creating job opportunities, and encouraging innovation. As they constitute 41.99% of the Kingdom of Saudi Arabia, and their contribution to the GDP is equivalent to 7.28%. In various countries worldwide, SMEs are among the most important engines of economic growth in those countries.



INTRODUCTION

In general, economic institutions consider the basis of economic development in all countries. Among these firms, the vital and essential role of small and medium enterprises emerged clearly. The available statistics indicate that small and medium enterprises are dominant in all countries' economies and are thus the central pillar of these countries' economies. In the United States of America, these institutions represent 99.6% of all institutions; in Germany, 90%, Japan 99.3%, and Europe 99.8%. Statistics also indicate significant economic and technological advances and developments occur within small enterprises and companies' frameworks. Even in large corporations, these developments occur in the smaller units and companies affiliated with them. These institutions can develop, grow and survive despite their constant exposure to disappearance and emergence due to the bankruptcy and training processes associated with them. Nowadays, the world is witnessing the repercussions of the spread of COVID-19 that affect different sectors, causing a significant shock to the global economy that may lead to a sharp shift in growth rates for the year 2021 happened in 2020. This is not the first shock in the world. Nevertheless, all previous crises had a restricted geographical point without spreading, in addition to a time range that reached a climax then stopped. Regardless, COVID-19 has proven to be uncontrollable, as it spreads across the world and affects the economy globally. Besides, there is no specific time range within which this crisis will occur, like other previous crises globally, which has caused a state of panic and instability in countries' economies (Miloud and Saida, 2020).

Authorities have taken several measures to decrease the pressures caused by the COVID-19 epidemic. This includes tax payments deferral, extensions of the deadline for filing tax returns, social security contributions, lower interest rates, exemption from interest payments exemption from or elimination of tax payments, expedited refunds, and late payment penalties. Whereas most tax and policy measures could be applied to companies of all sizes, some target SMEs and may significantly alleviate short-term liquidity problems and reduce compliance burdens. For example, South Korea reduced SMEs corporate income tax in some areas designated as disaster areas and lowered the value-added tax on small companies by increasing the registration



threshold. Also, Hungary has expedited VAT refunds for small and medium-sized companies, as these companies can now recover funds within 30 days of applying instead of seventy-five days. Moreover, in New Zealand, the limit on paying the temporary tax was raised to 5,000 New Zealand dollars to reduce pressure on small business cash flows. In the same context, Italy launched different measures targeting six areas at the macro level, including reducing the tax burden and financing measures to support small and medium-sized companies and their workers (Muqiao and Tamar, 2020).

The Saudi Arabian Monetary Agency announced last year that it is based on its role in activating monetary policy tools and enhancing financial stability, including enabling the financial sector to support the private sector's growth. In the context of supporting the state's efforts to combat the COVID-19 and decrease its expected economic impacts on the private sector, particularly on the SMEs sector. The Foundation worked on preparing a program whose value at the current stage would amount to about 50 billion riyals (SKYnews, 2020). Although companies appreciate the Saudi government's measures to limit the negative impact of the crisis on the economy, the vast majority of business owners do not believe that they address the challenges of their direct business adequately. It is also seen that these measures favoured the rights of employees over those of employers.

In line with the global crisis afflicting the globe, this study's importance stems from shedding light on some of the challenges SMEs face in the Kingdom. This is especially true since these organizations are the most vulnerable in terms of jobs, income sources, and economic conditions. The assessment also examines the effects of the epidemic on SME's, their coping strategies, and their prospects. Providing some information to decision-makers to know the impact of the crisis on these institutions and finding solutions to the obstacles they face to overcome the crisis and maintain claims in the Saudi market.



REVIEW OF LITERATURE

There is no precise definition of small and medium enterprises. Enterprises that are considered small in developed countries are considered large by developing countries, and there is more than one definition in one country (Ayandibu, 2017).

Countries have adopted different standards to define them. Among the essential common standards: workers' standard, capital standard, sales and revenue standard, production standard, the technology used standard, energy consumption standard, but the most common criteria are the number of workers, and here there is also a difference About the maximum and the minimum number of workers, for example, in Germany, the number does not exceed 49 workers, and in England, there are 200 workers and 300 workers in Japan.

Some countries define SMEs as projects in which the number of employees does not exceed 250 workers. As for East Asian countries, and in a recent study on medium and small enterprises by the Association of Southeast Asian Nations (ASEAN), those countries considered enterprises small and medium if their number is less than 100. (Regnier, 2017).

The United Nations Industrial Development Committee defines medium and small enterprises in developing countries as every institution that employs less than 90 workers, as for the developed countries, it is a small and medium enterprise if it employs less than 500 workers. (Muriithi, 2017).

It also can be defined as those projects whose size is included in the circle of projects that need support and care and stemming from their technical or financial inability to provide this support from their resources, capabilities, and capabilities. Given these data, the criterion of the number of workers and the value of assets are two essential elements for various countries of the world in determining small and medium enterprises according to their industrial activities or outside the field of industry. (Baporikar, 2015).

COVID-19 measures during the first quarter of 2020 slowed global economic growth. The International Monetary Fund witnessed a sharp contraction in 2020 as this pandemic caused a global financial crisis through a sharp decline in all of the overall demand, consumption and public spending, supply chains, worldwide manufacturing and services, tourism revenues,



international trade movement, foreign investment flows, Global financial market indices, and oil prices retreated (Aktar et al., 2020).

79% of the owners of small and medium enterprises' activities did not include e-services before the COVID-19 pandemic. Furthermore, 21% of the business owners' activities included electronic services in accommodation, food, and wholesale and retail services.

Twenty-six percent of the owners of small and medium enterprises have trained their employees on the developed business model in response to the changes brought about by the COVID-19 crisis. 63% of establishments have achieved 10% growth in digital sales since the start of the pandemic. Eighty-one percent of small enterprises, 77% of micro-enterprises, and 87% of medium enterprises have canceled their investment and expansion plans due to the impact of the COVID-19 pandemic on their activities.

METHODOLOGY

The study was conducted using quantitative methodology; the approach is suitable for answering the study's questions, testing the hypothesis, and looking at the correlation among variables through the descriptive information method. It is far acceptable since it provides a quantitative description of the population's attitudes, traits, or opinions, and it can be statistically analyzed to achieve significant numbers. The quantitative method presents an accurate wide variety of a few behaviors, information, critiques, or situations, primarily based on sound judgment, records, and neutrality (Cooper & Schindler, 2014). Antwi and Hamza (2015) said that the quantitative method tends to be impartial and exclude the researcher from emotional and private prejudice. A descriptive-analytical approach was adopted to reach the study goals and objectives.

To achieve the study objectives and answer the study questions, a descriptive and analytical methodology will be used that expresses a detailed and accurate description of the phenomenon to be studied. A questionnaire will be used as a primary tool for data collection from a random sample of owners and managers of 106 SMEs.

The study population consists of the employees and managers of SMEs in Saudi Arabia. One hundred forty questionnaires were distributed; however, the total number of correct responses was 106 response.

The questionnaires' participants were described according to several demographic characteristics, including gender, age, type of entity, type of activity of the entity, and entity owner or manager's education.

Frequency and percentages were used to represent the data.

Table (1): Frequency and percentage according to Type of entity

Entity type	Frequency	Percent
Small size	73	68.9
Medium size	33	31.1
Total	106	100

Table 1 shows the type of firm based on the study sample selection 73 were Small size, and 33 were Medium size

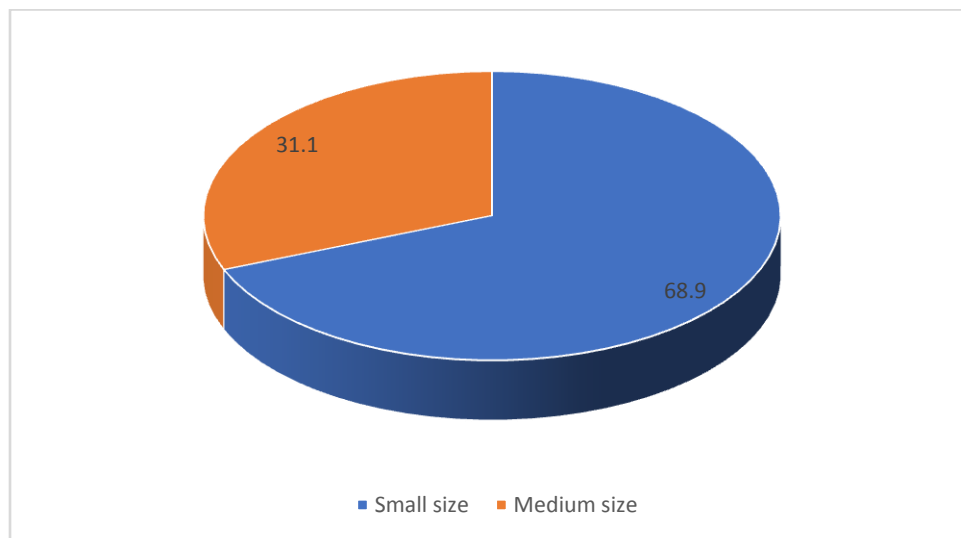


Figure 1: Firm type distribution

As shown in Figure 1, 106 participants involved in the study, 68.9% of them were small-sized enterprises, and 31.1% were medium-sized enterprises



ANALYSIS AND RESULTS

Table 2: The Impact of COVID-19 on SMEs performance in Saudi Arabia.

Dependent variables	Independent Variables	Model	Adjusted R Square	Sum of Squares	df	Mean Square	F	Sig.
SMEs performance	Revenues of SMEs	Regression	0.952	6.25	3	5.36	25.4	0
		Residual		29.36	185	0.963		
		Total		20.36	123	0.951		
SMEs performance	The current business operations	Regression	0.841	3.25	3	6.36	20.4	0
		Residual		32.23	136	0.96		
		Total		36.21	123	0.45		
SMEs performance	Main concerns of SMEs	Regression	0.863	8.36	3	0.963	15.4	0
		Residual		36.21	126	0.214		
		Total		40.36	185	123		

**Function at 0.01

The results showed that the motivational dimension is the only variable, and the results showed a statistical significance at the level of 0.01 on the ability to predict the performance of independent variables through it. It turns out that the square of R for the variable represents 0.952%, 0.841%, 0.863%. Of the changes in the SMEs performance, it is a high explanation. It also became clear that the square of the factor R is indicating that the values are all high and strong and that the model is significant and has an effect

Therefore, the null hypothesis is rejected, and there is positive significant relationship between COVID-19 and SMEs performance at Saudi Arabia



Table 3: The impact of COVID- 19 on SMEs performance

Dependent variables	Independent Variables	B	Std. Error	Beta	t	Sig.
SMEs performance	Constant	4.36	0.785	-	14.23	0.000**
	Inspirational Motivation	0.532	0.652	0.785	5.21	0.000**
SMEs performance	Constant	3.45	0.654	-	20.36	0.000**
	Inspirational Motivation	0.965	0.985	0.963	1.26	0.000**
SMEs performance	Constant	5.12	2.36	-	30.36	0.000**
	Inspirational Motivation	0.962	0.98	2.96	2.36	0.000**

It is evident from table 11 that inspiration has a value of 4.36 for the customer acquisition opportunity variable. SMEs' performance was greater, too. It is also clear that the Inspirational Motivation has a value of 0.532 for the customer acquisition opportunity variable, which was the motivation behind and so on for the rest of the variables. Accordingly, the researcher accepts the premise that COVID-19 has a positive effect on SMEs' performance.

Table 4: The Impact of COVID-19 and the revenues of SME's in the Kingdom of Saudi Arabia.

Dependent variables	Independent Variables	Model	Adjusted R Square	Sum of Squares	df	Mean Square	F	Sig.
SMEs performance	Revenues of SMEs	Regression	0.952	5.63	2	5.36	40.4	0
		Residual		35.21	163	0.963		
		Total		39.25	123	0.951		

Table (4) shows the values of R adjusted (0.952) and F the tabular value (40.36), and that the significance value is 0.000. It indicates that the model is significant and that the COVID-19 virus has a positive effect on SMEs' revenues.



Table 5: The Impact of COVID-19 on main concerns of SME's

Dependent variables	Independent Variables	Model	Adjusted R Square	Sum of Squares	df	Mean Square	F	Sig.
SMEs performance	Main concerns of SMEs	Regression	0.984	4.23	3	5.36	37.4	0
		Residual		38.12	185	0.963		
		Total		40.36	123	0.951		

Table (5) shows the values of R Adjusted (0.984) and F value (37.36), and that the significance value is 0.000. It indicates that the model is significant and that the COVID-19 has a positive effect on the main concerns of SMEs.

Discussion

The current COVID-19 crisis has had a significant impact on the country's economic lifeline. The vast majority of small and medium enterprises suffer from total closure and loss of daily revenues. As many companies depend on daily revenues to cover current expenditures, the companies' ability to withstand this crisis is minimal. The government's decision to ease the closure procedures came promptly, given that the majority of companies expressed their inability to bear their finances in case the closure continues. Despite the easing of the closure procedures, the previous interruption still creates a great sense of anxiety, especially concerning securing the costs due to rents and salaries.

CONCLUSION

To alleviate the negative impact of the crisis on companies, the majority began to postpone their due payments, a large proportion resorted to external financing, and many companies intend to follow suit. It is worth noting that companies are currently seeking to postpone procedures that directly affect their employees and interact with the search for other solutions, as salary deductions and layoffs occupied a last resort for most companies. Despite these ongoing efforts, and although many economies are resuming their activities, many face a second wave of the pandemic, and many companies are still facing difficulties to make profits. They may even face the risk of bankruptcy. It has become critical to conduct strategic planning from a policy and tax administration perspective to help companies recover, especially SMEs (Nurunnabi et al., 2020).



REFERENCES

- Aktar, M. A., Alam, M. M., & Al-Amin, A. Q. (2020). Global Economic Crisis, Energy Use, CO2 Emissions, and Policy Roadmap Amid COVID-19 . *Sustainable Production and Consumption*.
- Al-Osail, A. M., & Al-Wazzah, M. J. (2017). The history and epidemiology of Middle East respiratory syndrome corona virus. *Multidisciplinary respiratory medicine*, 12(1), 1-6.
- Ayandibu, A. O., & Houghton, J. (2017). The role of Small and Medium Scale Enterprise in local economic development (LED). *Journal of Business and Retail Management Research*, 11(2).
- Baporikar, N. (2015). Strategic management overview and SME in globalized world. In *Business Law and Ethics: Concepts, Methodologies, Tools, and Applications* (pp. 266-283). IGI Global.
- Chebii, P. A., Bwisa, H., & Sakwa, M. (2016). Entrepreneurial mentorship and demographic characteristics within small and medium enterprises in Eldoret, Kenya. *International Journal of Academic Research in Business and Social Sciences*, 6(5), 457-470.
- Coetzer, A., Kock, H., & Wallo, A. (2017). Distinctive characteristics of small businesses as sites for informal learning. *Human Resource Development Review*, 16(2), 111-134.
- Fernandes, N. (2020). Economic effects of COVID-19 outbreak (COVID-19) on the world economy. Available at SSRN 3557504.
- Haleem, A., Javaid, M., & Vaishya, R. (2020). Effects of COVID 19 pandemic in daily life. *Current medicine research and practice*.
- Nurunnabi, M. (2020). Recovery planning and resilience of SMEs during the COVID-19 : experience from Saudi Arabia. *Journal of Accounting & Organizational Change*.
- Regnier, P. (2017). *Small and Medium Enterprises in Distress: Thailand, the East Asian Crisis and Beyond: Thailand, the East Asian Crisis and Beyond*. Routledge.
- Şenol, Z., & ZEREN, F. (2020). COVID-19 (COVID-19) and stock markets: The effects of the pandemic on the global economy. *Avrasya Sosyal ve Ekonomi Araştırmaları Dergisi*, 7(4), 1-16.