

# The Role of Small and Medium Enterprises in Achieving Local Development

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## Summary

In recent years the idea of local development is attracting the attention of scholars worldwide, especially with the spread of Small and Medium-sized Enterprises (SMEs) globally. SMEs are considered as a pillar for achieving local development through employing local resources, diversifying economies, providing goods, and reducing unemployment and poverty. The major objective of this study is to assess the SMEs' role in the local development of the Northern Border Region of Saudi Arabia through four dimensions: job creation, satisfying community's requirements, besides widening income and reducing poverty, and protecting the environment. This study is apparently incorporating environment and consumer health as a component of local development. A questionnaire is used as a tool for collecting data from a large segment of owners of SMEs in the Northern Border Region. Descriptive statistics and regression analysis are used to study the impact of SMEs on local development dimensions. Findings show first that SMEs have a significant role in the local development of the Northern Border Region, and second there is no positive SMEs' contribution to local development via protecting the environment and consumer health in the region.

## Key words:

*Local development, Small and Medium-sized Enterprises, Northern Borders Region.*

## 1. Introduction

The concept of local development has been gaining significance and popularity in recent years. It refers to the type of development that meets society's needs of the present without compromising its ability to meet the needs of the future. Local development has several facets, such as: economic, social, institutional, ecologic, cultural, educational, moral, temporal, political, spatial, etc. [15]. SMEs support local development through employing local resources and job creation (particularly for women, low skill workers, and youth), reducing immigration, generation of income, and reducing poverty. [6] confirms that the process of overcoming poverty, inequality and unemployment in rural areas is the development of vibrant SMEs, as they play a crucial role in people's effort to meet basic needs and help marginalized groups, like female heads of households and disabled people. SMEs engage in

the activities of rural areas where [2] indicated that SMEs are important engines for the development of rural economies and communities in many countries of the world. [18] confirm also that the development of SMEs is interrelated to local development, as SMEs are seen as an engine to address the challenges of poverty, inequality and job creation in rural areas. [12] confirm that SMEs contribute significantly to the provision of productive employment opportunities, generation of income and eventually the reduction of poverty. SMEs also contribute to local development through the diversification of local economic activities that include provision of goods and services to the local community. Given the importance of SMEs for local development, governments encourage SMEs by setting SMEs legislation, encouraging young investors to invest and offering infrastructure consistent with the requirements of enterprises.

The ultimate aim of this study is to measure the contribution of SMEs in achieving local development in the Northern Border Region of Saudi Arabia. Specifically, to measure the contribution of SMEs in job creation, meeting the community's needs from goods and services, generation of income and reducing poverty, and protecting the environment and securing consumer health. This study analyzed the contribution of SMEs in local development of the Northern Borders Region, in order to develop a decision-making mechanism to support policymakers to develop SMEs. A survey technique was used to provide the determining the characteristics and the reality of SMEs in the Northern Border Region, and to explore the contribution of SMEs to local development in the region.

The paper is organized as follows. The next section concerns with literature review that focuses on the role of SMEs on local development. Section three concerns with the methodology that studying the impact of SMEs on local development in the Northern Border Region. Section four specifies for data analysis. Section five is determined for results. Finally, section six concerns with conclusion.

## 2. Literature Review

Numerous definitions for local development were developed in the economic literature. Local development is defined as local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in that specific community [14]. Local development is defined as a process in which partnership between local governments, community-based groups, and the private sector is established to manage existing resources to create jobs and stimulate the economy of a well-defined territory [19]. [1] find that SMEs are vital agent in creating job opportunities and reducing poverty. [9] concluded that SMEs are making a significant role in promoting job opportunities and commodities for export. [13] studied the role SMEs can have in local economic development in the Southern Province of Sri Lanka. The findings showed that SMEs contribute to local economic development and generate added income. [3] explored the importance of SMEs in a given economy. They indicated that the contribution of the Small and Medium Enterprises (SMEs) to the local economic development of a nation is well recognized throughout the creation of employment to citizens and by building up of productive capacities. Sustainable development can be achieved through achieving three goals simultaneously: economic, social and environmental [5]. [10] attempted to find out the important literature on SMEs and development, trying to get a perception of the role played, not only on what concerns to enterprises creation, but also on the strategies adopted by these type of enterprises to overcome the bottleneck of regional development. [17] examined China's SMEs impacts on environmental and social sustainability. They revealed that limited information results in a low level of concern adverse effects that SMEs practices may bring to sustainable development. [11] indicated that despite SMEs' significant economic contribution; they have been no detailed reports Vietnamese SMEs abuses to sustainable development. [7] examined the economic importance of SMEs in Azerbaijan and confirmed that aforementioned enterprises play an important role in the development of the economy and a significant contribution to local economic development through job creation and fostering economic growth. [8] have made an Assessment of the roles of SMEs in the local economic development in South Africa. Their findings suggested that SMEs play a vital role in local economic development through their contribution to employment creation, wealth creation, poverty alleviation and income generation. [4] indicated that SMEs are the major contributors to environmental problems. [16] have analyses the environmental impact of SMEs. They have been perceived SMEs as major contributors to environmental degradation.

## 3. Methodology

The literature focused on the economic impacts of SMEs as the most prominent aspects of local development and did not focus on the ecological and consumer health adverse effects of SMEs. The paper includes ecological and consumer health aspects to investigate the role of SMEs in achieving local development. The main question that the study attempts to answer is: what is the contribution of SMEs in the local development of the Northern Border Region? The study assumes that SMEs may contribute to local development via four dimensions: job creation, meeting the community's needs from goods and services, additional incomes and reducing poverty, and protecting the environment and consumer health. Job creation dimension was measured by five statements as follows:

- SMEs contribute to create jobs
- SMEs contribute to train workers
- SMEs contribute to creation women job
- SMEs contribute to creation youth job
- SMEs contribute to creation job to university graduates

Meeting the community's needs from goods and services was measured by three statements as follows:

- SMEs provides all goods' local community needs
- SMEs provides all services' local community needs
- SMEs contribute to the distribution of goods to neighboring areas

Additional incomes and reducing poverty was measured by four statements as follows:

- SMEs contribute to creating income
- SMEs contribute to creating profits
- SMEs contribute to reducing the poverty
- SMEs contribute to reducing the displacement to major cities

Protect the environment and consumer health was measured by four statements as follows:

- SMEs contribute to protecting environmental
- SMEs contribute to protecting consumer health
- SMEs contribute to spreading environmental responsibility
- SMEs maintain health safety requirements

The main Hypotheses of the study are set as follows. H1: SMEs contribute to the creation of employment opportunities in the Northern Border Region. H2: SMEs contribute to the provision of goods and services to the Northern Borders Region's community. H3: SMEs contribute to generate additional income and reducing poverty in the Northern Border Region. H4: contribute to the protection of the environment and consumer health at Northern Border Region.

Based on these hypotheses, we proposed to determine the impact of SMEs on local development by using the following model:

$$LD_i = \alpha_0 + \alpha_1 JC_i + \alpha_2 MCN_i + \alpha_3 AIRP_i + \alpha_4 PECH_i + \varepsilon_i \quad i=1, \dots, n \quad (1)$$

Where, LD denotes local development. JC denotes job creation, MNC denotes meeting the community’s needs from goods and services, AIRP denotes additional incomes and reducing poverty, PECH denotes protect the environment and consumer health. The subscript i denotes SMEs owners’ index. The exponent’s  $\alpha_1; \dots; \alpha_4$  are slope coefficients measured by the rate of change in the endogenous variable when there is a unit change in the value of explanatory variables. The exponent  $\alpha_0$  is the intercept coefficient that shows the rate at which local development will change independently of stated explanatory variables. Finally,  $\varepsilon$  is the error term, which shows that other explanatory factors that might affect the magnitude of the local development that are not avowed in the model.

#### 4. Data

A questionnaire was used to measure the SMEs role’ in local development in the Northern Borders Region. The sampling represented SME owners at the region. A simple random sampling technique was applied in selecting the respondents. A sample of 500 SME owners was invited to respond to the questionnaire. 425 responses were collected from SME owners. The response rate was 85%. The questionnaire comprised fifth parts: part one has been developed to collect data on the demographic characteristics of the surveyed SME owners, the second part consists of five statements on the contribution of SMEs to job creation, the third part comprised three statements on the role of SMEs to meeting the community’s needs of goods and services, the fourth part consists of four statements on the contribution of SMEs to additional incomes and reducing poverty, the fifth part consists of four statements concerning protect the environment and consumer health. The questionnaire is aimed at extracting the sample’s perceptions on the SMEs role’ in local development in the region. Five point of liker-Scale (1- strongly dissatisfied, 2- dissatisfied, 3- neutral, 4- satisfied and 5- strongly satisfied) was used to measure the respondent’s extent of agreement with different statements listed in assessing SMEs roles on local development in the region. The participants’ responses were summarized using standard descriptive statistics. Regression analysis is used to study the relationship between SMEs and local development dimensions. SPSS is used to facilitate statistical analysis. Table.1 provides descriptive statistics of the variables for the sample.

Table 1: Descriptive statistics

Variable	Mean	Std. Deviation	Cronbach Alpha	T- Test	
				T-value	Sig
JC	4.071	0.854	0.873	31.864	0.000
MCN	4.018	0.857	0.856	25.056	0.000
AIRP	4.032	0.893	0.844	25.009	0.000
PECH	3.012	0.916	0.721	23.239	0.000

Table 1 shows that among all variables three are characterized by a mean value greater than 4. Indeed, the mean of responses of protecting the environment and consumer health takes the value of 3.012, which indicates that SMEs owners' are neutral to the idea that SMEs has a positive role in the ecological and health of the consumer. The Cronbach’s Alpha value for each dimension of LED ranges from 0.721 to 0.873 which indicates the reliability of scales used in this study.

Table 2 shows the Correlation analysis of the different variables of the study.

Table 2: Correlation analysis

	JC	MCN	AIRP	PECH
JC	1.000			
MCN	0.685**	1.000		
AIRP	0.772**	0.702**	1.000	
PECH	0.726**	0.510**	0.642**	1.000

Note: (\*), (\*\*) and (\*\*\*) indicate that the correlation coefficient is significant at 10%, 5%, and 1% respectively.

The correlation matrix enabled us to extract many significant correlations between SMEs and local development at 5% level. Moreover, the most important correlation among these variables was found positive.

#### 5. Results

This study attempts to examine the role of SMEs on local development in the Northern Borders region. The considered model is expressed by the equation (1) above for 425 owners. The estimation results are provided by table 3.

Table 3: SMEs as component of Local Development

Variables	Coefficient	S.E	Student t	Diagnostics
JC	0.120**	0.072	1.667	R <sup>2</sup> = 0.491
MCN	-0.161*	0.084	-1.917	
AIRP	0.534**	0.072	7.417	F = 25.772
PECH	0.264	0.066	2.385	Sig = 0.000

Note: (\*) and (\*\*) indicate that the correlation coefficient is significant at 10% and 5%, respectively.

Table 3 shows that SMEs has a significant effect on the local development via three dimensions: job creation; meeting the community’s needs of goods and services; and additional incomes and reducing poverty. The job creation and additional incomes and reducing poverty have

significant effect at level of 5% and meeting the community's needs of goods and services at level of 10%, this conduct to accept H1, H2, and H3. Results show also that owners confirm that SMEs has no positive effect on the environment and health of consumers, this conduct to reject H4.

## 6. Conclusions

This study has made considerable effort to make a contribution to the subject of SMEs role' in the local development. The study has examined the contribution of SMEs in the local economic development of the Northern Border Region of Saudi Arabia. Findings show that SMEs promoted local economic development through job creation, creation of additional incomes and reducing poverty and less contribution was concerning with the meeting of the community's needs from goods and services. However, the results confirmed that the protecting of the environment and consumer health is not achieved yet.

Despite the fact that SMEs contribute immensely to the local development in the Northern Border region, however challenges are still existed regarding the environment and consumer health protection. Further studies are needed for investigate the adverse effects of SMEs on the environment and consumer health as a dimension of local development. It is necessary to identify the impacts of SMEs on environment and consumer health besides explaining how SMEs contribute to the conservation of the environment and the consumer health.

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