



**DIVERSIFICATION OF SMALL BUSINESS IN SAUDI ARABIA POSES
SIGNIFICANT CHALLENGES TO MEETS THE NEEDS OF CULTURALLY
DIVERSE WORKFORCE: REIVEW STUDY.**

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ABSTRACT

The increasing diversification of small business of the nation's population in Saudi Arabia poses significant challenges to the Human resources Management to meets the needs of culturally diverse workforce. Human resource management plays a vital role in developing a more culturally competent workforce. The goal of this review study is extending a body of literature in this domain especial for the Saudi Arabia and to extend a body of literature, also to describe research insights, existing gaps, and future research directions in Saudi Arabia. Small and medium enterprises (SMEs) in Saudi Arabia have benefited enormously from diversity in their workforces. Diversity pertains to age, race, gender, disability, and all other such aspects that are recognized and protected by Saudi law. The workforce composition is increasingly becoming more diverse; therefore, the issue of diversity in the Saudi workforce is gradually gaining more ground. The rapid changes in the composition of the workforce of Saudi SMEs have been motivated by economic challenges such as technological advances and the dynamics of a globalized economy in both the private and public sectors. New reforms in Saudi Arabia are creating enormous opportunities for women and individuals with a disability to access equal and quality education and to gain meaningful skills and qualifications to enter the workforce. This paper discusses current human resource management strategies in Saudi Arabia that can help SMEs to achieve improved workforce diversity to accomplish Saudi Vision 2030, which is greatly supported by Crown Prince Mohammad Bin Salman.

Keywords: Saudi workforce diversity, Saudi small and medium business (SMEs), Saudi women in the workplace, Saudi Vision 2030, custodian of the two holy mosques King Salman, crown prince Mohammed bin Salman.

Introduction

Today's technological advances, economic forces and globalization have altered the workforce in Saudi Arabia's private and public sectors, which are largely staffed by foreign nationals from a multitude of origins. The assorted sectors of Saudi Arabia's economy are characterized by distinctive indicators of diversity, with some being heterogeneous in terms of religion and others variegated in terms of nationality or language. However, the majority of managerial and leadership positions are occupied by Saudi men. Under Saudi Vision 2030, which was launched and sponsored by Crown Prince Mohammad Bin Salman, efforts to promote diversity in the Saudi Arabian workforce are grounded in the Western principles of equal opportunities regardless of gender, age, or ethnicity. Vision 2030 particularly seeks to enhance gender diversity, which has been relatively limited because women have often been restricted from entering or rising within business and government organizations.

Gender and cultural diversity have been identified as a critical element in the growth and development of small Saudi businesses (SSBs); however, these ideals are countered by the pressure to address a growing citizen unemployment rate. On one hand, the system is promoted as a measure to meet the employment challenges faced by citizens, thereby pressurizing organizations toward more uniformity in the private sector. On the other, many cultural and work practices limit employee performance in comparison with Western companies, and smaller businesses that provide employment opportunities for citizens particularly suffer because of competition from larger organizations that employ people across genders, ethnicities, and religions from around the globe. According to a survey of Saudi Arabia's industrial sector, conducted by the General Authority for Statistics (2018), small and medium enterprises (SMEs) accounted for 99.5% of businesses in 2017, employing nearly double the number working at larger firms (803,000 and 409,000, respectively); however, only 31% of these workers were Saudis, and women comprised a mere 3.6%. Moreover, SMEs in Saudi Arabia contribute approximately only 20% to the country's GDP, compared to 55% in the European Union and up to 70% in other developed economies (Saudi Vision 2030).

This conceptual paper explores ways wherein Saudi human resource (HR) management strategies can help SSBs diversify their workforces. Followed by a brief overview of the multi-level impacts of workforce diversity, it focuses specifically on the case of SSBs, examining the effects of this phenomenon on individuals, groups, and organizations and proposing ways for HR to intercede in the productive of diversity.

How workforce diversity affects people, groups, and organizations

Workforce diversity refers to the actual composition of the people working in a particular area (Kossek et al. 2015). Diversity may also refer to divergent life experiences, socioeconomic history, marital status, religion, and family standing. Workplaces in both developed and developing economies have become increasingly diverse because of globalization and the mobility of labor (Parsi 2017). Legal, political, and social forces are bringing people from manifold backgrounds together in previously homogenous environments. Organizations must accommodate ethnic, cultural, linguistic, physical, and intellectual differences among people working in the same environment. Both managers and

scholars have embraced diversity as a positive factor that confers competitive advantages on firms as well as governments (Ferlie et al. 2003; Richard 2000) because multiculturalism and other forms of diversity create a greater pool of talented and experienced individuals, thereby enhancing innovation and creativity (Randeree 2009).

A diverse environment has several positive effects on organizations. Organizations seek diversity as a way to enhance their competencies by attracting multiple talents and skills, gaining competitive advantage in the global market, and improving business performance. Organizational diversity also helps build closer relationships with multicultural communities and expand businesses' reach through the establishment of a workforce that mirrors the customer base (McCuiston et al. 2004). Some analysts have also suggested that workplace diversity can increase employee satisfaction; diversity across organizations improves retention, turnover, productivity, and profitability by positively influencing cooperation and social cohesion (Hunt et al. 2015).

However, efforts to enhance workplace diversity are not always successful, and some studies have linked this phenomenon to lower staff morale and well-being (Tsui et al. 1992; Wegge et al. 2008), increased conflicts (Jehn et al. 1999; Jehn and Bezrukova 2004; Pelled et al. 1999), decreased communication and cooperation (Chatman and Flynn 2001; Mackie et al. 1990), and led to poorer job performance (Chatman et al. 1998). Numerous studies have examined variables that influence the effects of diversity on organizational performance and employee well-being (Bond and Haynes 2014; Guillaume et al. 2017). Randel (2002) found that workgroup conflict was stimulated by uneven demographic distributions, and a meta-analysis by Bettencourt et al. (2001) demonstrated that high-status group members such as men or dominant ethnic or racial groups often exhibit high levels of in-group favoritism. Some studies have emphasized the usefulness of reducing intergroup bias by highlighting shared psychological attributes (Harrison et al 1998; Pettigrew and Tropp 2006); however, others have argued that downplaying differences invalidates the discrimination experienced by nondominant group members, thereby making it more difficult for them to challenge biases (Zirkel 2008). Clear diversity-related policies that are supported by leadership strongly tend to mitigate many of the negative effects of employee heterogeneity (Fitzgerald et al. 1997; Kalev et al. 2006). Moreover, some researchers advocate against ignoring intergroup differences; they argue that managers should promote employees' appreciation for the ways wherein diverse backgrounds and talents can be operationalized to foster interdependence and achieve shared organizational goals (Bond 2007; Bond et al. 2013; Bond and Keys 2000; Chatman and Spataro 2005; Kochan et al.2003).

Diversity in small businesses

Some analysts have argued that smaller businesses may also be penalized for diversity. Demographic factors such as age, gender, level of income, level of education, homeownership, employment status, and business location influence the financing preference of small enterprises (Mac an Bhaird and Lucey 2010; Zabri et al., 2015).

Small businesses in Saudi Arabia

Due to a lack of knowledge, information system planning, degree of ICT readiness, and long-term strategy, the government uses various quantitative criteria to define businesses, such as the number of employees. Small businesses in the Kingdom of Saudi Arabia are classified as micro-, small-, and medium-sized entrepreneurs (MSMEs). According to the Saudi Arabian General Investment Authority, micro-enterprises have fewer than 25 employees, small enterprises have between 25 and 59 employees, and medium-sized enterprises have between 60 and 99 employees (Ahmad 2012). In terms of capital, small companies are those with 5 million Saudi Riyals (USD 1.3 million) of capital, whereas medium-sized ones have between 5 and 20 million Saudi Riyals (USD 5.3 million) of capital (GAN, 2014).

SMEs' main problems and constraints are the bureaucratic systems and a lack of financial support and credit options, inadequate government support, an unfriendly business environment, unpredictable policy changes, and a lack of training (Ahmad 2012). Fumo and Jabbour (2011) found that newly established MSMEs often encounter more setbacks than other companies because of lack of funding, an unstable and often inhospitable business environment, and intense competition from larger companies. Similarly, Ahmad (2012) argued that apart from an unfriendly business environment, SMEs also have difficulties in obtaining financial support because of problems of bureaucracy and their lack of credit options. Inadequate government support, unpredictable policy changes, and lack of training are among the major issues faced by SMEs (Ahmad 2012). SMEs in Saudi Arabia face challenges such as weak links with large enterprises and the lack of a policy structure and regulation.

All of the above-mentioned issues can make diversifying relatively difficult, particularly considering that their employers nearly always sponsor foreign workers' migration.

Diversity in the Saudi workforce

Forming comprehensive policies and procedures to diversify the Saudi workplace requires an understanding of how diversity has been defined and also its current and possible future trends. Initially conceived in the 1980s to refer to equal opportunity irrespective of race, ethnicity, or religion, the meaning of workforce diversity has expanded (McDonald 2018). It now encompasses differences in employees' age, sex, culture, abilities and inabilities, race, religion, and other features. Similarly, diversity in Saudi Arabia is coming to include different styles of work, generations, genders, and disabilities. To maximize the benefits of diversity, Saudi strategies for workplace diversity need to be supportive, flexible, and fair; they should be able to convert impediments into assets.

Diversity among SSB employees arises from social forces that businesses can isolate to address in recruitment, employee development, total quality management, and procedures to resolve problems. Major issues may also include methods of service delivery, temporary jobs, and simplification of production (Bush and Peters 2016). Embracing the policy of diversity in SSBs must be followed by several other changes, such as varied expectations across groups in terms of work duties, output, and other aspects of performance. Incorporating

diversity generates conflicting expectations among employees with different abilities, so SSBs need to establish a common ground where these factors intersect.

As an interdisciplinary profession that aims to recruit, integrate, and retain organizational workforces to achieve maximum performance, HR is optimally positioned to improve outcomes related to workforce diversity. However, as Ferris et al. (1993) indicated, there was a “fundamental incompatibility” between employee diversity and traditional HR operational methods, which emphasize homogeneity. Because liberalization, privatization of employment, and globalization have brought the world into a single neighborhood, this orientation has significantly shifted in developed economies, where companies have been forced to rethink previous definitions of diversity and understand that concepts of developing, valuing, and managing a truly diverse corporation must extend beyond traditional strategies.

Accordingly, to achieve a competitive advantage and increase their contribution to Saudi Arabia’s economy following Vision 2030, SSBs need to implement HR practices aimed at creating an accommodative and diverse workplace that is closely tied to communities and accessing the wider market, as well as improving the quantity and quality of employee output. Although many SSBs serve people in a single area, diverse cultures populate that locale. Moreover, although most SSBs are owned by Saudi nationals, they do not operate the businesses directly; they rather tend to hire migrants to manage and operate the smallest enterprises. In a country where foreigners comprise one-third of the population, those who look at society through a narrow cultural lens risk diminishing customer relations and sales, thereby decreasing profitability and hindering growth.

Under the Saudi Ministry of Interior’s *kafala* (sponsorship) system, flows of migrant workers are managed, and they are generally subordinated to citizens who mainly work in the public sector or managerial positions in the private sector (Auwal 2010; De Bel-Air 2011; Jureidini 2016). Approximately 80% of all foreign laborers are employed in semi-skilled or unskilled occupations (Fargues and De Bel-Air 2015), where they are usually consigned to work in dangerous and demanding jobs under renewable contracts and are prohibited from transferring to another employer without obtaining the approval of the original sponsor (Zahra 2015). In a similar vein, many women workers, foreign or otherwise, are often relegated to subordinate positions wherein they have limited agency and are not empowered to contribute to leadership, idea development, or consumer outreach (Kemp et al. 2015). However, a more equitably diverse Saudi workplace would provide room for creativity, inclusion, and supportiveness, thereby boosting teamwork, customer service, innovation, productivity, openness to ideas, and decision-making. SSBs that support diversity have better output, customer relations, and profits; retain employees more successfully, and reduce recruiting expenses (Myers 2012).

Al Hazemi (2019a) found that the long-term financial results of high-performance Saudi organizations surpass their peers as a result of their embracing workforce diversity, managing long-term goals, and aligning management structures to improve core capabilities. A diverse workplace in Saudi would be a strong force for improvement in areas such as creativity and innovation. Foreign workers are bound to have a better understanding of the market demands of their compatriots, and many of them may be able to present distinctive

ideas for attracting and retaining local customers. Employees from heterogeneous backgrounds approach issues differently, and they are equipped with varying experiences with a commodity or service and ideas about design and service that extend customer outreach, which boosts sales and reputation. Diverse experiences, different perspectives, and varying backgrounds are the base ingredients for an increase in innovative ideas. As such, diversity is a prerequisite for SSBs to attract talent, and it is important to develop policies to recruit and empower employees from different backgrounds.

The individual, group, and organizational effects of workplace diversity

Saudis have begun to accept an expanded presence of women in the workplace, and SSBs must do the same to afford an equal opportunity for all demographics (Habelka and Byers 2018). Some SSBs have not evolved beyond the fear, discomfort, and avoidance stemming from traditional gender stereotypes that demand women to be relegated to the private sphere. However, there are some promising signs that many Saudis have developed more positive attitudes toward gender diversity in the workplace, and the number of female managers and leaders is gradually increasing (Forster 2017). Moreover, female entrepreneurs have emerged as a growing segment of the Saudi economy over the last decade (Nieva 2015; Welsh et al. 2014).

Employees are likely to embrace diversity in teams composed of people from various cultures, minorities, and women. Some researchers have advocated that teams should engage in affirmative action and even ensure a certain threshold in terms of the number of minorities and women to defeat stereotyping and reduce bias (Da Paola et al. 2010; Sachar 2006). However, overemphasizing diversity might erode the success of SSBs. Some studies have found that men in Arab contexts perceive similarities in age, gender, religion, and ethnicity between senior supervisors and their subordinates as having the effects of elevating performance, reducing ambiguity in communication, and easing role conflicts (Idris 2007; Messarra and El-Kassar 2015). However, studies have demonstrated that when appropriately managed, workforce diversity fosters productivity and equitable remuneration, and its effects on individuals and groups sometimes coincide (Gonzalez 2013; Okoro and Washington 2012; Van Knippenberg et al. 2011).

The effects of diversity on groups can occupy either end of a continuum. Franz (2012) showed that more diverse groups have better attitudes of cooperation, better brainstorming skills, and offer higher-quality solutions to problems than homogenous groups. Other researchers have indicated that more diverse groups may initially be less cohesive; however, team members grow closer as members are familiarized and develop mutual respect (Hunt et al. 2015; Van Knippenberg et al. 2011). Moreover, some shared values—honesty, punctuality, commitment to work transcend culture, race, and education (Harrison et al 1998; Pettigrew and Tropp 2006).

Businesses that are perceived to be diverse attract a more diverse customer base (Bucher 2010). Studies show that businesses show positive changes in return on equity or assets after appointing women as senior managers. More studies show that businesses that incorporate gender diversity exhibit better performance and provide higher returns to shareholders.

Saudi analysts suggest that the connection between workforce diversity and business performance is more complex than a naive negative or positive correlation and is neither simple nor linear (Ahmad 2012). Saudi businesses that combine workplace diversity with growth strategies enjoy better returns and profits, but businesses that embrace diversity without growth strategies often do not. However, small businesses that embrace workforce diversity and innovation always out-perform firms that do not.

Al Hazemi (2019b) elaborated on the roles of Saudi HR management as a business partner. Saudi HR needs to develop effectiveness and efficiency in all aspects related to employees. HR can be the cornerstone of an organization if it is managed by skilled and well-trained employees, helping the organization succeed and grow in the business. Therefore, HR management in Saudi SSBs must keep track of business aspects to carry out the strategies and approaches to accomplish organizational goals, consequently achieving Vision 2030.

As part of the attention paid to the collective benefits of diversity among SSBs, it is imperative to isolate how one aspect of it gender affects performance (Noland et al. 2016). Findings indicate that the extent to which gender diversity enhances performance varies with the type of business or industry. Additionally, gender diversity enhances performance only to the point where the ratio of men to women is fairly equal.

How HR training can boost diversity among SSBs

Given these considerations, it is important to identify the HR intercessions generating diversity that spurs productivity and growth (Barak 2016). These may extend to processes, cultural connections, frequency and quality of interpersonal interactions, interpersonal cooperation, and commitment to Saudi Vision 2030.

Fostering diversity among individual workers

The effects of workplace diversity often start with individuals; hence, the initial HR intercession should be training that shapes positive attitudes toward diversity (Myers and Lambert 2010). Training should target the majority and minority populations to motivate assimilation and understanding. Programs should reinforce multiculturalism, i.e., employees retaining their formative cultures at work, as well as addressing prejudices, stereotypes, communication styles, and attitudes adversarial to the success of SSBs.

Another form of intercession is mentoring, i.e., pairing employees familiar with diversity and those who are not. Mentoring can be formal or informal, but its aim is for workers to learn aspects of diversity that assure coexistence in the workplace. Mentors strive to demystify cultures, reduce stereotypes, and enhance communication steering clear of discrimination (Athey et al. 2000; Kulik and Roberson 2008). Mentors can teach mentees about interactions that preserve social and cultural equilibrium in traditionally conservative Saudi society.

Fostering diversity among workgroups

Diversity in the workplace may create short-term intra-group conflicts that external facilitators can overcome by alerting employees to the organization's mission, values, styles of resolving interpersonal disputes, and ways to solve business-related matters. Employees may be encouraged to pair off into affinity groups that expand networks, prompt bonding, and encourage understanding that spills into the workplace (Franz 2012). However, affinity clustering warrants caution because likeness may hinder intergroup connections (Sondak and Canas 2012). Rotating membership in affinity groups could avoid this unintended consequence.

Fostering diversity in SSBs

Notwithstanding emphasis on groups and individuals, SSBs need collective cultures that value teamwork, participation, and cohesion (Brown 2017). They need to benchmark themselves against firms that have diversified successfully and need teams to integrate diversity into general and specific business objectives. Senior executives should conduct regular diversity audits, and Al Hazemi (2019b) recommends that strategic plans should align HR management with Saudi Vision 2030. This pattern reflects levels of intra-organizational autonomy to improve overall performance, foster an active role for Saudi HR in organizational improvement, enhance communication between the main activities of the small business and HR, and design tools and facilities to reach Vision 2030.

However, as described above, some forms of diversity are difficult to achieve for those lacking funds because of the near-universal rule that employers must financially sponsor workers' migration. It is difficult to compete with larger companies that can afford to pay more and cover the costs for hundreds of foreign personnel. Further, some forms of diversity (e.g., gender) can be harmful to financing opportunities. Achieving diversity requires long-term resources, monitoring, and evaluation. Feedback from evaluations should influence the next steps to be taken.

Conclusion

This study provide an adequate contribution to the body of literature in this area in and to illustrate the research existing gaps and extended the research in Saudi Arabia. The stud explore some strategic HR connections with individuals, groups, and businesses, that is necessary to diversify a workplace. There are various approaches that an Saudi Small Business (SSB) can adapt to achieve a better working environment. Some of these are legal or policy-based, while the adoption of the available HR tactics is also an effective method. SSBs are the new frontiers in the Saudi's modern economy and failing to adopt diversity standards would likely affect their performance. With a broadening, wider employment base, where technology enables people to work from far corners of the globe, SSBs can benefit from clear and progressive strategies to increase diversity.

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