

THE SOCIAL ENTREPRENEURSHIP LANDSCAPE IN SAUDI ARABIA

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ABSTRACT

Social entrepreneurship has recently gained popularity among academics, policymakers, and practitioners. However, although the phenomenon of social entrepreneurship is gaining popularity in the Arab world as well, it is still considerably behind other parts of the world on both the practical and academic sides. This research aims to expand our knowledge of the social entrepreneurship phenomenon in the Kingdom of Saudi Arabia, the heart of the Arab and Islamic world. This is a major descriptive study of the social entrepreneurship landscape in Saudi Arabia using quantitative methods based on 308 questionnaires collected from social enterprises in various regions of Saudi Arabia. This research study prospectively identifies the characteristics of social entrepreneurs such as gender, age, educational level, and previous experience, and the characteristics of social enterprises such as age, size, region, legal structure, industry, and source of income. The research suggests that Islamic teachings influence social entrepreneurship activities in Saudi Arabia. The findings contribute to Saudi Arabia's social entrepreneurship landscape, offering important insights for practitioners and policymakers.

Keywords: Social Entrepreneurship, Social Enterprises, Kingdom of Saudi Arabia, Small and Medium Enterprises.

INTRODUCTION

Social Entrepreneurship (SE) is an important endeavor that contributes to the social welfare of nations. SE is considered a developing field of study, first mentioned in academic literature three decades ago (Nicolás et al., 2018). Several researchers have associated social entrepreneurship with not-for-profit institutions that embark upon earned-income (Thompson, 2002) or for-profit ventures (Dees & Anderson, 2003). Others used it to explain any hybrid organizations that start off as not-for-profit institutions with for-profit models. As Johnson (2000: 1) explained, “*socially entrepreneurial activities blur the traditional boundaries between the public, private and non-profit sector, and emphasize hybrid models of for-profit and non-profit activities*”. Still others have used it to refer to business owners who incorporate social responsibility into their function (Short et al., 2009). In general, social entrepreneurship can be practiced in the for-profit, nonprofit, or public sector (Short et al., 2009). This research adopted the popular SE definition proposed by Mair and Marti (2006: 37) describing SE as “*A process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs*”. In addition, this research considers SE to be a process or field, whereas Social Enterprises (SEs) are firms that engage in the process or operate in the field of social entrepreneurship.

SEs are usually micro, small, or medium-sized enterprises (SMEs). Bikse et al. (2015) suggested that SEs are usually microenterprises managed by the founding social entrepreneur.

Accordingly, this study looks only at micro-small-and medium-sized SEs in Saudi Arabia. According to 2016 statistics from the Saudi Ministry of Labour, Saudi Arabia is home to 384,808 microenterprises, 225,862 small enterprises, and 24,914 medium-sized enterprises. SMEs continue to play a vital role in the economic growth of Saudi Arabia by helping to generate employment and diversify the nation's economy (Khan, 2016). Indeed, the entrepreneurship literature has acknowledged that successful SMEs contribute to employment, social and political stability, competition, and innovation (Thurik & Wennekers, 2004). There is no doubt that SMEs are an important contributor to the transition of Saudi Arabia's market economy. The success of SMEs is largely attributed to the abilities of entrepreneurs and the role of different institutions in facilitating entrepreneurship (Isenberg, 2011). However, there are no studies so far investigating the SE landscape in Saudi Arabia as part of the microenterprises and SMEs in the country and as major contributors to solving environmental and social problems while contributing to the gross domestic product of Saudi Arabia.

SE is considered an emerging phenomenon in Saudi Arabia. SEs in the Middle East is confronted with several challenges, some of which they share with their counterparts globally, and others are unique to the regional environment. These challenges, according to social entrepreneurs in the Middle East, can be generally clustered in three categories: government- and policymaking-related challenges; the need for greater support in institutional, operational, and financial areas; and the lack of cultural and social awareness and acknowledgment of the importance of their work (Buckner et al., 2012). This study thus aims to investigate this vibrant phenomenon by answering the research question: What kind of SEs are in Saudi Arabia and who manages them? To answer this research question and increase the understanding of SEs in the context of Saudi Arabia, Institutional Theory (IT) was chosen as the theoretical lens for this research. IT provides a macro understanding of the SE phenomenon through a wider sociological understanding of the context in which SEs operate. Doherty et al. (2014) review of SE literature found that much attention in leading academic journals has focused on advancing IT and how it is a suitable theoretical framework in studying context because institutional differ between countries, and when context matters, IT is a suitable theoretical framework.

METHOD

This study is a major descriptive study of the social entrepreneurship landscape in Saudi Arabia; it uses a quantitative study based on electronic questionnaires collected from micro-, small-, and medium-sized social enterprises in various regions of Saudi Arabia.

SMEs are usually defined by their profits, assets, or number of employees (Boswell, 2014). The definition of SMEs varies by country. In 2017, a new definition of SMEs was established in Saudi Arabia by the Small and Medium Enterprises Authority (Saudi Ministry of Commerce and Investment, 2017). This scheme defines micro, small, and medium-sized enterprises according to two criteria: (a) the number of employees and (b) the annual revenue. A microenterprise employs one to five full-time employees and makes up to 3 million riyals in revenue. A small enterprise has 6 to 49 full-time employees and produces 3–40 million riyals in revenue. A medium-sized enterprise employs 50–249 full-time employees and makes 40–200 million riyals in revenue.

There are no publicly available comprehensive data lists of SEs from a single source in Saudi Arabia. The researcher had to individually contact organizations in Saudi Arabia to assemble the sample source database. Overall, the sources of firm data for this research sample were combined from the following organizations: the Ministry of Labor and Social

Development, the King Khalid Foundation, the King Salman Youth Center, and Tasamy for Social Entrepreneurship. Furthermore, this study uses purposive sampling because a single database of SE does not exist in Saudi Arabia.

A total sample of 1,870 SEs were identified, and questionnaires were sent to them *via* Qualtrics (an online survey software). The questionnaires contained demographic questions about the social entrepreneurs, such as gender, age, educational level, and previous experience, as well as questions about the characteristics of the social enterprise such as age, size, region, legal structure, industry, and source of income. A total of 350 questionnaires were received (18.72% response rate), of which 308 (16.47% response rate) were usable for this study. Some responses were eliminated due to not meeting the criteria used in this research of SEs. The 308 responses were used to examine nonresponse bias, sample description, and construct validity and reliability.

RESULTS

Descriptions of continuous variables, including entrepreneur age and years of experience, enterprise age and size (number of full time employees), are presented in Table 1. Descriptions of categorical variables, including gender, education legal license and city, are listed in Table 2.

	Entrepreneur Age	Years of Experience	Enterprise Age	Full Time Employees
Mean	35.43	9.3036	8.6981	14.2695
Minimum	19	1.00	1.00	0.00
Maximum	65	35.00	60.00	180.00

	Frequency (N=308)	Percent (%)
Social Entrepreneur Demographics		
Gender		
Female	129	41.9
Male	179	58.1
Education level		
High School	22	7.1
Diploma	18	5.8
Bachelor	149	48.4
Master	88	28.6
PhD	26	8.4
Other type of education	5	1.6
Social Enterprise Characteristics		
Industry/Solution		
Education & Training	78	25
Environment	21	6.8
Health & Fitness	36	12
Social	46	15
Cultural	51	16.6
Finance	34	11

DESCRIPTIVE STATISTICS FOR CATEGORICAL VARIABLES		
Employment	24	7.8
Services	18	5.8
Legal License		
Commercial	130	42.2
Endowments	12	3.9
Incubated	26	8.4
Association	51	16.6
NGO	33	10.7
Cooperative	25	8.1
Subsidiary	17	5.5
No License	14	4.5
City		
Riyadh	163	53
Makkah	62	20
Eastern region	43	14
Qasim&Hail	16	5.2
Madina&Tabuk	13	4.2
Asir&Jazan	11	3.6

Characteristics of Saudi Social Entrepreneurs

This study included 308 respondents, of whom 58.1% were male and 41.9% were female. The results are consistent with the findings from Levie et al. (2006), who found a similar percentage of social entrepreneurs between female and male social entrepreneurs, while male entrepreneurs were twice as likely to be commercial entrepreneurs as female entrepreneurs.

The youngest social entrepreneur in this study was 19 years old and the oldest was 65. The average age of the social entrepreneurs who participated in this study was 35 years old. Of the participants, 74% were between 19 and 39 years old, 15.6% were between 40 and 49 years old, and 10.4% were 50 years old or older. These ages are young in comparison to the Korosec and Berman (2006) study in the United States, where 34% of respondents were younger than 45 and 65.5% were over the age of 45. The young age of the respondents is not surprising, however, because 75% of Saudi Arabia's population is younger than 40 (Saudi General Authority for Statistics, 2016).

When it comes to education, 85.4% of the respondents reported holding a university degree. Broken down by degree, 48.4% of the respondents reported having bachelor's degrees, 28.6% master's degrees, and 8.4% doctorates. Aside from these degrees, other qualifications scored the lowest at 1.6%. This result suggests that people with advanced levels of education are more likely to become social entrepreneurs, which is consistent with Van Ryzin et al. (2009), who said that college education and prior business experience are important factors in creating social entrepreneurs.

The minimum number of years of experience in this sample was 1 year, and the maximum was 35 years. Of note, 84 respondents did not answer the question because they did not have previous experience before starting the social enterprise. According to the results from the respondents in this sample, 4.5% had 1 year of experience in the specified field, and 50.9% had less than 7 years of experience.

Characteristics of Saudi Social Enterprises

The age of the SEs in this study ranged from 1 to 60 years. The average age was around 8 years old, meaning they are young firms. This is comparable to Desa's (2012) study of 202 ventures operating in 45 countries, which found the average age of social ventures to be 7.2 years. The cumulative percentage distribution of firm age indicates that almost half of the samples (49%) were young businesses less than 5 years old; 25% were between 5 and 10 years old; 14% were between 11 and 20 years old; and 12% were older than 20 years.

The number of full-time employees ranges between 0 and 180 employees. With an average of 14 employees, the number of full-time employees and indicates that zero full-time employees comprised 23% of the sample, whereas 63% of the sample was composed of micro to small businesses with one to seven full-time employees. This is consistent with other studies such as Stevens et al. (2015), where the sample consisted of mostly small enterprises (median 20 full-time employees), and Choi (2015), where 92.2% of the sample was SMEs (>50 employees) with a mean of 5.38 full-time employees. It is worth mentioning that 59% of all micro SMEs businesses in the European Union have zero employees (Hope, 2014).

When it comes to the types of licenses the SEs used, 42.2% of respondents reported having commercial licenses, followed by association licenses at 16.6%, NGOs at 10.7%, incubation by an organization at 8.4%, cooperatives at 8.1%, and subsidiaries at 5.5%. Additionally, 4.5% had no legal license. The commercial licenses ranged from sole proprietorships to limited liability partnerships to general partnerships (types of commercial licenses). Those were usually for-profit SEs whose licenses were issued by the Ministry of Commerce and Investment, whereas the cooperatives, associations, and NGO licenses were issued by the Ministry of Labor and Social Development and were not-for-profit SEs. The types of licenses used by SEs vary across countries, including cooperatives, charitable businesses, fair-trade entities, and community enterprises, among others.

Stevens et al. (2015) noted that 34% of organizations were nonprofit organizations, whereas the remaining 66% were for-profit organizations (35%, 13%, and 15% were cooperatives, limited liabilities, and public limited firms, respectively). The type of license used by social enterprises varies across countries, according to Knife et al. (2014). A sample in Jamaica included NGOs, foundations, endowments, and faith-based organizations. Miles et al. (2014) sampled 375 SEs in Australia, consisting of Christian organizations, which included cooperatives, charitable businesses, fair-trade entities, community enterprises, and disability enterprises.

In terms of industry/solution, SEs in this sample were mainly focused on education and training (25%), followed by cultural (16.6%), social (15), health and fitness (12%), finance (11%), employment (7.8%), environment (6.8%), and services (5.8%). In terms of the region of operations, firms in this sample were mainly concentrated in the central region of Riyadh (53%), followed by Makkah (20%), the eastern region (14%), Qasim and Hail (5.2%), Almadinah and Tabuk (4.2%), and Asir and Jazan (3.6%). Riyadh, Makkah, and the eastern region are the largest in terms of population and SMEs registered.

DISCUSSION

The institutional environment has three dimensions: cognitive, normative, and regulatory (Scott, 1995: 2005). These three dimensions can affect entrepreneurship and SE in different ways, and religion has the power to influence the institutional systems (Audretsch et al., 2013).

Although the cognitive dimension is made up of attitudes and shared social knowledge (Audretsch et al., 2013), the normative dimension involves the social norms that affect the behavior of entrepreneurs (Brutonv et al., 2010). The regulatory dimension, meanwhile, refers to the totality of all the laws and government policies that can make or mar the decisions of an entrepreneur (Busenitz et al., 2000).

Looking at the regulative institutions in the KSA, a legal challenge exists because Saudi law does not support the establishment of NGOs (Montagu, 2010), and finding an umbrella organization to overcome this challenge is the only probable route for SEs. The only other alternative route is for SEs to have a commercial license under which to operate or alternatively work with no legal licenses, contributing to the gray economy. Although it is important to establish legal systems to implement the policies and practices that support SEs, serious efforts should also be made at the grassroots level to support the establishment of more SEs.

In the context of Saudi Arabia, Islam plays a vital role in the daily life of the people, and the KSA is considered to be a highly ingrained religious state operating on Islamic law (Pharaon, 2004). In this context, religion shapes the normative and cognitive institutions and therefore affects SEs. Islam is supportive toward entrepreneurship in general because the teachings of the Quran promote self-employment and encourage Muslims to engage in business activities (Audretsch et al., 2013). These aspects promote self-employment in the Islamic world, the end objective being “*falah*”, or the well-being of the individual in the present life and beyond (Kayed & Hassan, 2010). The concept of welfare is materialistic as well as spiritual, which is somewhat particular to Islam. Research findings on Islamic entrepreneurs also showed that religion contributes to their motivation and commitment to socially responsible business activities (Balog et al., 2014), which has close ties to social entrepreneurship practices. Kayed and Hassan (2010) found that entrepreneurs in Saudi Arabia often view entrepreneurship as an economic and religious commitment intended to generate lawful income for themselves, as well as contribute to the “*falah*” of Muslim nations at large.

Generally, Islam has a positive perception of entrepreneurship with social objectives. Kayed (2006) explained that Saudi entrepreneurs believe Islamic values are imbedded in their entrepreneurship activities. Even though SE as a concept is emerging and not a widely used terminology in Saudi Arabia, the concept itself is rooted in the Islamic teaching of entrepreneurship. This research found that with the verity of the legal licenses used by Saudi SEs either from the not-for-profit or for-profit sector, they both combine the social objectives with a sort of business model. The highly educated sample indicates that the managers of SEs have integrated traditional activities with the SE model, especially in the not-for-profit sector.

CONCLUSION

SE is an important part of any socioeconomic development that contributes to the well-being of a nation. Furthermore, SE steps in to solve environmental and social problems that the public and private sector are unable to address. Nevertheless, there is a lack of empirical studies that have explored the SE landscape in Saudi Arabia. This study strives to fill this gap by examining the social entrepreneurship landscape in Saudi Arabia using quantitative methods based on 308 questionnaires collected from SEs in various regions of Saudi Arabia.

SE holds great promise for a young vibrant country such as Saudi Arabia. Currently, SE is considered an emerging field of practice in the country, and it requires government support in developing its ecosystem. Looking at the SE landscape in Saudi Arabia, this research found that there is no special legal license for those SEs to operate, which contributes to the low numbers of

SEs in Saudi Arabia. We thus encourage regulators to establish a specific legal license for SEs, similar to community interest companies in the United Kingdom and L3C and the B-Corporation licenses in the United States. In general, governments can reduce the challenges pertaining to regulatory framework by implementing laws and regulations that foster SEs in their countries.

Saudi Arabia is an Islamic country. In Islam, the rich are supposed to give to the poor; there are old practices such as giving to charities, and there are new practices, which include supporting SEs. Social entrepreneurs should work on building new narratives that support the idea that it is Islamic to support social enterprises. Movements by social entrepreneurs do a better job of promoting social entrepreneurship than other external factors, and managers should be well-aware of that and take advantage of such opportunities.

Due to the young population of Saudi Arabia, the government can play a major role in influencing innovation in organizations by using indirect policies such as the 1980 Bayh–Dole Act in the United States, which enhanced the ability of entrepreneurs to exploit social networks in the form of government-funded university research. This law resulted in an increase in the transfer of technological knowledge between organizations and universities at lower costs (Schacht, 2009).

Further studies are necessary to establish a clearer understanding of the SE phenomenon, especially in developing and Islamic countries. Because Islamic entrepreneurship has emerged in the academic literature, there is a need to discuss Islamic SE because there are evident ties between the teachings of Islam and SE practices. Other important avenues to explore are gender differences between samples of SEs and commercial enterprises. Based on the findings that the percentage of female social entrepreneurs is almost double the female commercial entrepreneurs, future research could explore the motivation between those differences. Finally, research could also explore the differences between for-profit and not-for-profit SEs.

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