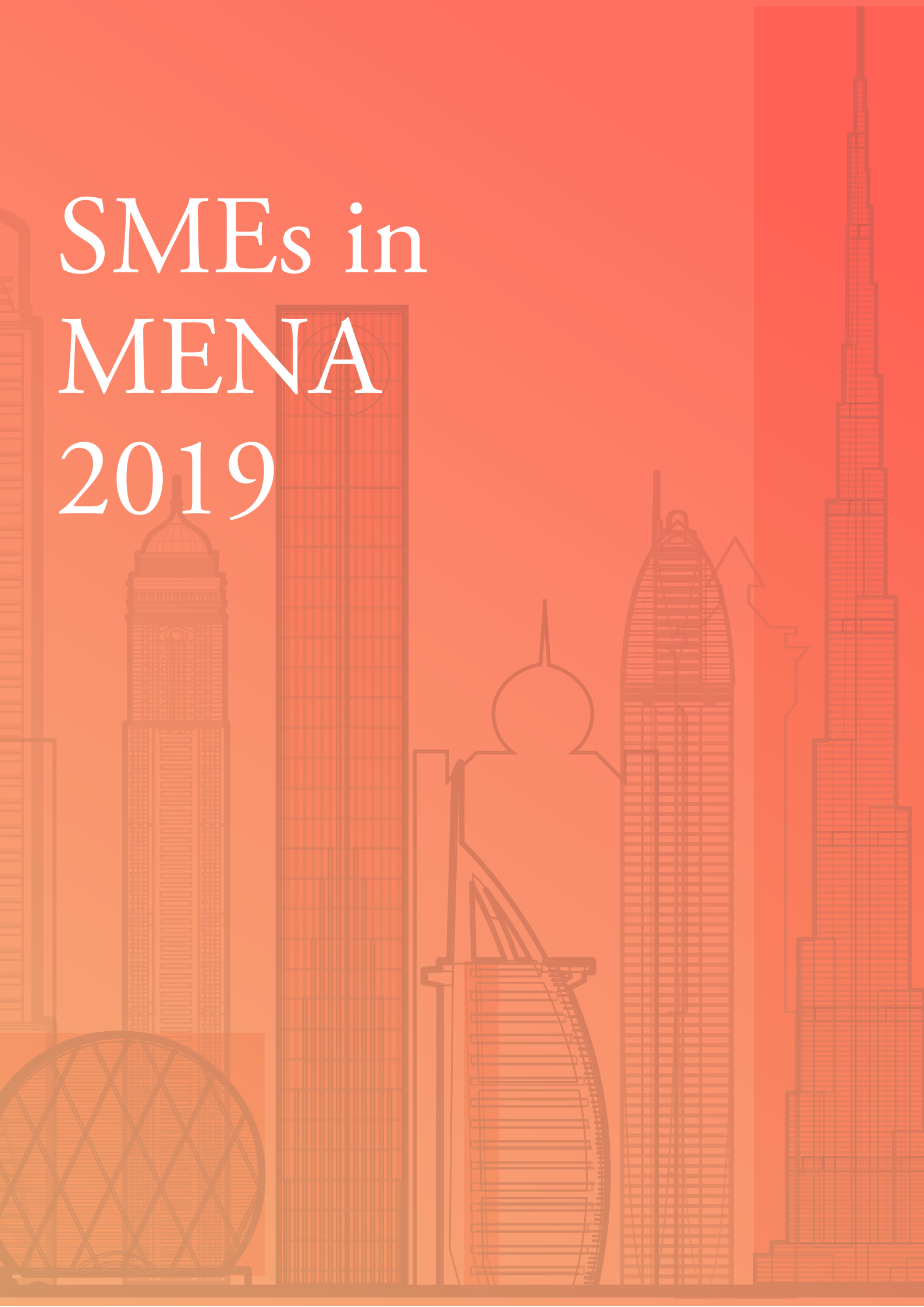


STATE OF THE NATION

SMEs IN MENA REPORT 2019



SMEs in MENA 2019



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Founder's note



Starting a business is no small undertaking. It can be exciting, challenging and ultimately rewarding but it takes drive, ambition and tenacity to weather the peaks and troughs. Many appreciate the challenges facing a startup but as it grows into a small or medium sized enterprise (SME) business owners can face a diverse range of obstacles at every new phase of growth.

There are 400,000 SMEs in the UAE, contributing to 60% of the non-oil economy and 86% of the private sector workforce¹.

This sector is critical to sustain a thriving economy and it is therefore important to understand the 'grassroots' experience of the leaders and entrepreneurs within it.

Beehive, the UAE's first peer to peer finance platform, was established with the purpose of serving SMEs and providing more accessible finance for them. As an SME ourselves we understand the challenges business owners can face but wanted to get a deeper insight into the experiences of other SME owners and also highlight the opportunities the region has to make this sector even stronger.

SMEs have opportunities that larger corporates may not. They're flexible, nimble and usually unconfined

to hierarchy thereby enabling faster decisions.

This report outlines the mindset of some of the leading SMEs in the region, the limitations they face and suggestions for potential improvements.

We hope this report will serve as a starting point for a broader conversation about the SME sector in the UAE and beyond. We will look to continue engaging in this topic with our community and the industry to build a greater understanding which will help the UAE become an international SME hub.

We hope you find this report insightful and interesting.



Craig Moore, Founder and CEO

About this report

Beehive launched an in-depth study on the SME sector in the MENA region with a particular focus on the UAE, to better understand the 'grassroots' perspective of local SMEs and entrepreneurs.

This report presents the current landscape for SMEs, and the state of the market in relation to talent, innovation and growth opportunities.

Following the assimilation of multiple SME research sources such as a survey of 175 SME owners, a roundtable of 13 prominent SME founders and CEOs and working with SME partners, we found compelling insights on the state of SMEs in the region.

Research began with a survey that was sent to SME owners across the MENA region. We partnered with Meed and Bayzat who also shared the survey with their SME customers.

This quantitative research was aimed at learning how SMEs envisage the ease of conducting business in the region.

To further supplement the initial research, Beehive hosted a roundtable discussion with a cross section of successful SME owners in the country to present the survey results, compare them with their own experiences and discuss their approach to digitization, innovation and growth planning. The panellists were business owners from various industries, ranging from recruitment specialists to F&B manufacturers.

Beehive analysed the results of the survey along with the insights from the roundtable discussion and the results from the basis of this report.

Our Partners





Executive summary

As of 2nd December 2019, the UAE is 48 years old; a young country but with significant growth potential. Infrastructure, legislation and business practices have rapidly developed in this country, which found its initial wealth through oil and trading. In recent years the country has focused on implementing initiatives to attract entrepreneurs and small businesses to the region.

Our research showed that while many initiatives driving innovation exist, particularly for startups, SME owners have limited resources to take advantage of innovative opportunities and would like more direction and assistance in this area.

MENA offers good opportunities for growth for females returning to work after having a family and those seeking more senior positions. It is also a popular destination for young people to join SMEs to get a broad mix of experience and progress their careers quickly with a view to potentially becoming entrepreneurs themselves.

The region has always been an expat destination but is an increasingly popular market for ambitious people. Both these factors can benefit SMEs by providing a new and affordable talent pipeline of highly experienced mothers returning to work and entrepreneurial, self-motivated young individuals who can bring fresh ideas.

Key findings

- ✔ Surveyed MENA SMEs have more women in senior positions than the global average.
- ✔ 28% of respondents see innovation as a priority for growth, yet only 2% of business owners are currently trying to access finance to fund it.
- ✔ SMEs offer young people a great opportunity for development. 48% of SMEs would hire someone under 25 with no experience.

Talent

Finding, hiring and nurturing the right talent is key to the success of any business. 60% of SME survey respondents said it was 'very difficult' or 'difficult' to recruit suitable employees with the right skill set in the UAE. This may be because salaries are generally high and very experienced employees can be cost prohibitive for SMEs to employ on a full-time basis.

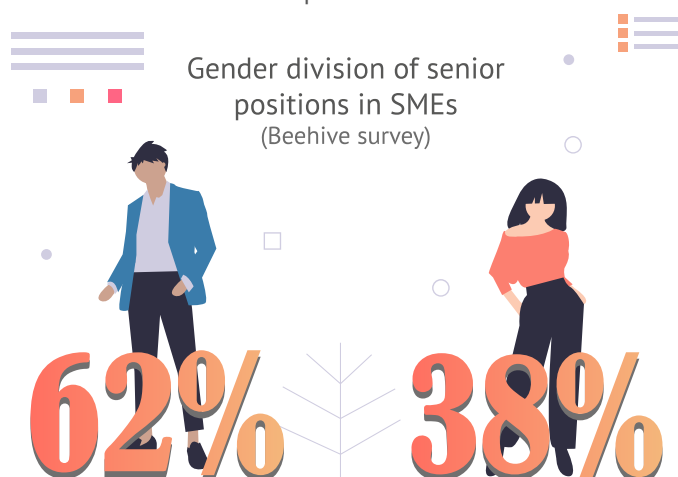
Our research focused on two key demographics; females and young people that can provide huge opportunities to SMEs.

Gender in senior leadership

Our results show 38% of senior positions in MENA are occupied by women. At first glance, the gender representation appears considerably weighted towards men, however when compared to the global average, which according to The Grant Thornton Women in Business Report March 2019 is 29%ⁱⁱ, our survey sample demonstrates that the region's SMEs are more balanced. This suggests that opportunities exist for women to progress in leadership roles.

SMEs value experience but often cannot justify paying full time employees at a senior level, so they may hire someone with solid experience who works fewer hours or on a more flexible basis. The flexibility that SMEs offer can be especially beneficial to experienced women with families who are resident in the Middle East alongside their spouse.

This creates a perfect situation of demand meeting supply and many SMEs have capitalised on this to mutual benefit of both parties.



The unconscious bias

While our survey showed 38% of women in senior positions in MENA is good versus the global benchmark, there is clearly still much room for improvement. Experts have claimed a reason for this could be due to an unconscious bias in the selection process.

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There is a lack of science in the hiring process at times meaning that unconscious bias creeps in. While in some instances there may be deliberate bias towards those of similar backgrounds, more often it is a natural human unconscious bias towards the familiar.

John Curtis-Oliver - RP International

Psychometric testing in the hiring process is happening in some businesses in the region, however there appears to be limited trust in the science because the right candidate according to test results may not always be the interviewer's favoured candidate on a personal level. There is an inevitable and unconscious bias towards hiring the candidate that you like, rather than the most appropriate candidate for the job.

Finding balance

To improve the country's proportion of women in senior positions, the UAE could take ideas from other regions. In Europe the overall percentage of women on company boards has increased from 9.1% in 2004 to 32.1% in 2018ⁱⁱⁱ. This has been largely due to national initiatives, such as legislative quotas, to speed up women's access to board seats. Quotas are sometimes controversial and more innovative approaches may achieve greater balance.

An opportunity to improve the gender balance could be by following in the footsteps of Goldman Sachs' Returnship program^{iv}, and providing a course for women returning to work after having a family. In this scheme they learn about the latest technology and compliance developments, so they are quickly

brought up-to-speed and do not experience any disadvantages versus other colleagues.

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We see that women who are looking to re-enter the workforce lack confidence when returning and quite often settle for a job that requires less experience than they have.

Kate Midttun - Acorn Strategy

To mitigate any unconscious bias in the hiring process, businesses could require a percentage of the final candidates for a senior role to be women. This rule was applied at Greenhouse, a bicoastal firm based in the US, that specializes in talent acquisition software, and in two years the executive team has gone from 25% women to 40%^v.

At the Beehive roundtable, SME owners had experienced women generally displaying lower confidence than male candidates in a job interview.

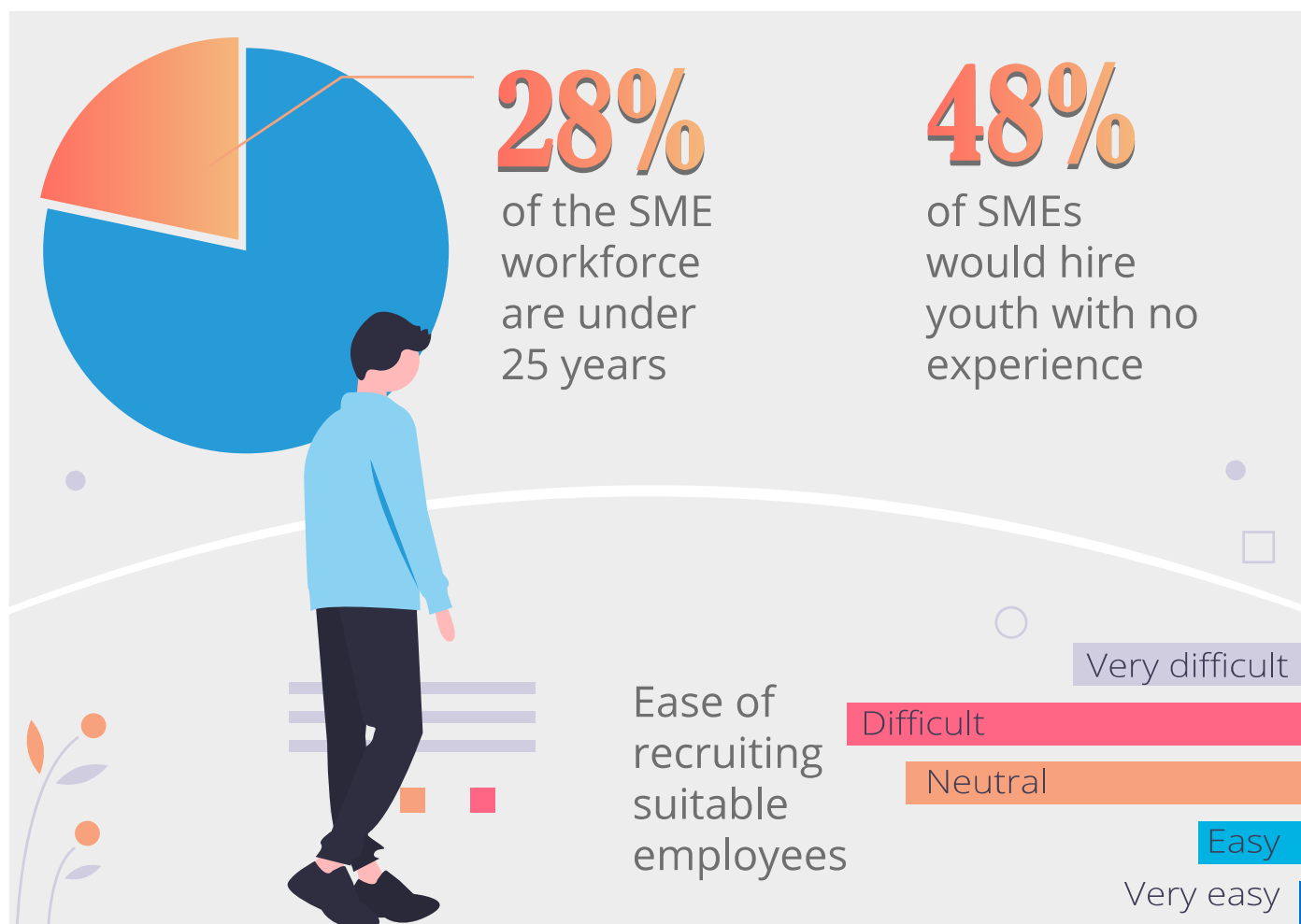
This sentiment has been reiterated in other sources with one report stating that “Men apply for a job

when they meet only 60% of the qualifications, but women apply only if they meet 100% of them.”^{vi} Clearly confidence sells and a more self-assured approach is inevitably more successful in an interview environment. This ultimately leads to men progressing at a faster pace through the career ranks and securing more senior roles. The theory has been analysed by a study from Cornell University which discovered that despite no difference in the quality of work produced by both genders, women are less confident in their abilities, which deters them from pursuing future opportunities^{vii}.

The benefits of youth

Another area our research covered was regarding youth in business. Our survey revealed that 28% of the SME workforce is aged under 25. It was also revealed that 48% of respondents would hire someone under 25 with no experience.

Our research showed a general consensus that the under 25 demographic can have a lot to offer a small



business, bringing creative ideas and approaches and having a particular affinity and skillset in areas such as digital and social media. It can also prove cost efficient for an SME to hire younger talent and nurture them within the business.

An increasing trend in young people is the aspiration away from the traditional career path of joining a graduate scheme in a multinational corporate^{viii}.

According to UBS, millennials would rather start their own company than work for someone else. The same generation also expect to live and work in several places globally to pursue their career goals, with seven in ten saying they would move abroad to follow an opportunity. London, New York and Dubai ranked as the top three locations to achieve their ambitions. This could lead to the Middle East becoming a hotbed of budding entrepreneurs.

A sustainable approach

“Kids no longer aspire to a conventional graduate scheme with industry icons such as Jack Ma advocating starting in a smaller company. They're more interested in the fresh, flexible environment which they associate with Silicon Valley

John Curtis-Oliver - RP International

According to Forbes, 79% of millennial employees are loyal to companies that care about their effect on society^{ix}. For smaller businesses who are still refining sustainability practices, hiring a younger team member could inspire new ideas and help the business become more sustainable due to the eco-pioneering nature of the generation.

Environmental initiatives are usually associated with larger corporates but SMEs also have a role to play. Our survey showed 64% of SME business owners are currently trying to reduce waste produced by their business by initiating practices such as a paperless office. This not only benefits the environment but improves financial processes and record

management, a critical area required when seeking funding for growth.

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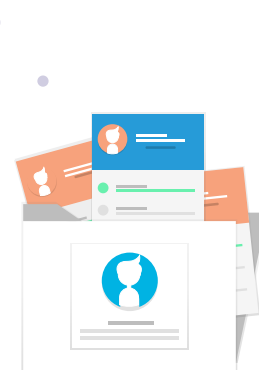
There's a real opportunity to use innovation to implement cleaner cheaper energy solutions in the region. The technologies are ready, it's just matter of shaping and integrating them to a company's needs using smart software solutions.

Alice Cowman - Enerwhere

64% of SME business owners are currently trying to reduce waste

5% would access finance to increase headcount

22% think hiring staff is critical for growth





Innovation

Innovation vs invention

Innovation is a buzzword used extensively and is an important focus as a future growth driver. 2015 was declared the UAE's year of innovation, and in September 2014, H. H. Sheikh Mohammed bin Rashid Al Maktoum established the Mohammed bin Rashid Centre for Government Innovation^x to encourage innovation in the government sector.

It is evident that the UAE has implemented many strategic initiatives to drive innovation, but we wanted to find out how this was impacting SMEs on the ground.

There is a strong track record

of businesses adapting proven models and concepts and localizing them to the region. Paytabs, for example, was based

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SMEs can benefit by identifying opportunities for innovation within their own business, starting with incremental changes to improve simple inefficiencies.

Brian Habibi - Bayzat

off a pre-existing business model and Beehive itself was borne out of the peer to peer lending model first launched in the UK (Zopa).

Innovation for growth

Our survey showed 28% of respondents see innovation as a priority for growth, yet only 2% of people are currently trying to access finance to fund it. Further

investigation of this data showed that while SME owners value the importance of delivering innovation, their immediate

focus was on optimizing their current business operations. Interesting feedback from the roundtable showed that many owners struggle to find time to dedicate to developing an innovation strategy and don't have the resources to hire talent to focus on this. Many owners voiced they would

28%

see innovation as a priority for growth



2%

are willing to access finance to help fund it

appreciate help in identifying the opportunities to innovate within their businesses. All SME owners agreed they needed a quick return on investment (ROI) on innovation for cashflow reasons, and without that security, innovation can prove risky.

SMEs need a quick ROI on innovation to maintain cash flow

SME owners may encounter challenges when trying to fund innovation as applying for a bank loan can be a lengthy process and rates can be prohibitive. Accessing finance from private investors for innovation purposes is also not an easy route. Research respondents felt that investors are more likely to invest in proven concepts, not brand-new ideas which have not yet delivered proof of concept in other markets. This predisposition makes dedicating resources to deliver more advanced innovation more challenging and riskier for smaller businesses.

Innovation support for SMEs

While there are many schemes

and initiatives for startups, such as incubators and accelerators like DIFC's Fintech Hive, and ADGM's RegLab, to help drive innovation, there seems to be a clear gap of support networks specifically geared towards established businesses.

While the word 'innovation' can conjure up images of expensive, risky ventures, there are many simple ways to innovate and see a real impact within a business. It is this area where many SME owners feel they need help to identify quick wins and ways to streamline processes to deliver a better operation.

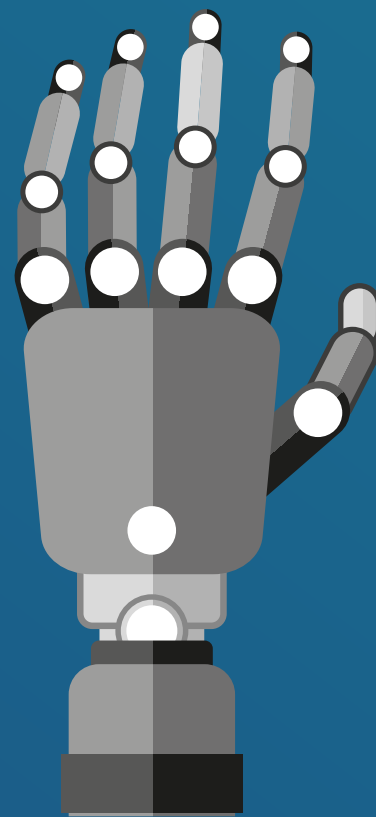
Many SMEs are eager to learn how they can identify opportunities for innovation within their own business

Most businesses have areas which can be improved with an innovative approach. For example, an SME can improve their HR process by using a service like Bayzat, a company that has developed an app to unite HR operations. The app enables

employees to upload expenses digitally, and even search for the nearest doctors covered by their healthcare plan on a map. This simple switch eliminates manual processes, paperwork, improves efficiency, and is a working example of how innovation can be a simple improvement of a process.

Expo2020 has been running an innovation grant programme which has funded 120 companies providing an innovative service. This initiative is a perfect example of support for small businesses who can initiate innovative change in the region to encourage growth.

Many SMEs are eager to learn how they can identify opportunities for innovation within their own business. More innovation support networks geared towards inspiring an innovation mindset in SMEs would be highly beneficial to their continued performance and ultimately drive a positive economic impact.



Growth

Market expansion

75% of survey respondents said market expansion was a priority for growth, however 61% of respondents say that market conditions pose a challenge for SME growth. Expansion within MENA is the primary focus with 30% of surveyed SMEs accessing finance to specifically expand within MENA.

While most SMEs saw market expansion as their key focus for growth, it comes at a price. The cost of expansion from the UAE to Saudi Arabia may be high for example, but it can also be costly to expand from Dubai to Abu Dhabi due to the legal and administrative requirements of different jurisdictions.

71% of SME owners say face to face networking is the best marketing strategy for growth.

The cost of expansion is inevitable but sometimes proves prohibitive to organic growth. This has led to some SMEs offering services remotely, operating from a local hub to keep their costs low and only initiating face to face contact and travelling when essential.

Cash is king

Finance is a recurring issue for SMEs. 66% of SME respondents stated late payments as being the biggest challenge for growth. Access to finance has always proved challenging but most importantly strong working capital is always required to enable the everyday running of the business. A creditworthy company can still struggle to effectively plan and grow due to an unpredictable cash flow.

Participants at the roundtable said they do plan for late payments to mitigate their impact, but fast and alternative finance sources are also required to bridge the time gap between invoice and payment.

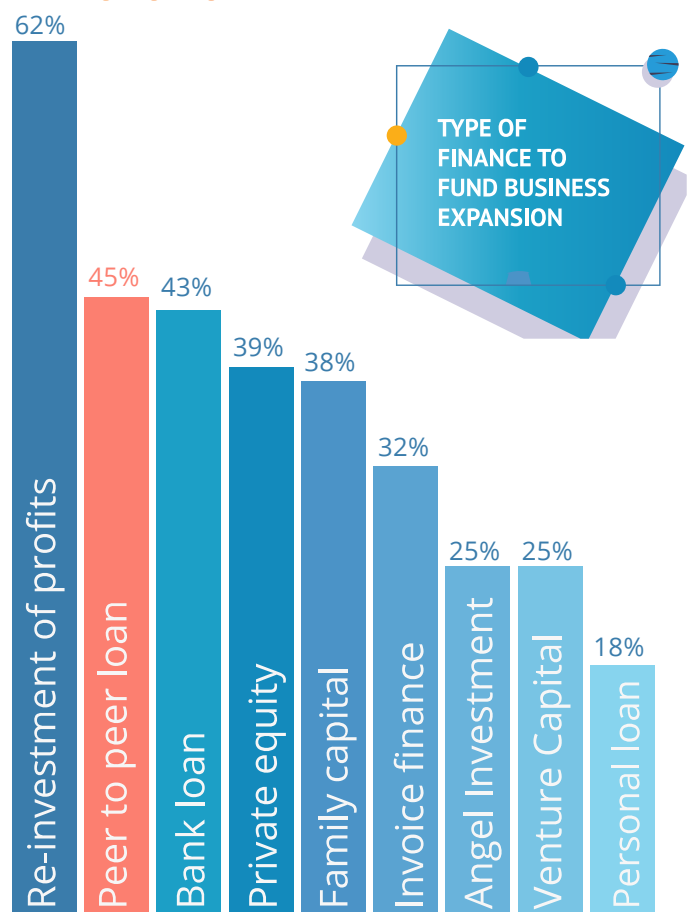
Almost a third of respondents are already using

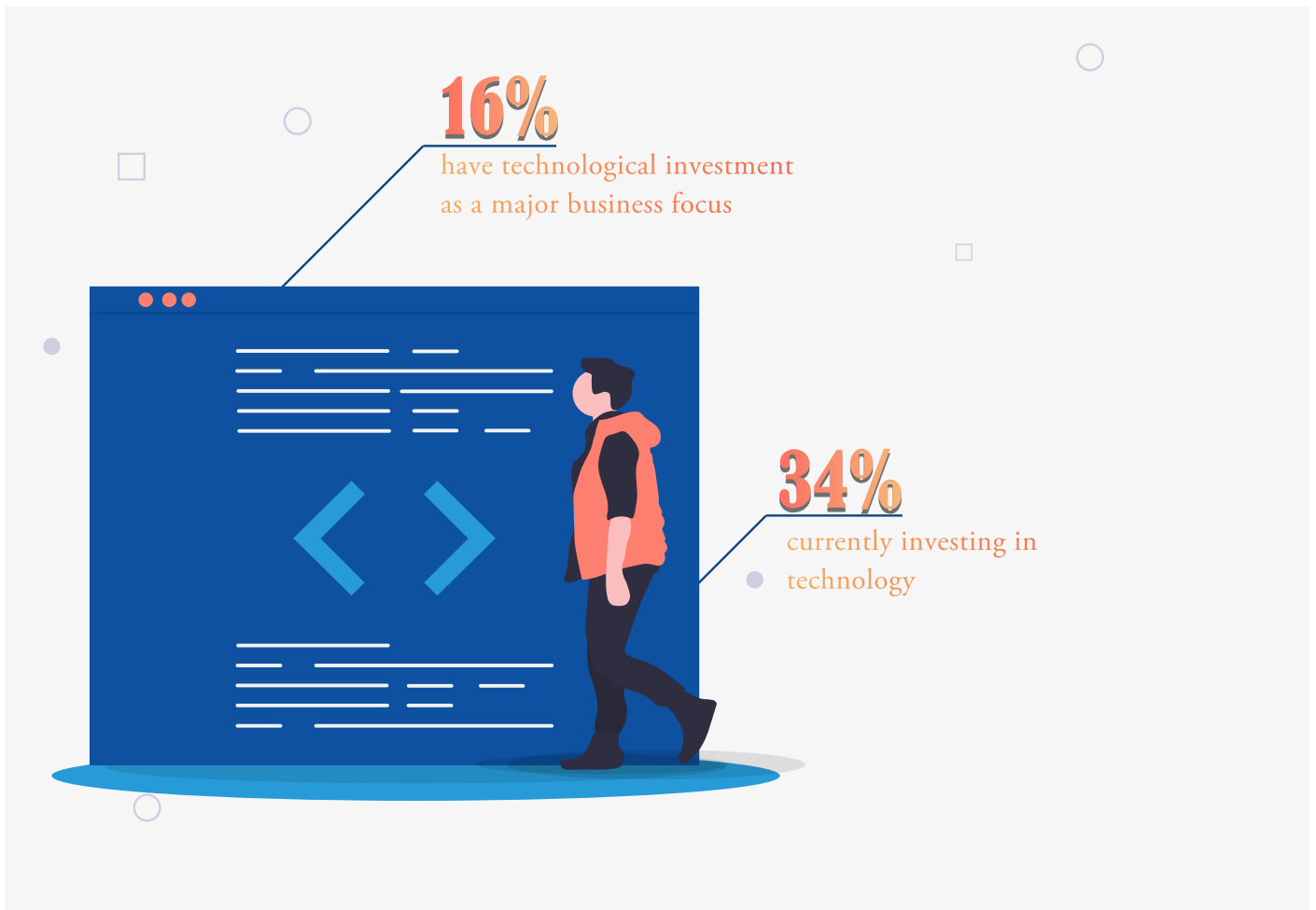
or considering using alternative short-term finance solutions such as Invoice Financing, which demonstrates a growing awareness and usage of these kinds of finance products.

Infrastructure for growth

Many startups and young businesses have created a seamless front-end user experience. However, the challenge lies in delivering a fully integrated end to end solution. Access to external data and digital ecosystems can be challenging in this region and can lack 3rd party integration. Greater emphasis is required to accelerate the backend digitization for many regional service providers to allow startups to integrate with the community and deliver new value added services. A recurring theme was that an “app” isn’t digital transformation but just the first step of a necessary journey.

44% of survey respondents said digital transformation meant an end to end customer experience and **37%** said leveraging big data and analytics.





To overcome the challenge that comes with a lack of data, SMEs have a greater opportunity to gather data using non-traditional methods and apply innovative analytical approaches.

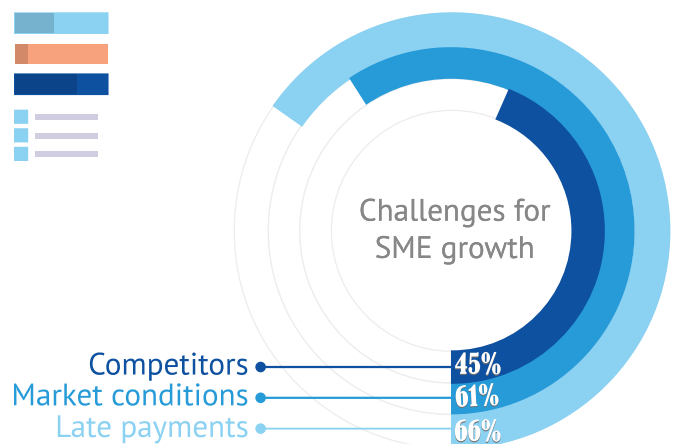
A changing mindset - collaborate or compete?

Delivering sustainable growth may require innovative approaches such as partnering with possible competitors. This means resources are pooled and costs are shared, resulting in the ability to deliver more compelling pitches and win larger contracts. Opportunities that may have been non-viable for one SME alone, can now be capitalized on.

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Joint ventures are working really well for us at the moment. We have the local insight, they bring the international experience making for a tremendously strong and robust value proposition.

David Cook, Project Partners



32 % of survey respondents are using
or considering short-term finance
solutions such as Invoice Financing



Conclusion

Surveyed SME owners stated market expansion within MENA was a primary focus for their business growth but they noted the need to manage challenges, such as late payments, which are a key challenge to managing cash flow and delivering sustainable growth. It's not surprising that flexible and fast access to finance remains a key need for SMEs, be it short term finance to help cash flow or longer term to fund expansion.

There's a rich pipeline of talent in the MENA region, which comes in many forms. Our survey results were positive regarding the higher percentage of women in senior positions in SMEs than the global average, which is encouraging for women returning to work and those keen to progress into leadership roles.

The region already has a savvy younger generation and is also attractive to young people who want to come to MENA to find the right opportunities and don't aspire to a traditional career path like a graduate scheme. This generation fits well into an SME culture and flatter hierarchical structure and bring a new skillset. They are also adaptable, can bring a fresh perspective and are cost effective for SMEs.

Market expansion is the main focus for growth for SMEs

Innovation is recognized as a key area that could expedite growth but our surveyed SME owners felt more support and guidance could be provided within SMEs themselves to identify innovation opportunities. This is an area where more innovation agencies and networks could bring significant benefit.

There is clear evidence that many entrepreneurs have been attracted to the region and continue to introduce successful business models. Young people see the region as a destination to develop their careers and start their own businesses which is also a positive sign for future growth.

The importance of SMEs has been well recognized as being key to economic growth and the SME landscape continues to develop. The data, feedback and recommendations in this report are based on a sample of SMEs but provide valuable insight to this critical sector. The implementation of some initiatives recommended in this report could bolster SME development and help establish the Middle East as an SME hub.



Thank you to contributors

We would like to extend our gratitude to all the partners that have contributed to the development of this report.

A special thank you goes to the SME owners who participated in the completion of the survey and those who attended the roundtable discussion and provided expert commentary and relevant insights into the experience of running an SME in the region.

About Beehive

Beehive P2P Ltd. is the first peer to peer lending platform in MENA to be regulated by the DFSA. Beehive directly connects businesses looking for finance with investors, creating mutually beneficial partnerships for growth. Beehive's digital platform provides smarter finance solutions to businesses, financial institutions and investors. By combining financial market experience with technology, we accelerate efficiency and functionality to deliver market innovation.

Since launch, Beehive has registered almost 12K investors and successfully facilitated almost AED 500 million to around 600 business funding requests.



Fintech Innovation
of the Year **2017**



Entrepreneur of Year **2016**
Start-Up of Year **2015**



Entrepreneur of Year **2016**
Entrepreneur of Year **2015**



Finance Award **2016**
Best Marketing Campaign **2016**

Attendees & references



Mustafa Koita
Founder and CEO
Koita Milk



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Tala Badri
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Founder
Brand Creative



Mohammed El Hijazi
Managing Director
Brand Creative



Richard Thomson
Editorial Director
Meed

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ⁱⁱ https://www.grantthornton.global/globalassets/global-insights---do-not-edit/2019/women-in-business/gtil-wib-report_grant-thornton-spreads-low-res.pdf

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^{vi} <https://hbr.org/2014/08/why-women-dont-apply-for-jobs-unless-theyre-100-qualified>

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^x <https://www.mbrcgi.gov.ae/en/home>