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**THE ECONOMIC STRUCTURE OF SME'S IN DUBAI AND THEIR DRIVERS
AND BARRIERS WITH RESPECT TO CSR**

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1.0. Background

This paper summarizes the main characteristics of SME's in Dubai, their role, economic structure and contribution to economic activity. The paper also describes SME's drivers and barriers with respect to corporate Social Responsibility (CSR). The results are based on a recently conducted Survey amongst SME's in Dubai with the objective of facilitating a broader implementation of CSR amongst SMEs in order to integrate them in sustainable economic development of the Emirates. The survey design follows the CSR Framework created by CRB covering four key areas of CSR as defined by CRB: *Marketplace, Workplace, Environment, and Community*.

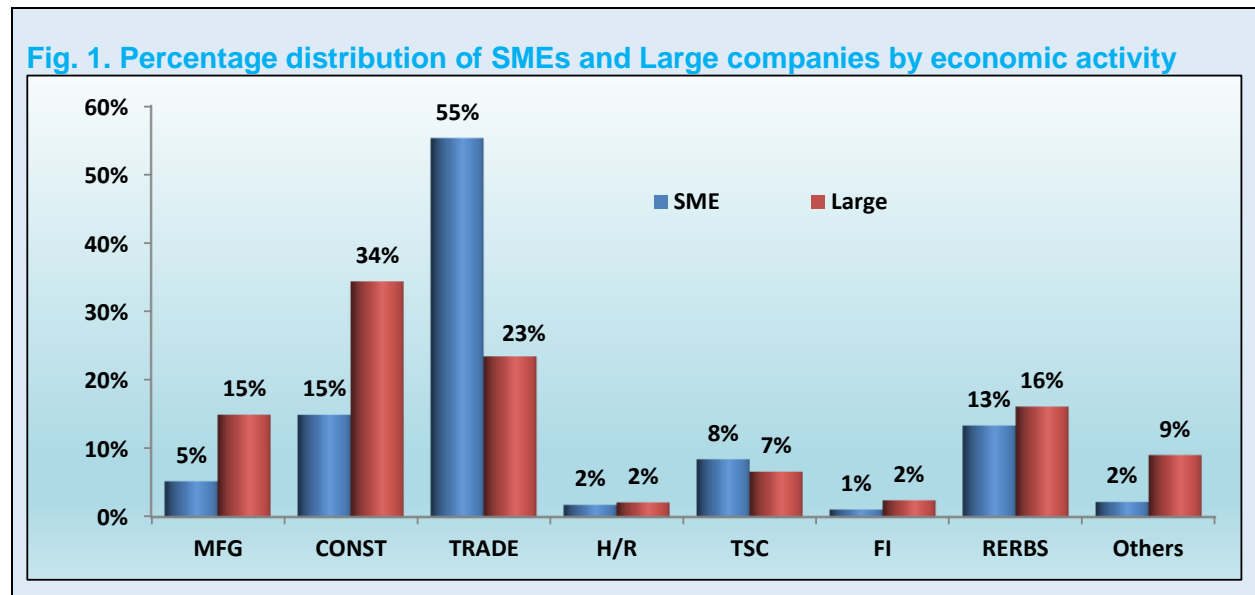
Table 1 Sampling Design and Response Rate

Sector (Stratum)	Employment Size (Substratum)	Frame size, N	Sample size, N	Responses, N	Response rate, %
Manufacturing, electricity, gas and water	Micro	3546	50	6	12.0%
	Small	1213	40	3	7.5%
	Medium	670	30	8	26.7%
	Total	5,429	120	30	25.0%
Construction	Micro	10523	50	7	14.0%
	Small	3037	40	7	17.5%
	Medium	1010	30	5	16.7%
	Total	14,570	120	37	30.8%
Trade, wholesale, retail	Micro	47744	50	34	68.0%
	Small	4096	40	16	40.0%
	Medium	1228	30	4	13.3%
	Total	53,068	120	65	54.2%
Hotels and other social services	Micro	8838	50	8	16.0%
	Small	2594	40	3	7.5%
	Medium	1058	30	12	40.0%
	Total	12,490	120	40	33.3%
Real estate and other business services	Micro	10037	50	6	12.0%
	Small	2063	40	7	17.5%
	Medium	802	30	8	26.7%
	Total	12,902	120	32	26.7%
Total	Micro	80688	250	61	24.4%
	Small	13003	200	36	18.0%
	Medium	4768	150	37	24.7%
	Total	98,459	600	204	34.0%

2.0. Structure of SME's in Dubai

The small and medium companies, broadly called the SMEs, play an important economic role in Dubai's economy, generally contributing more than 30% to the total GDP with Trade being an important pillar of the economy and with trading companies of all sizes abound. Of the 166 thousand currently active businesses in Dubai, about 98% could be considered SMEs, or companies employing at most 100 workers. They are engaged in various types of economic activities all over the Emirate.

Fig. 1 highlights the distribution of businesses with respect to economic activities, with the SMEs being highly concentrated in the services sectors, particularly in Trading. While only 20% of them are in the Manufacturing (MFG) and Construction (CONST) sectors, the majority (55%) are in Trading Sector (TRADE). In contrast, the largest number of large companies (34%) are in Construction, while 15% are in Manufacturing. Although the respective percentages are comparable in the other sectors¹ the SMEs highly dominate with respect to number of businesses in operation.



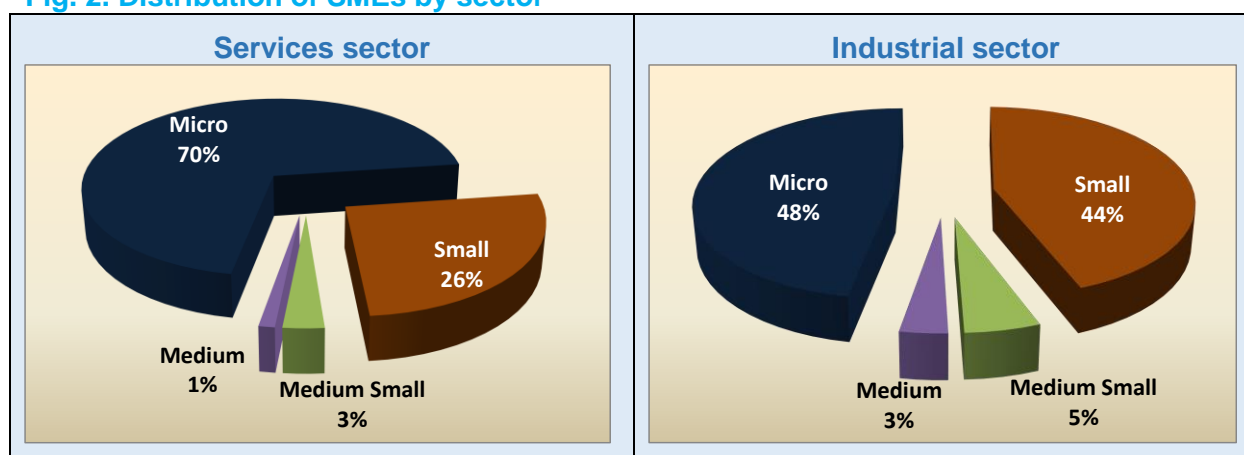
¹ The other sectors are H/R – Hotels and Restaurants, TSC – Transport, Storage and communications, FI – Financial Intermediations, RERBS – Real Estate, Renting and Business Services. Included in Others are the small sectors consisting of Agriculture and Fishery; Mining and Quarrying; Electricity, Gas and Water; and Social and Personal Services.

Further classifying the SMEs in the Services and Industry sectors by employment size and considering the distribution of companies across the sub-classifications, defined as:

- i. Micro, with employment of 1 – 9;
- ii. Small, with employment of 10 – 19;
- iii. Medium Small, with employment of 20 – 49; and
- iv. Medium, with employment of 50 – 100.

is shown in Fig. 2. Nearly all of the SMEs in the services sectors employ less than 20 workers, with Micro accounting for 70% of the total number; and Small, 26%. Only 3% are Medium Small and only 1% are Medium. On the other hand, corresponding percentages of SMEs in the Industrial sectors are 48%, Micro; 44%, Small; 5%, Medium Small; and 3%, Medium.

Fig. 2. Distribution of SMEs by sector



EXPORTING ACTIVITIES OF SMEs

Dubai has been considered as the trade hub of the region, efficiently moving goods from major supplying countries to the various parts of the region and vice versa. Being a trading hub, it is not surprising to note that among the 11,850 members of the Dubai Chamber engaged in it in 2014, 71% are SMEs, with their total export accounting for more than 60% of the year's total.

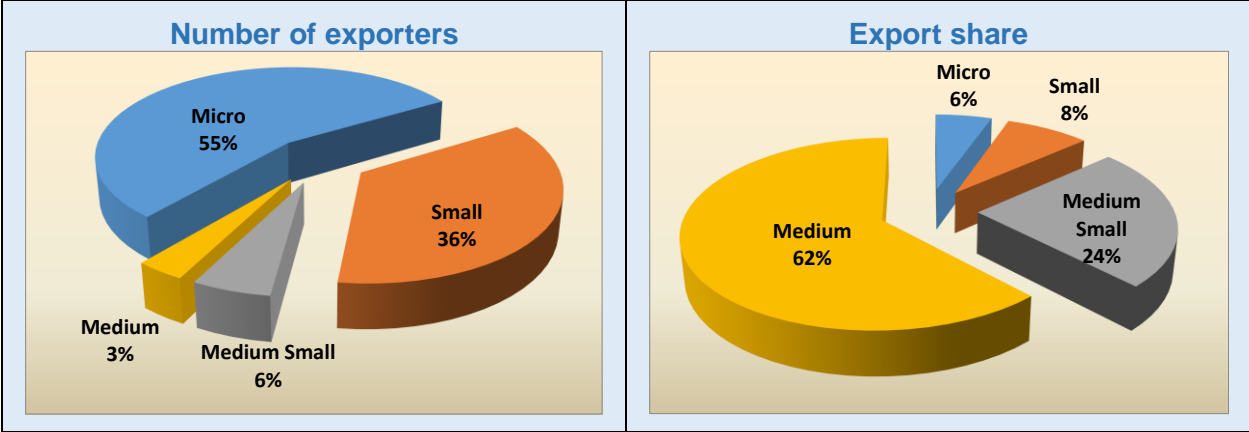
Among the SMEs, a disparity between the number of companies and the level of activity could be observed; i.e., despite the larger number of relatively smaller companies, the total exports of relatively larger companies within the group was higher.

As shown in Fig. 3, majority of exporting SMEs during the year were Micro, while 36% were Small. Only 6% were Medium Small and 3% were Medium. In terms of export value, however, a reversed pattern could be seen. The Micro's share to total SMEs' export value during the year accounted for only 6%. The share went up with employment size with the share of Small at 8%, and of Medium Small, at 24%. The export value of Medium exporters accounted for the bulk (62%) of the group's total export.

The same observation could be noted with respect to the frequency of exporting activities,

measured in terms of the number of Certificates of Origin (COs) issued to exporters during the year. On the average, a Micro company exported 22 times during the year, while a Small company exported 39 times. The exporting frequency rose to 149 times for Medium Small company, and to 211 for Medium companies.

Fig. 3. Distribution of SME exporters and their export share, 2014



3.0 SMES IN THE SOCIO-ECONOMY

From an individual street vendor to a complex multinational enterprise, every business entity has its stakeholders and its impacts on society and the environment, both positive and negative. The notion of corporate social responsibility (CSR), broadly defined as the overall contribution of a business to sustainable development (SD), refers to ensuring of economic success for an organization by integrating social and environmental issues in its processes so that the organization can adequately manage the impact of those processes on both the environment and local communities. Therefore, this should be equally valid for large and small enterprises. But when CSR is discussed in academia, the media, and wider civil society, the focus tends to be on the larger companies. Small and Medium Enterprises (SMEs) are often overlooked.

Although the term ‘SME’ is frequently used it is seldom defined. In the UAE, different definitions have been used. Until recently, the *Dubai Chamber of Commerce and Industry* considered companies with less than 10 employee’s micro, those with less than 20 or 25 small, and those with less than 100 medium-size, provided turnover is less than 100 million Dirham/year. In late 2009, the Dubai government set a general definition for SMEs, which is differentiated by sector and takes both turnover and workforce size into account.

Yet, SMEs count. They are in many countries, at the core of the economy, and a major source of entrepreneurial skills, innovation and employment. On average, they represent over 90% of businesses and account for 50-60% of employment at a national level. In Dubai, and according to the *Mohammed Bin Rashed Establishment for SME Development*, SMEs constitute 90-95%

of all businesses contributing 30-35% to the national gross domestic product (GDP), and their contribution to the national economy also results in social benefits by employing about 61% of the total workforce. As such they play a fundamental role in society, and can potentially have a huge impact on both environment and community.

With their strong influence on economic, social, and environmental matters, impacts attributed to SMEs' activities are certainly significant, not only the magnitude but also the diversity. Thus, the social and environmental performance of SMEs remains weak in many parts of the world and it is believed specifically that the environmental damage caused by SMEs will grow unless innovative strategies are devised. However, SMEs today work in markets affected by a global pattern of supply and demand that favors larger companies. Therefore, CSR concepts were mainly developed with large companies in mind and many concepts and instruments have been developed to address their environmental and social impacts.

4.0 CHALLENGES AND DRIVERS TO ADOPTING CSR CONCEPTS

Although SMEs are considered the core of the economy, they are viewed as a challenge in the sustainable development debate. They apply considerable pressure on both society and the environment, not individually, but collectively. For example, SMEs are avid consumers of resources and energy and the result is a significant generation of waste by-products. There are also a number of problems that deprive SMEs from achieving their full potential: they use outdated technology; lack finance; lack access to export markets; lack market information; are resistant to change; and, the decision-making is done by the owners of these companies. These problems contribute to disregard of social issues and environmental degradation. Therefore, they are seen unconcerned by environmental and social issues even those relevant to their businesses.

Table 2 Implementation of CSR Management Action by Company Size

CSR Management Action	Micro	Small	Medium	Average
Policy	22%	43%	31%	32%
Strategy	28%	39%	46%	38%
CSR Steering Committee	11%	13%	24%	16%
Dedicated department/officer for CSR	13%	24%	28%	22%
Directors involved in CSR management	13%	22%	40%	25%

In the analysis of the primary drivers and barriers of CSR practices, some interesting findings have emerged in relation to SMEs in Dubai.

The majority of the respondents highlighted *image and reputation* as a main driver for adopting and implementing CSR practices, followed by legal and regulatory processes, employee retention, improved standing with the government, and competitiveness were considered fundamental by 78.5% of respondents.

Table 3 Drivers and Barriers of CSR Programs and Activities by Company Size

Factor	Micro	Small	Medium	Average
Drivers				
Company Image/Reputation	80%	69%	96%	82%
Improved Risk Management	69%	63%	87%	73%
Pressure From Business Partners	49%	30%	55%	44%
Pressure From Customers	50%	33%	57%	47%
Pressure From Investors	43%	24%	62%	43%
Employee Attraction/Motivation/	74%	70%	94%	79%

Retention				
Competitiveness	73%	61%	92%	75%
Compliance To Islamic Values/ Practices	58%	68%	80%	69%
Legal/Regulatory Drivers	78%	71%	92%	80%
Improved Standing With Government	75%	59%	94%	76%
Barriers				
No Awareness	50%	14%	50%	38%
Lack Of Knowledge	55%	25%	64%	48%
Lack Of Top Management Support	32%	18%	29%	26%
No Time To Resource CSR	46%	45%	54%	48%
Employee Resistant To CSR	32%	23%	41%	32%
Perceived High Cost Of CSR Project	42%	48%	66%	52%
Belief That CSR Lacks Direct Impact On Financial Success	42%	50%	48%	47%
Thinks There Is Lack Of Appropriate Institution To Support CSR	44%	54%	67%	55%
Lack On Incentive To Encourage CSR	49%	51%	60%	53%
Lack Of Government Support, Involvement, Legislation	34%	42%	51%	42%
Note: the percentage for a driver refers to the relative number of companies in each sector giving a rating of at least 2 in importance; while for the barriers the percentage refers to the relative number agreeing that the specific barrier is the reason for implementation of CSR programs/ activities.				

On the other hand, the main barriers to the implementation of CSR activities were largely identified in time and resources cost, some respondents also indicated that lack of efficient institutions to assist them in implementing CSR activities was a major barrier.

Lack of incentives to becoming more socially and environmentally responsible was another barrier as indicated by 53.3% of respondents.

Micro companies are expected to have limited capabilities to organize a CSR steering committee, much less, a dedicated department/officer for CSR. Thus, it was not surprising to note that very few of the companies reported these management actions as having been implemented, nor are they looking to implement them in the near future. In contrast, 55% of the large companies had the former and 53%, the latter. From a 22% occurrence among micro companies the percentage of having a CSR policy rose to 43% for small companies, to 65% for large companies. Unexpectedly medium companies reported a low occurrence of 31%. The pattern for having CSR strategy was more as expected, rising from 28% for micro, to 39% for small, to 46% for medium, and to 52% for large companies.

Another barrier facing SMEs is that they do not appear to have a cradle-to-cradle understanding of the social responsibility agenda, i.e. how the different areas of environmental and social responsibility can combine to bring improvements across the triple-bottom-line (economic, social and environmental) performance. Yet, in SMEs it is much easier to get full buy-in to responsible business and understanding of what the commitment means in practice.

Integrating CSR throughout an SME can be undertaken through practical, simple and cost efficient actions, and does not need to be complex or expensive.

Owing to their small size, and their potential for being more flexible and innovative, SMEs may in fact provide particularly good opportunities for social responsibility. Nevertheless, SMEs are incapable and/or indifferent to conform to socially and environmentally-friendly practices due to financial constraints, lack of proper information and a lack of motivation.

Table 4 CSR Practices by Area and Company Size

Area	CSR Practice	Micro	Small	Medium	Average
Workplace	Provide training	60%	84%	90%	78%
	Support Emiratisation	80%	12%	5%	32%
	Equal Pay	62%	53%	80%	65%
	Engage and consult employees	46%	73%	84%	68%
	Policies for Health and Safety (H&S)	83%	75%	89%	82%
Community	Community policy/strategy	36%	41%	57%	45%
	Engage stakeholders	36%	34%	43%	38%
	Cash contribution	43%	66%	86%	65%
	Time	36%	56%	42%	45%
	In kind support	28%	51%	70%	50%
Environment	Environmental policy	32%	38%	55%	42%
	Measure water usage	52%	57%	73%	61%
	Measure material usage	48%	86%	79%	71%
	Measure CO2 emission	23%	23%	36%	27%
	Transport and business travel	49%	58%	73%	60%
Market	Ensure customer privacy	95%	100%	100%	98%
	Measure customer satisfaction	91%	84%	92%	89%
	Seek opportunities for new products to address social/environmental problems	52%	50%	64%	55%
	Environmental policies for suppliers	42%	50%	60%	51%
	H & S suppliers	50%	55%	62%	56%

Promoting the uptake of CSR amongst SMEs requires approaches that fit the respective needs and capacities of these businesses, and do not adversely affect their economic viability.

The long-run benefits SMEs can realize by adopting CSR strategies can indeed be significant and involve the following key dimensions:

Cost Savings: adopting CSR practices leads to operational savings (less waste, energy and material inputs, higher efficiency in resource use, etc.) resulting from environmental and productivity improvements within an eco-efficiency perspective.

Enhanced Staff Loyalty: offering advanced human resource development programs, and safe workplaces can result in higher level of loyalty and lower level of absenteeism.

Enhanced Reputation: the positive image effects of implementing CSR can be a decisive actor for future market development. It is an excellent tool for benchmarking the performance of business partners in different areas and documenting the efforts undertaken in that respect.

Improvements in Productivity and Quality: greater efficiency and better management encouraged by adopting CSR practices can help SMEs improve the quality and productivity of their output.

Consumer Response and Customer Satisfaction: while responsible consumer behavior is still somewhat confined to niche markets, it appears to be growing rapidly. In the field of customer satisfaction, adopting CSR practices will improve SMEs performance in particular with respect to lower defect rates and delivery on time.

SMEs should not just consider CSR an ethical issue, they must see the business relevance of what they do. If they do not, they may miss out on important business opportunities.

5.0 CONCLUSION

The results outlined in the report show that SMEs in Dubai make a significant contribution to their economy as well as to their local communities through financial, voluntary and in kind support. To their employees through Emiratisation, providing training and development and safe working environment. The results also showed significant importance of marketplace responsibility, specifically the protection of customer details and satisfaction.

These activities, although deemed important by the SMEs are often not reported or documented therefore get unnoticed and sometimes unacknowledged as a CSR activity.

In conclusion, we believe that strategic CSR is very much a possibility for SMEs and that it may offer a means to formalizing some of its processes and policies, especially where no formal strategy exists.