

Competitiveness and the State of Entrepreneurship in Saudi Arabia

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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Towards a New Global Competitiveness Index," in [The Global Competitiveness Report 2008](#) (World Economic Forum, 2008), with S. Stern, M. Delgado, C. Ketels, "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 1998), and ongoing research on clusters and competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter.

Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu

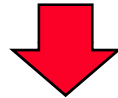
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State of Saudi Arabian Competitiveness

- Assessing the **competitive position** of Saudi Arabia in 2009
 - Progress over the last year
- Defining the **strategic agenda**
- Igniting **entrepreneurship** and **SME development**

Competitiveness and the Global Crisis

- Governments all over the world are focused on **short-term crisis management**

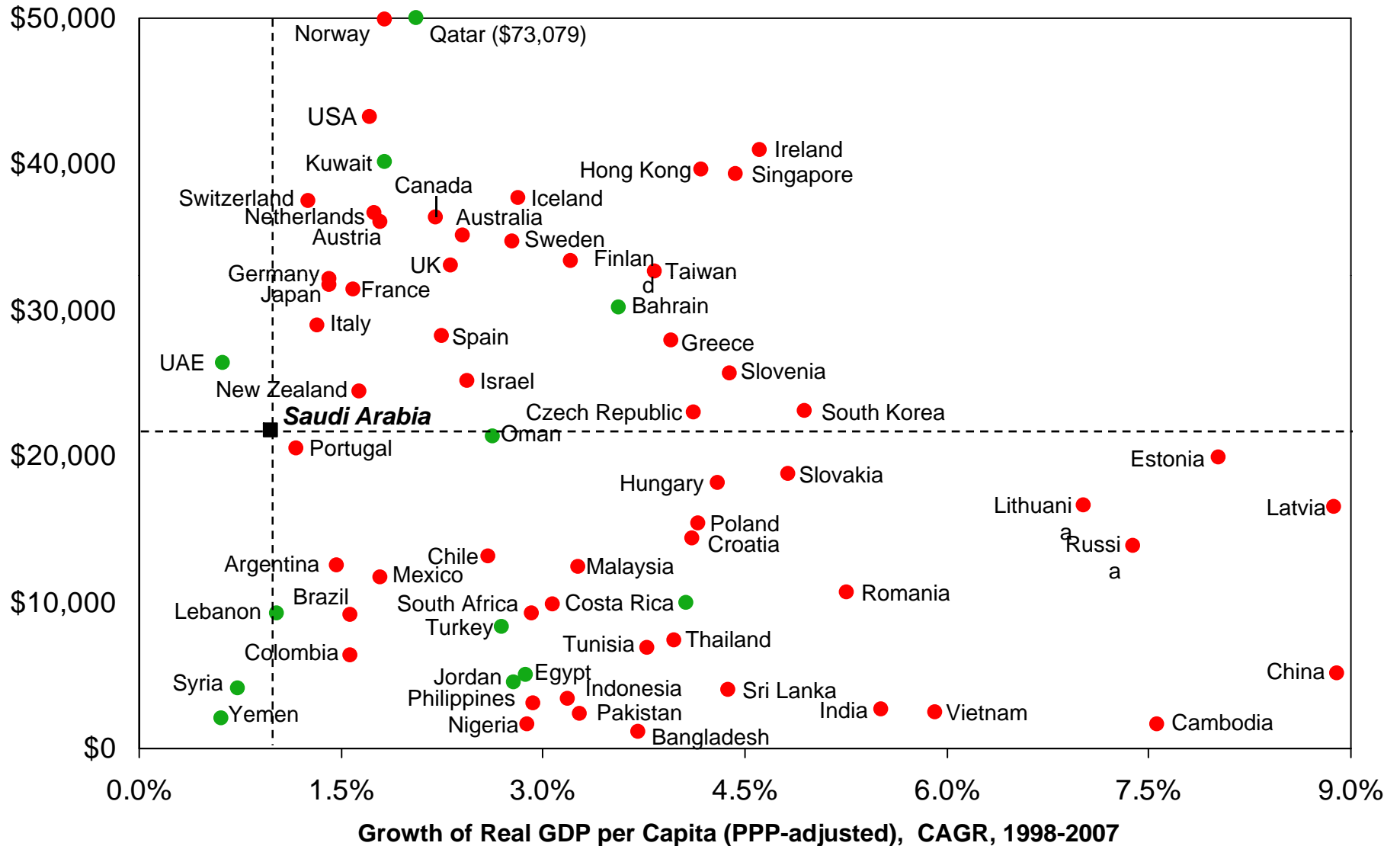


- Short-term actions will be most effective if they are tied to long-term **competitiveness improvements**
- The crisis offers an **opportunity for making changes** that are difficult during normal times

Prosperity Performance

Selected Countries

PPP-adjusted GDP
per Capita, 2007

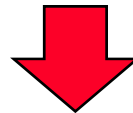


Source: EIU (2008), authors calculations

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What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
 - Productivity sets the **standard of living** (wages, returns on capital, returns on natural resources) that a country can sustain
 - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national economy depends on a **combination of domestic and foreign firms**
 - The productivity of “**local**” or **domestic industries** is fundamental to competitiveness, not just that of export industries

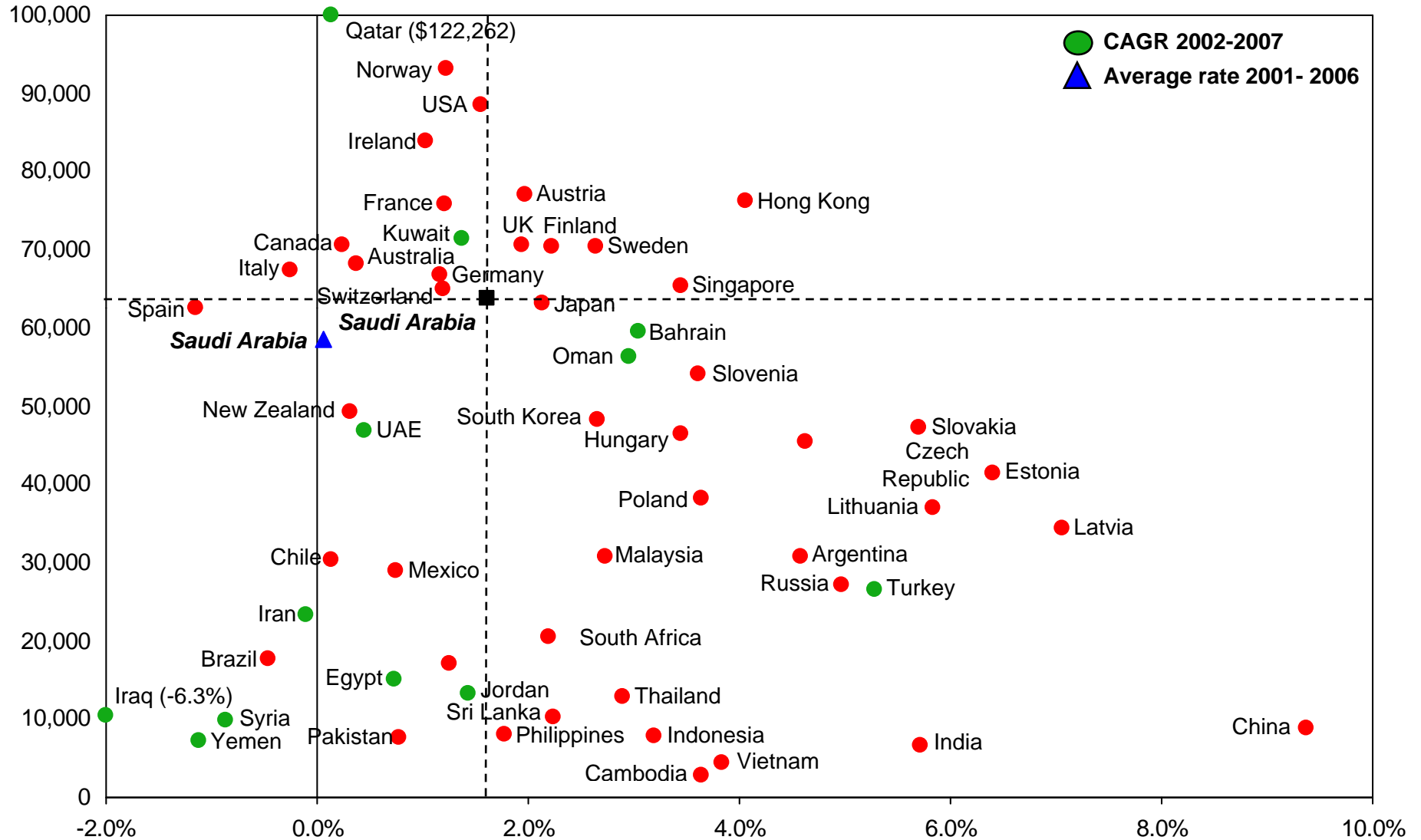


- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

Comparative Labor Productivity

Selected Countries

GDP per employee (PPP adjusted US\$), 2007



Compound annual growth rate (CAGR) of real GDP per employee (PPP-adjusted), 2002-2007

Note: In some cases 2006 data used where 2007 data unavailable.

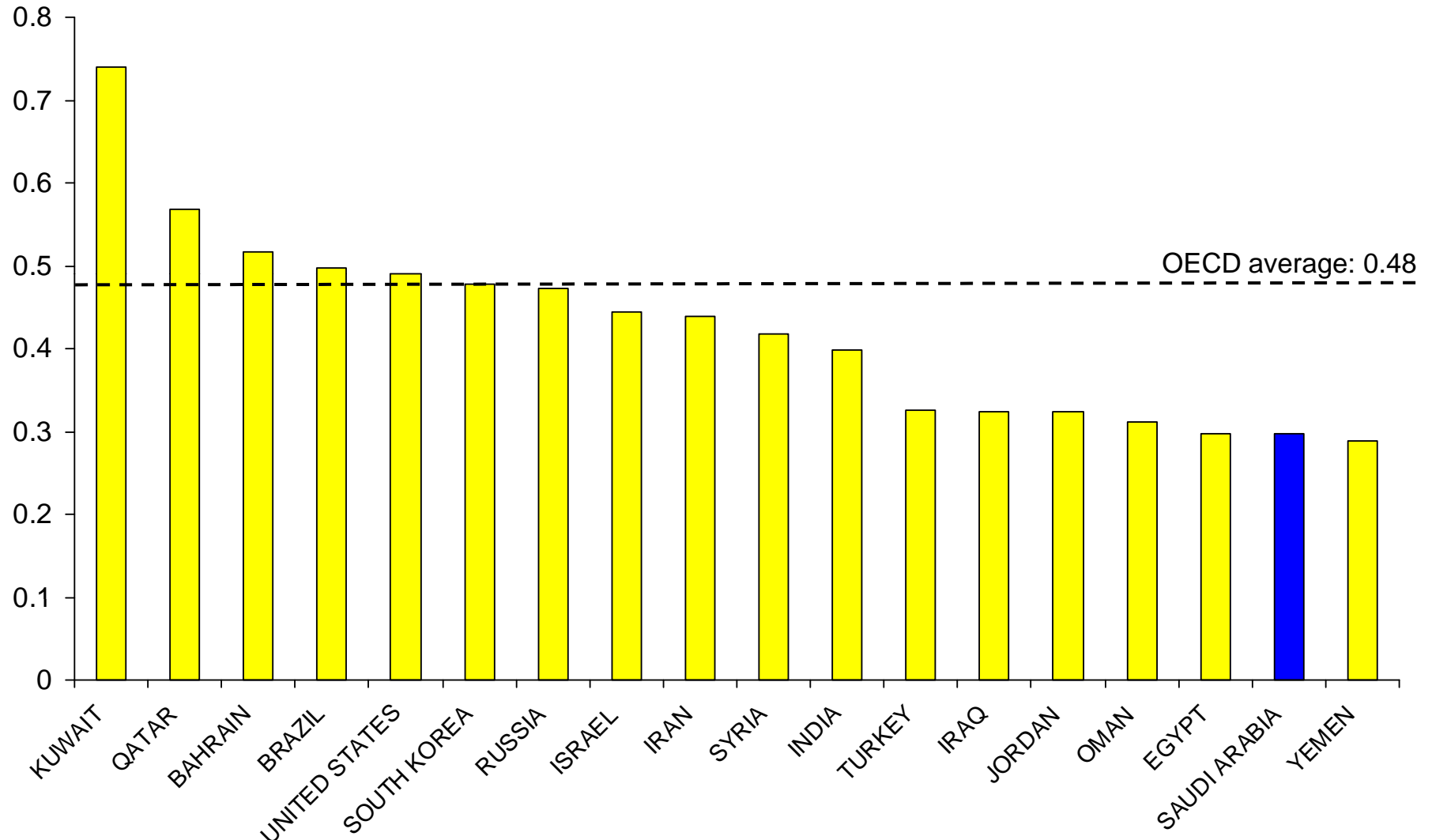
Source: authors calculation, EIU (2009), Groningen Growth and Development Centre (2009)

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Labor Force Mobilization

Selected Countries

Employees as % of
Total Population, 2007



Note: Use most recent year available, either 2007 or 2006

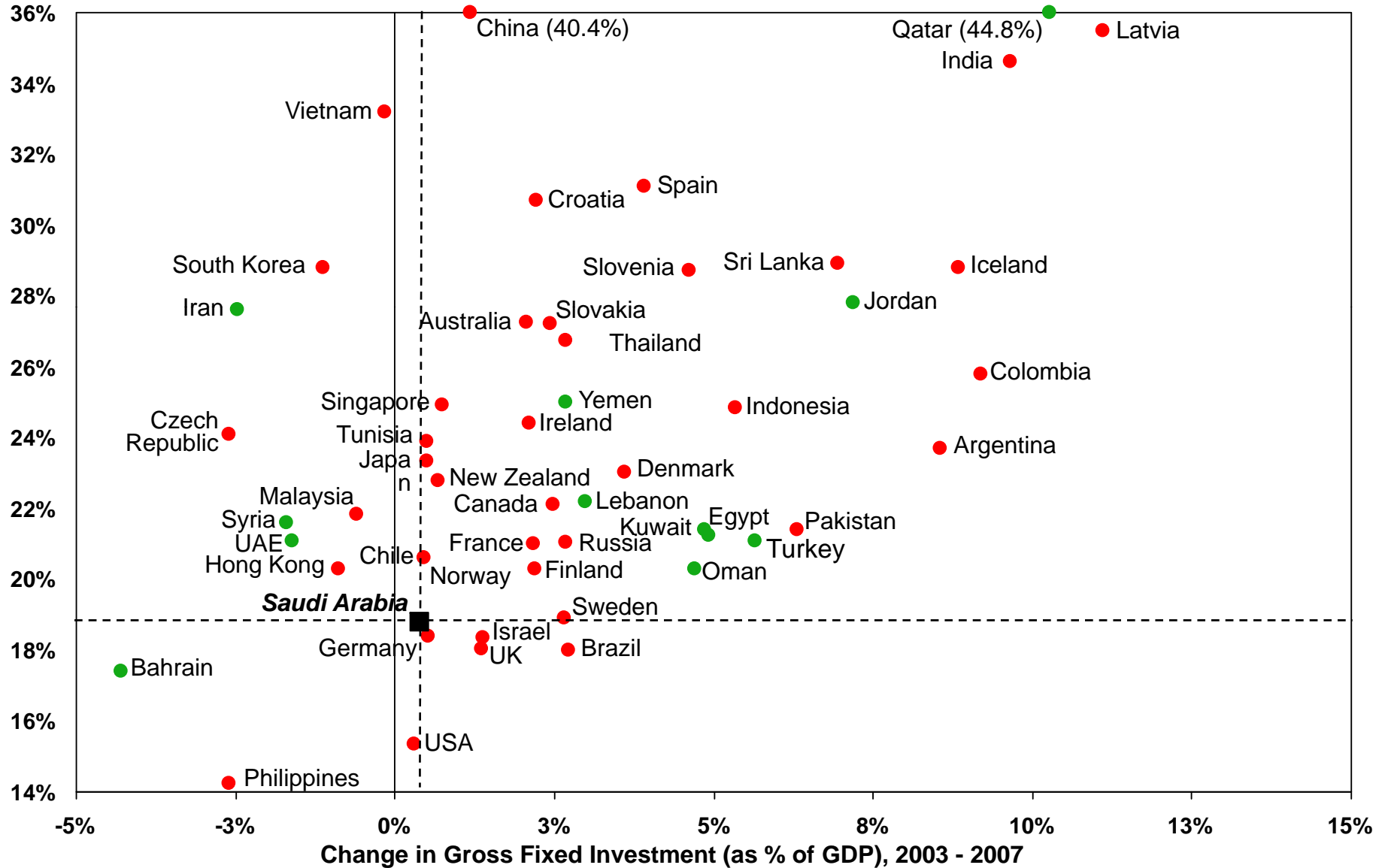
Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, April 2008

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Fixed Investment Rates

Selected Countries

Gross Fixed Investment
as % of GDP (2007)

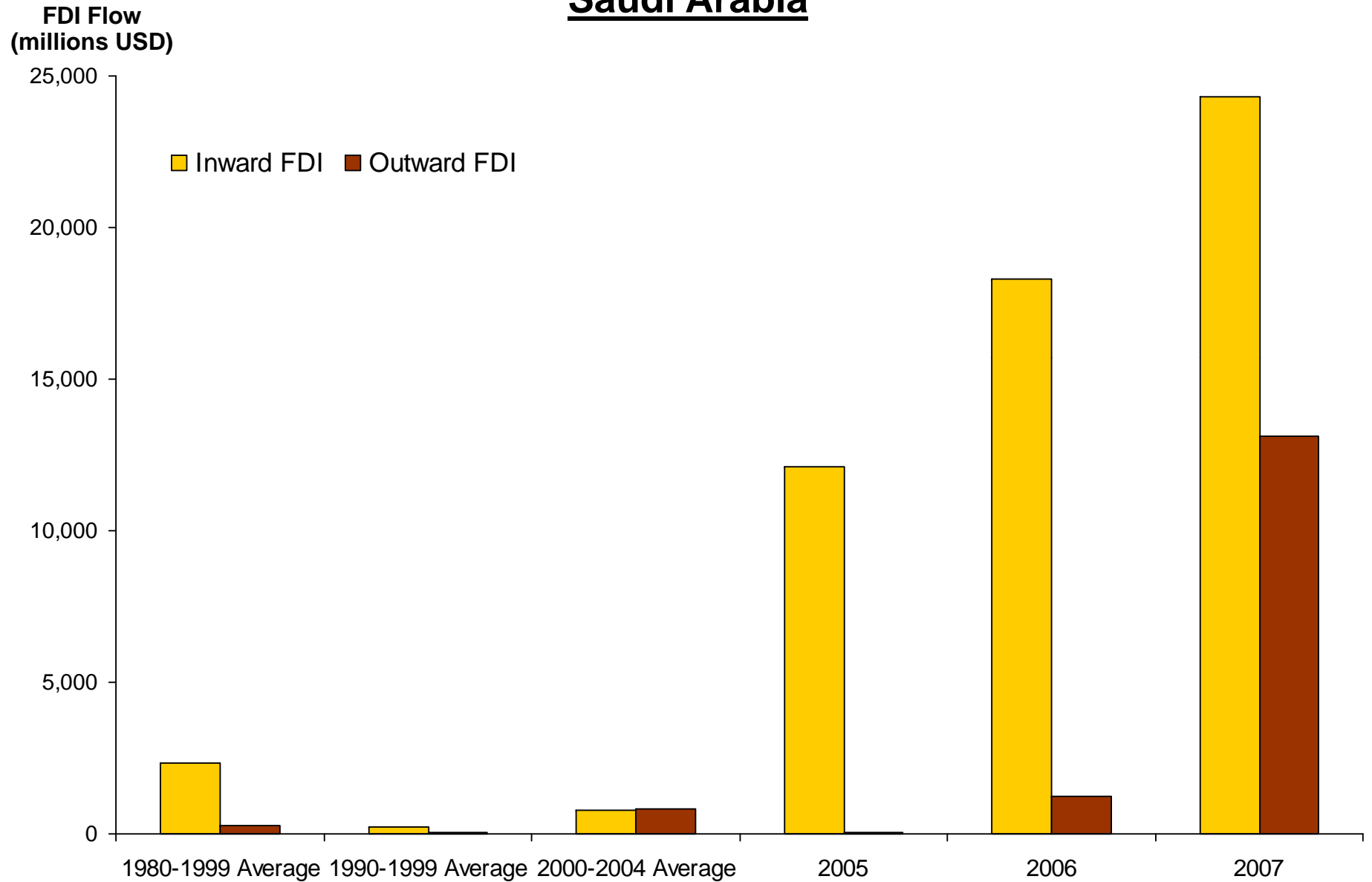


Source: EIU, 2007.

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Foreign Direct Investment Flows

Saudi Arabia



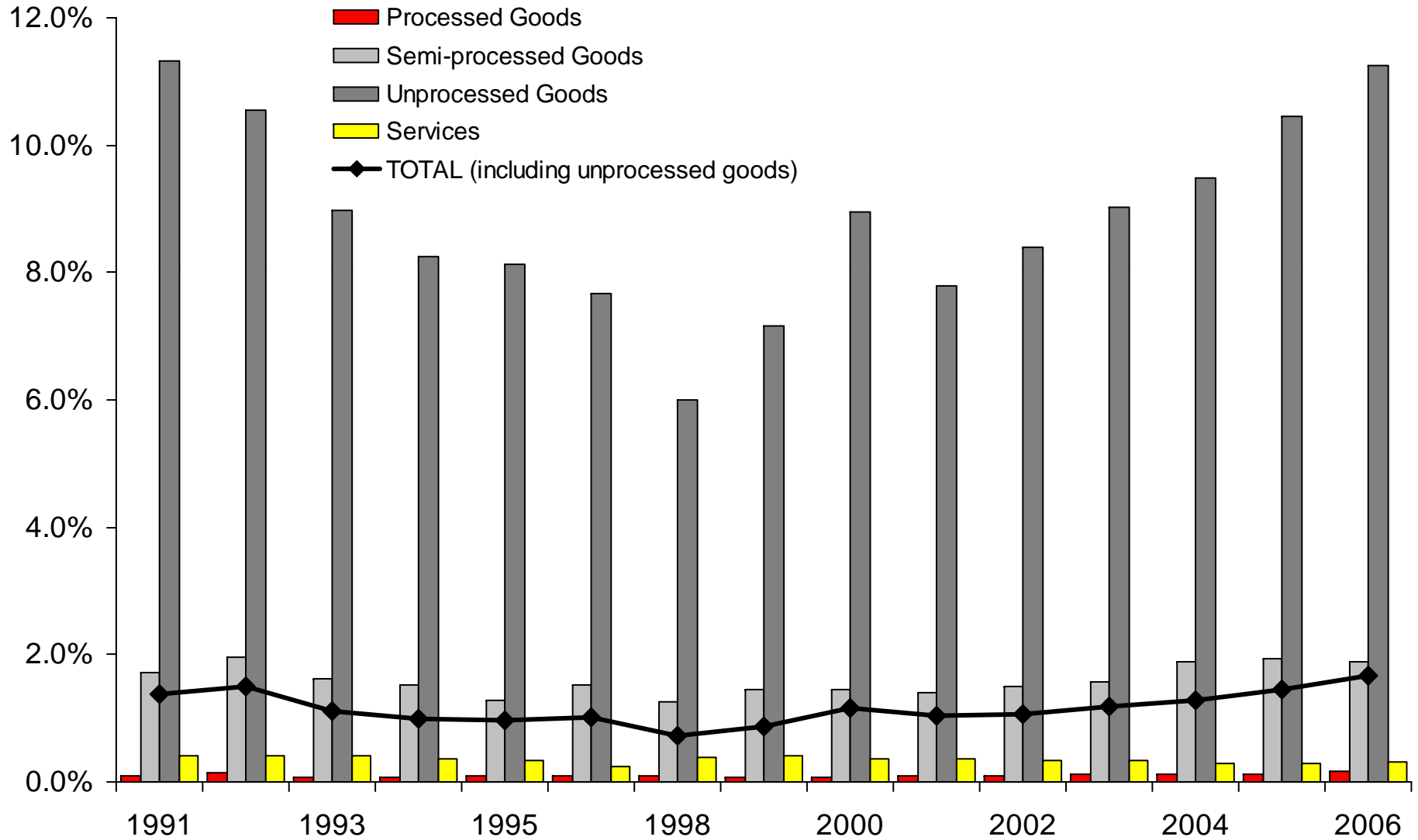
Source: World Investment Report, 2008

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Saudi Arabia's Export Share Trends

By Type of Product, 1991-2006

World Export Share
(current USD)



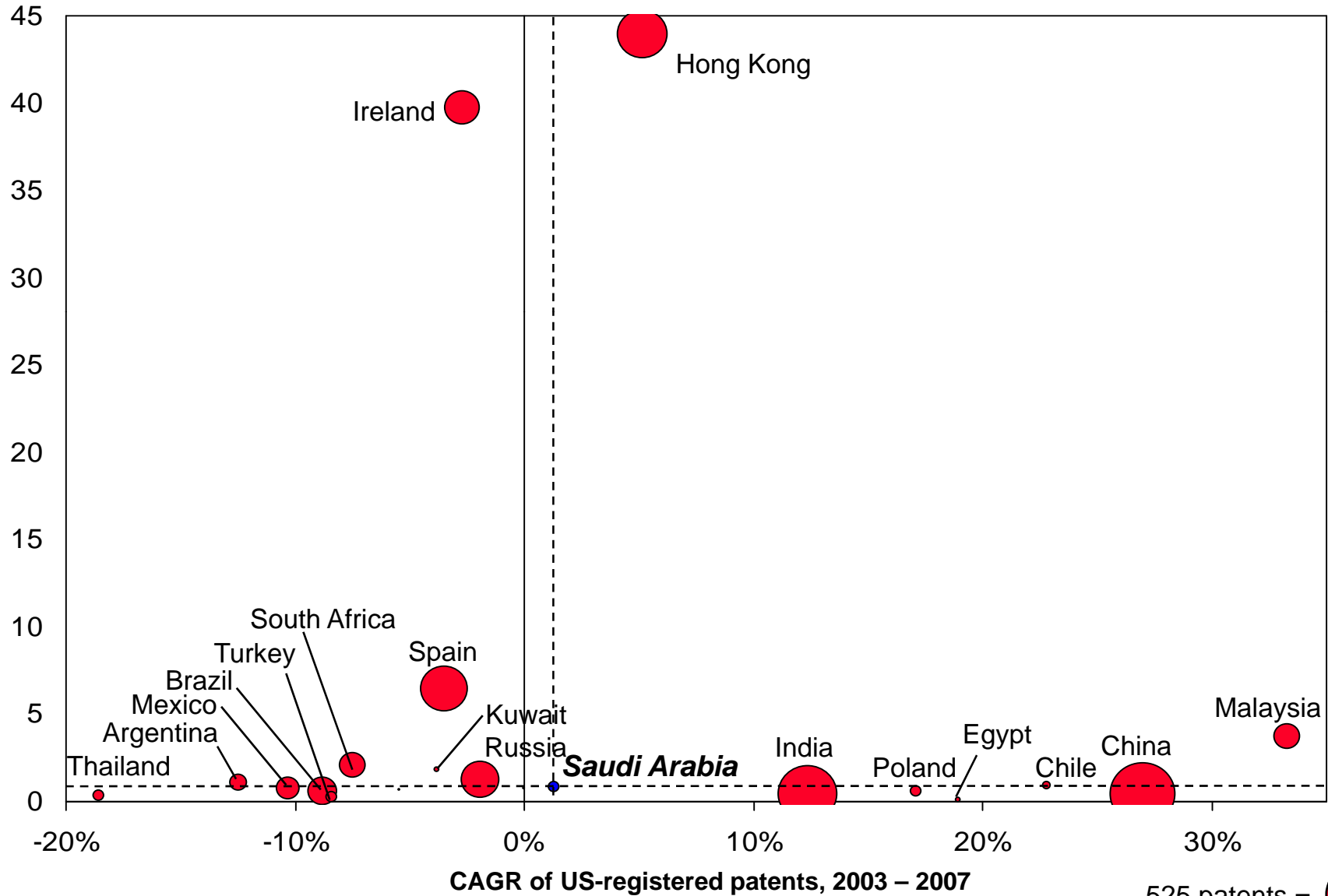
Source: UNComTrade, WTO (2008)


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Innovative Capacity

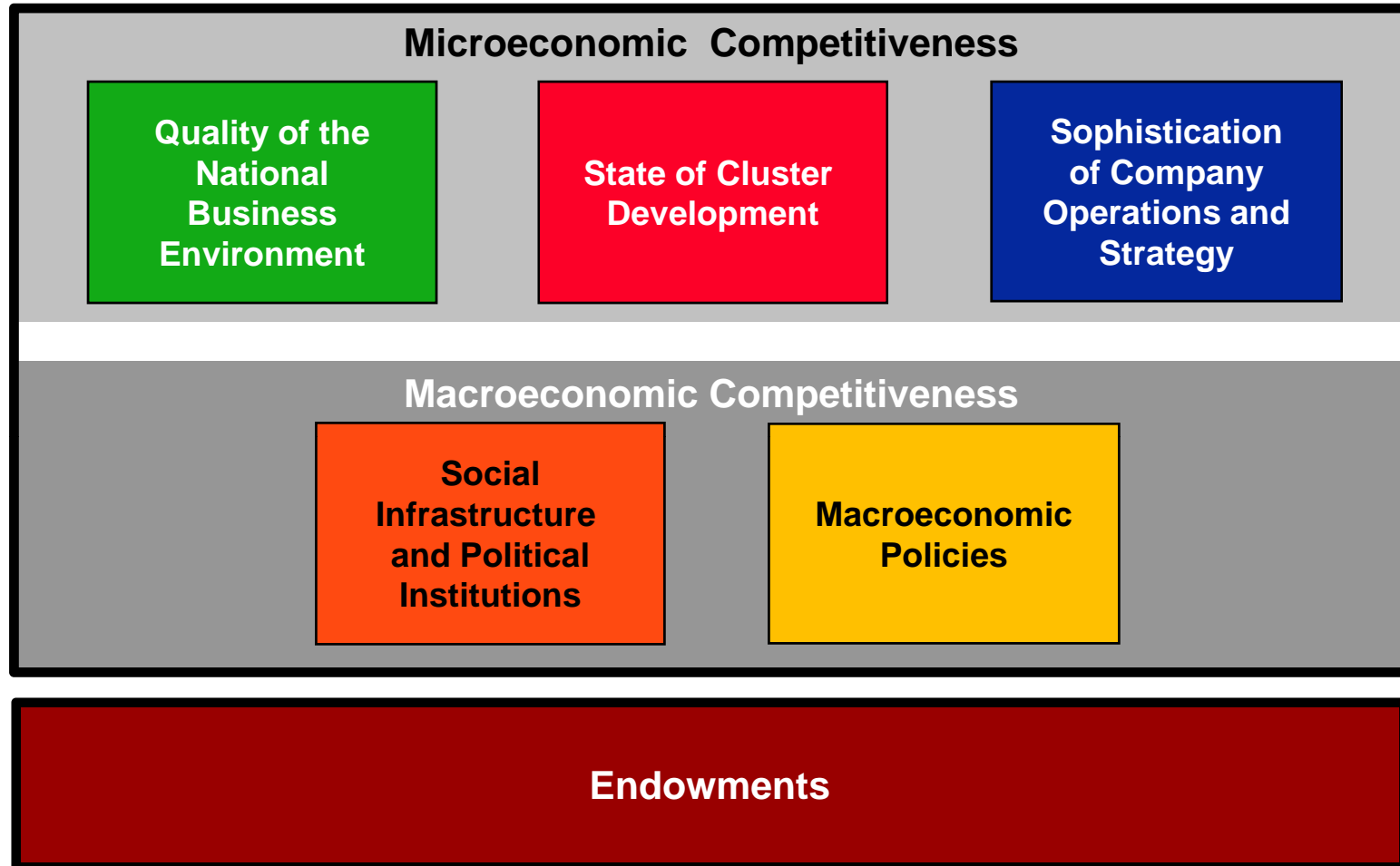
Innovation Output, Selected Countries

Average U.S. patents per 1 million population, 2003-2007



525 patents = 

Determinants of Competitiveness



- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

Macroeconomic Competitiveness

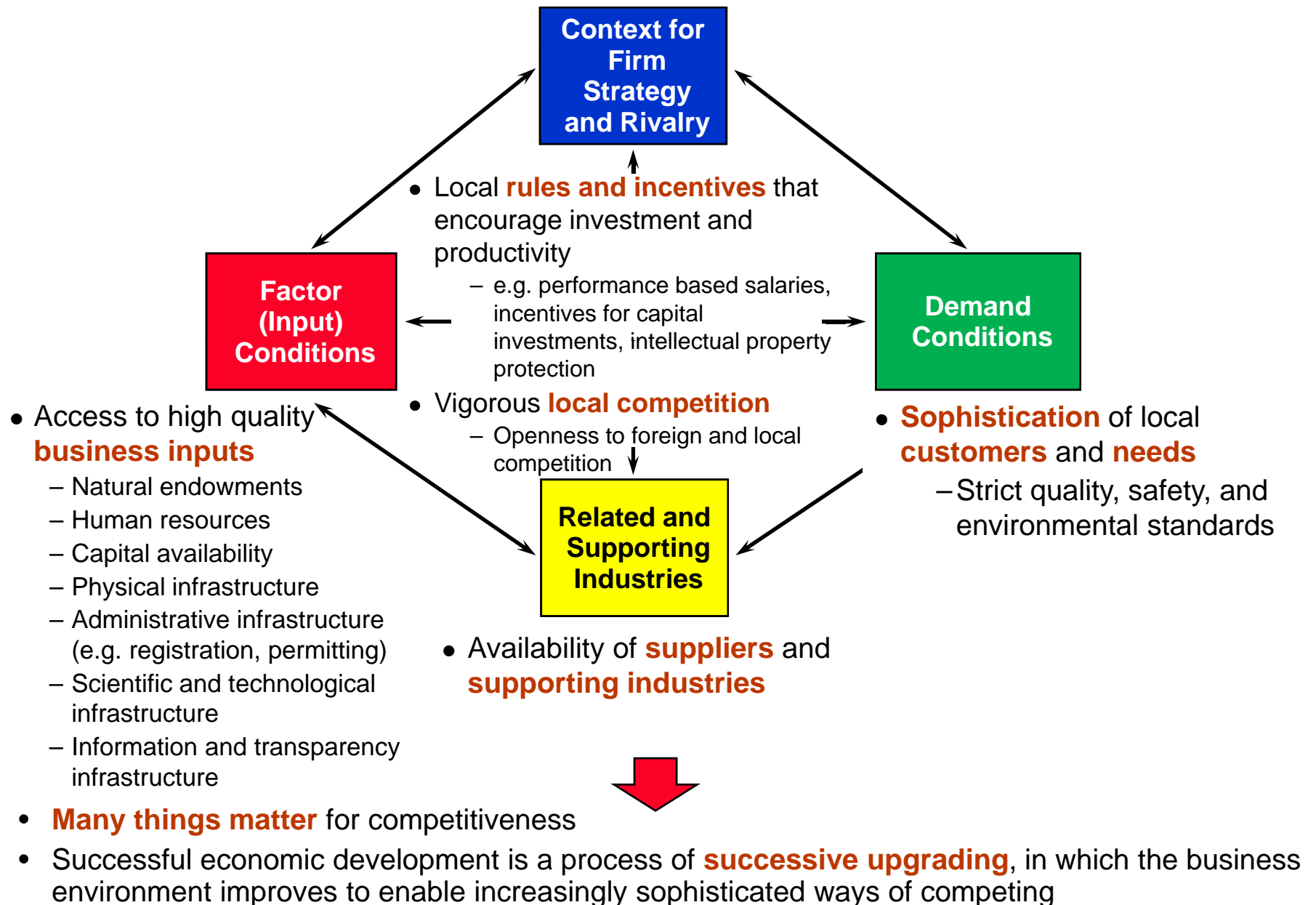
Social Infrastructure and Political Institutions

- **Basic human capacity**
 - Basic education
 - Health system
- **Political institutions**
 - Political freedom
 - Voice and accountability
 - Political stability
 - Government effectiveness
 - Centralization of economic policymaking
- **Rule of law**
 - Judicial independence
 - Efficiency of legal framework
 - Business costs of corruption
 - Civil rights

Macroeconomic Policies

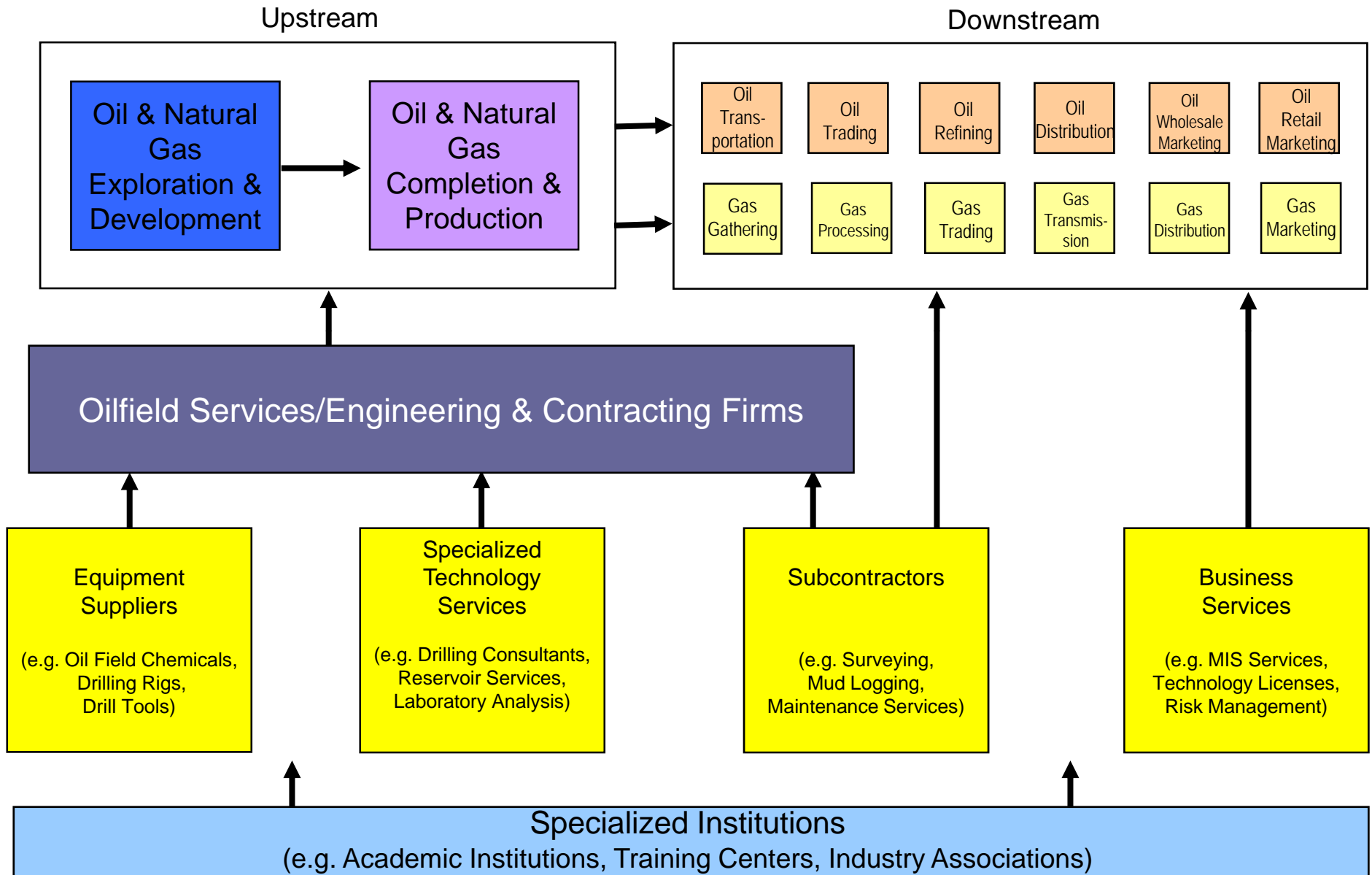
- **Fiscal policy**
 - Government surplus/deficit
 - Government debt
- **Monetary policy**
 - Inflation
 - Interest rate spread

Microeconomic Competitiveness: Quality of the Business Environment



Microeconomic Competitiveness: Cluster Development

Huston Oil and Gas Cluster



Saudi Arabia's Competitiveness

Progress on the Competitiveness Index

	<u>2007</u>	<u>2008</u>
Estimated Ranking: New Global Competitiveness Index	41	36
Macroeconomic Competitiveness	32	35
Microeconomic Competitiveness	53	36
 GDP Per Capita Rank (ppp-adjusted)	 36	 36

Note: Rank versus 131 countries; overall, Saudi Arabia ranks 36th in 2008 PPP adjusted GDP per capita and 36th in Business Competitiveness.
Source: Institute for Strategy and Competitiveness, Harvard University (2009)

Saudi Arabia's Position

Macroeconomic Competitiveness

	<u>2007</u>	<u>2008</u>
Estimated Macroeconomic Competitiveness Index	32	35
Social Infrastructure and Political Institutions	48	41
Macroeconomic Policy	20	27

Note: Rank versus 131 countries; overall, Saudi Arabia ranks 36th in 2008 PPP adjusted GDP per capita and 36th in Business Competitiveness.
Source: Institute for Strategy and Competitiveness, Harvard University (2009)

Macroeconomic Competitiveness: Saudi Arabia

Social Infrastructure and Political Institutions

- Social policies have addressed poverty and basic **social needs**, but basic education and health remain weaknesses
- Political institutions are improving, but the **predictability and transparency** of reform is limited
- The Saudi legal system is improving, but **fundamental reform** is necessary

Macroeconomic Policies

- Saudi Arabian macroeconomic policies are generally sound, but **transparency** remains limited
- The budget is exposed to swings in oil revenues, which leads to **pro-cyclical fiscal policies**
- Inflation has risen, exposing weaknesses in **monetary policy**

Saudi Arabia's Position

Microeconomic Competitiveness

	<u>2007</u>	<u>2008</u>
Estimated Microeconomic Competitiveness Index	53	36
National Business Environment	53	35
Company Operations and Strategy	54	38

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Saudi Arabia Competitiveness Strengths

	2007	2008
Macroeconomic competitiveness	32	35
Government surplus/deficit	1	1
(Low) Wastefulness of government spending	24	9
Public trust of politicians	22	17
Judicial independence	55	27
Microeconomic competitiveness	53	36
(Low) Brain drain	27	9
(Low) Impact of taxation on incentives to work and invest	8	12
Government procurement of advanced technology products	25	13
Flexibility of employment	7	15
Intellectual property protection	50	28
Production process sophistication	33	29
Cooperation in labor-employer relations	63	29
Quality of electricity supply	45	30
(Low) Time required to start a business	78	30
Quality of roads	38	31
Venture capital availability	39	32
Availability of scientists and engineers	57	35

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Ease of Doing Business

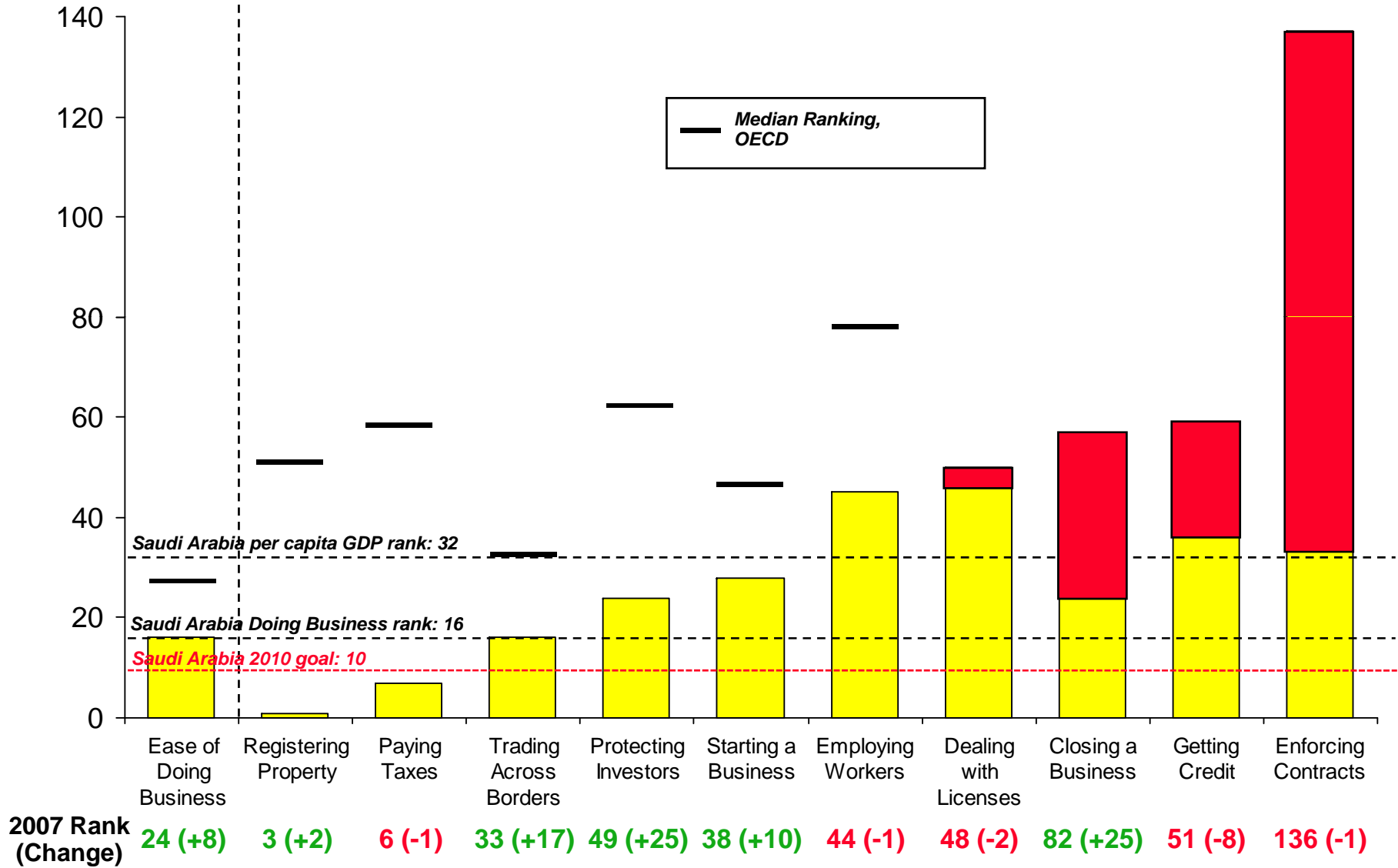
Saudi Arabia

Ranking, 2008
(of 181 countries)

Favorable

Unfavorable

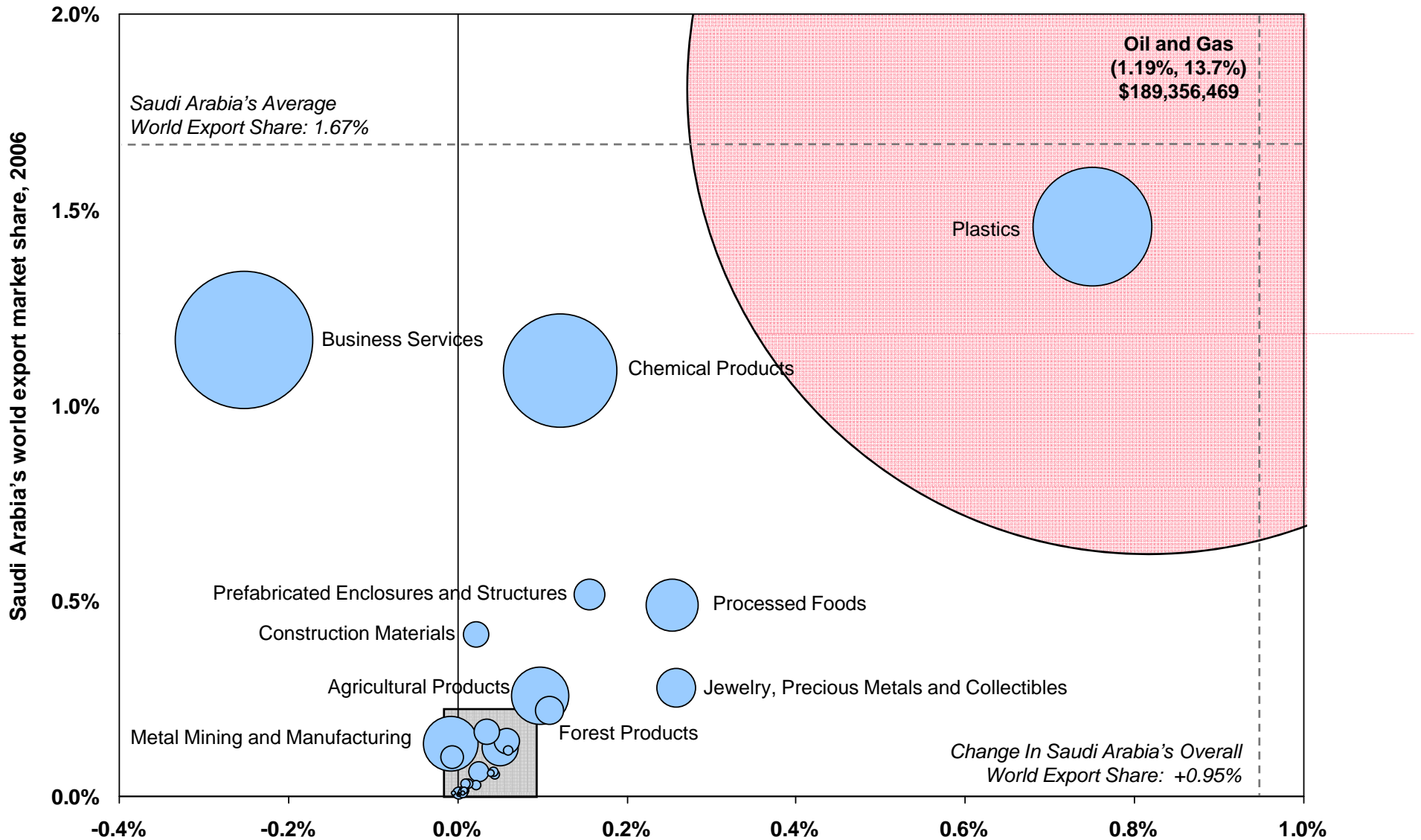
— Median Ranking, OECD



Source: World Bank Report, Doing Business (2008)
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National Cluster Export Portfolio

Saudi Arabia, 1998-2006



Change in Saudi Arabia's world export market share, 1998-2006

Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.
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Exports of US\$1.1 Billion = 

Saudi Arabian Business Environment

Progress in 2008

- Significant efforts underway to improve the **education system**, especially universities
- Recent reforms in the **financial sector**, but high volatility of the domestic market is a sign of immaturity
- Improvements in **business regulations**, but much remains to be done
- Improved availability of **ICT**
- Some progress on encouraging larger **presence of foreign companies** in the Saudi economy
- Some progress on **cluster development**, especially in areas related to oil and gas

Saudi Arabian Competitiveness

Selected Weaknesses

	<u>2007</u>	<u>2008</u>
<u>Human development</u>		
Health expenditure	119	119
Quality of primary education	74	70
<u>Political institutions</u>		
Voice and Accountability (WB)	127	126
Centralization of economic policymaking	72	54
<u>Role of Corporations</u>		
(Low) Business costs of crime and violence	46	79
(Low) Business costs of corruption	83	50
<u>Macroeconomic policy</u>		
Inflation	1	55
<u>IT infrastructure</u>		
Internet access in schools	56	77
Fixed telephone lines	72	73
Internet users per 100 population	64	58
<u>Financial Markets</u>		
Getting Credit Legal rights index	90	90
Regulation of securities exchanges	92	77
<u>Advanced Education</u>		
Quality of math and science education	71	86
Quality of management schools	84	74
First year enrollment	73	73
<u>Regulation</u>		
Regulatory quality	78	73
<u>Open Competition</u>		
Prevalence of foreign ownership	116	98
Restrictions on capital flows	82	89
Business impact of rules on FDI	101	75
Market power of state-owned enterprises		79
Intensity of local competition	51	50
<u>Corporate Governance</u>		
Efficacy of corporate boards	72	78
Strength of auditing and reporting standards	62	55

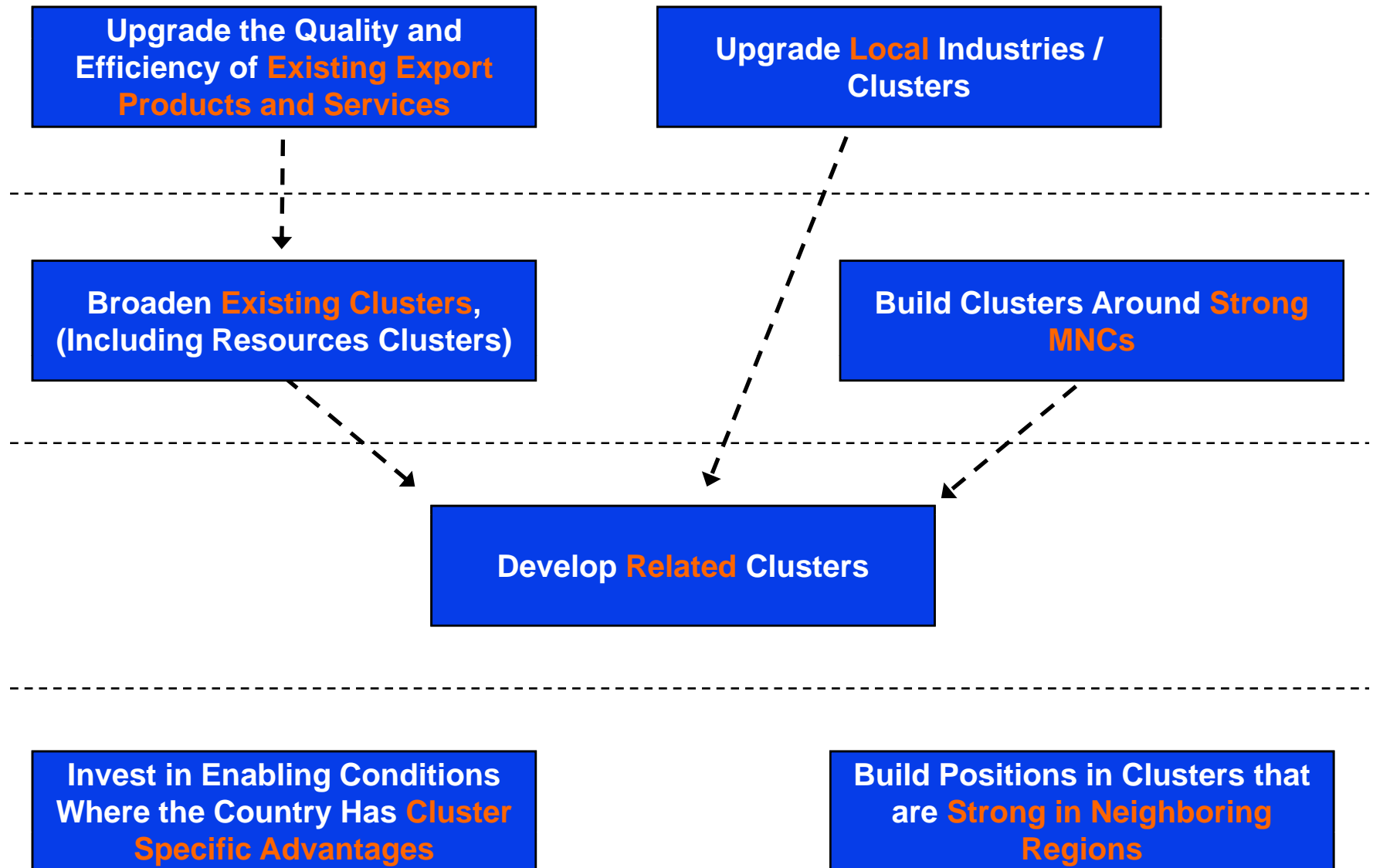
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Towards a Saudi Arabian Competitiveness Agenda

- Continue efforts on educational reform, including a stronger push on **workforce development**
- Make **efficient capital provision** to the private sector the central goal of financial market development
- Modernize **corporate governance** and **reporting practices**, especially in GLCs
- Shift the **focus of business regulatory reform** from discrete process improvements to improving the overall regulatory experience
- Use **FDI attraction** and the promotion of **new business formation** to challenge legacy market structures with little competitive pressure
- Create a comprehensive **cluster development program** to drive deeper competitiveness improvement and provide the structure for **economic diversification**

Clusters and Economic Diversification



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- Unleash **entrepreneurship** and **SME development**

Emerging Companies and Competitiveness

Emerging companies:

- are a crucial driver of **competitiveness improvement**
- create **most of the new jobs** in advanced economies
- increase the **intensity of competition**
- are the **backbone of clusters**



Creating a **culture of entrepreneurship** in Saudi Arabia is a crucial priority

Entrepreneurship in Saudi Arabia

The Opportunity

- Large, youthful and growing **population**
- Growing **markets** with many undefended niches
- Stable economy with a prudent **investment posture**
- Modest income **taxes**
- Large and sustained **government investments** in the economy
- Increasing **foreign interest** in investing in the Middle East
- Emerging **venture capital** industry
- Opportunity to serve the **entire region**

Entrepreneurship in Saudi Arabia

Constraints

Culture

- Absence of an **entrepreneurial culture**

Skills

- Lack of a skilled **Saudi workforce**
- Absence of general and industry specific **training programs** for employees

Regulatory Processes

- Still cumbersome **government regulation**, red tape, and user experience

Infrastructure for Entrepreneurship

- Lack of **program** and **supporting institutions** for start-up and emerging companies
 - e.g, incubators, technical assistance, and entrepreneur networks
- Lack of public **visibility** and **media coverage** of emerging companies

Cluster Development

- Lack of **supplier development** programs at large companies
- Absence of **cluster collaboration** organizations providing support to SMEs

The State of Entrepreneurship in Saudi Arabia – The Saudi Fast Growth 100

- In January 2008, at last year's Global Competitiveness Forum, we committed to a process to **identify entrepreneurial companies**.
- SAGIA, AlWatan, and Next Economics set out to create the **Saudi Fast Growth 25**, which were the fastest growing, private companies in the Kingdom.
- Winners are ranked according to their **revenue growth** and each company goes through a rigorous qualification process.
- The list shines a spotlight on a **new generation of companies** that are creating jobs and spurring innovation and growth.



Instead of 25 fast growth companies, **95** companies qualified.

The Saudi Fast Growth 100

Fast Growth Companies **45**

- 5 years and older
- Minimum of 4 million SAR (largest 3 billion SAR)
- 40% compound annual growth rate
- Created **15,000** jobs in the past 5 years

Fast Growth Start Up Companies **27**

- Less than 5 years old
- 198% average growth from 2006 to 2007
- Minimum of 2 million SAR (largest 1.3 billion SAR)
- Winners are ranked according to their revenue growth and each company goes through a rigorous qualification process.

Fast Growth Companies to Watch **23**

- Up and coming.

Saudi Fast Growth Companies Facts & Figures

- Average entrepreneurial age at founding **32 years**
- There are **8 women founders**
- Winners are **100% college graduates**, half with master's degrees
- More than half have founded **more than one company**
- About **25% plan to go public**
- **80%** plan to launch **another business in the next 2 years**
- Most common industries:

High Tech & Telecom	23%
Construction & Engineering	12%
Health & Education	10%
Management Consulting	10%

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- Move from **10 by 10** to a **broader competitiveness strategy**