

Entrepreneurship and Competitiveness: Implications for Saudi Arabia

Professor Michael E. Porter
Harvard Business School

*Global Competitiveness Forum
Riyadh, Saudi Arabia
January 24, 2012*

This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report](#) (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 2008), 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

The World Economy in Early 2012

- A weak **macroeconomic environment** is constraining growth in the global economy (e.g., Europe, US, China)
 - Failures of **political** leadership



- However, sustainable fiscal policies are **necessary but not sufficient** to restore healthy growth
- The only way to ensure long term job and prosperity growth is through fundamental improvement in **competitiveness**, especially for higher income economies

What is Competitiveness?

- Competitiveness is manifested in the ability of companies operating in a country or region to **compete successfully in international markets** while simultaneously **improving the living standards** of citizens

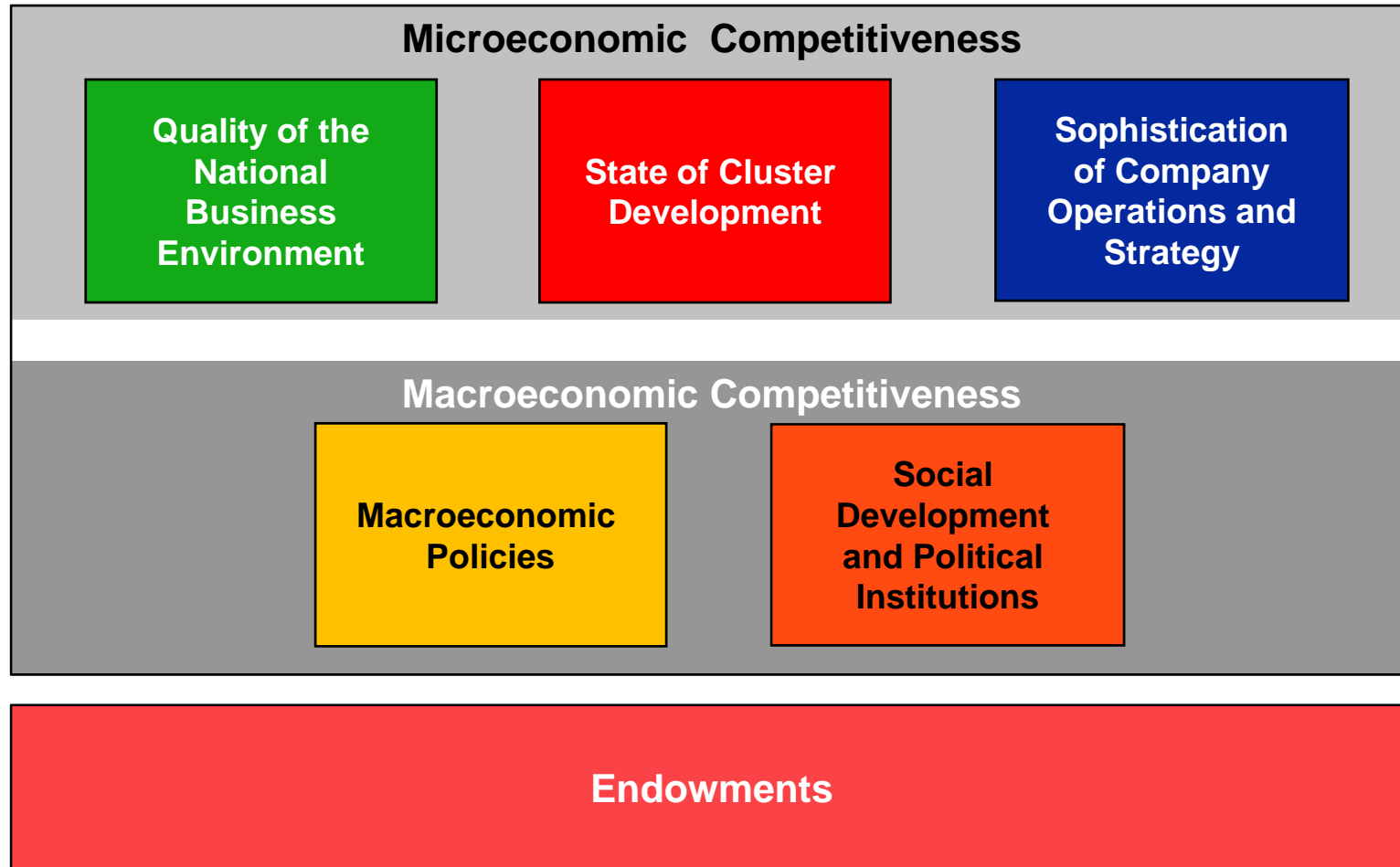


- Competitiveness depends on the **long term productivity** with which a nation uses its human, capital, and natural resources
 - Competitiveness is **not** achieved through **low wages** or **low currency**
 - Productivity **sets sustainable wages and standard of living**
 - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national economy benefits from a **combination of domestic and foreign firms**



- Competitive businesses create **rising incomes** and **good jobs**
- Nations compete to offer the **most productive environment for business**
- Competitiveness is **not a zero sum game**

What Determines Competitiveness?



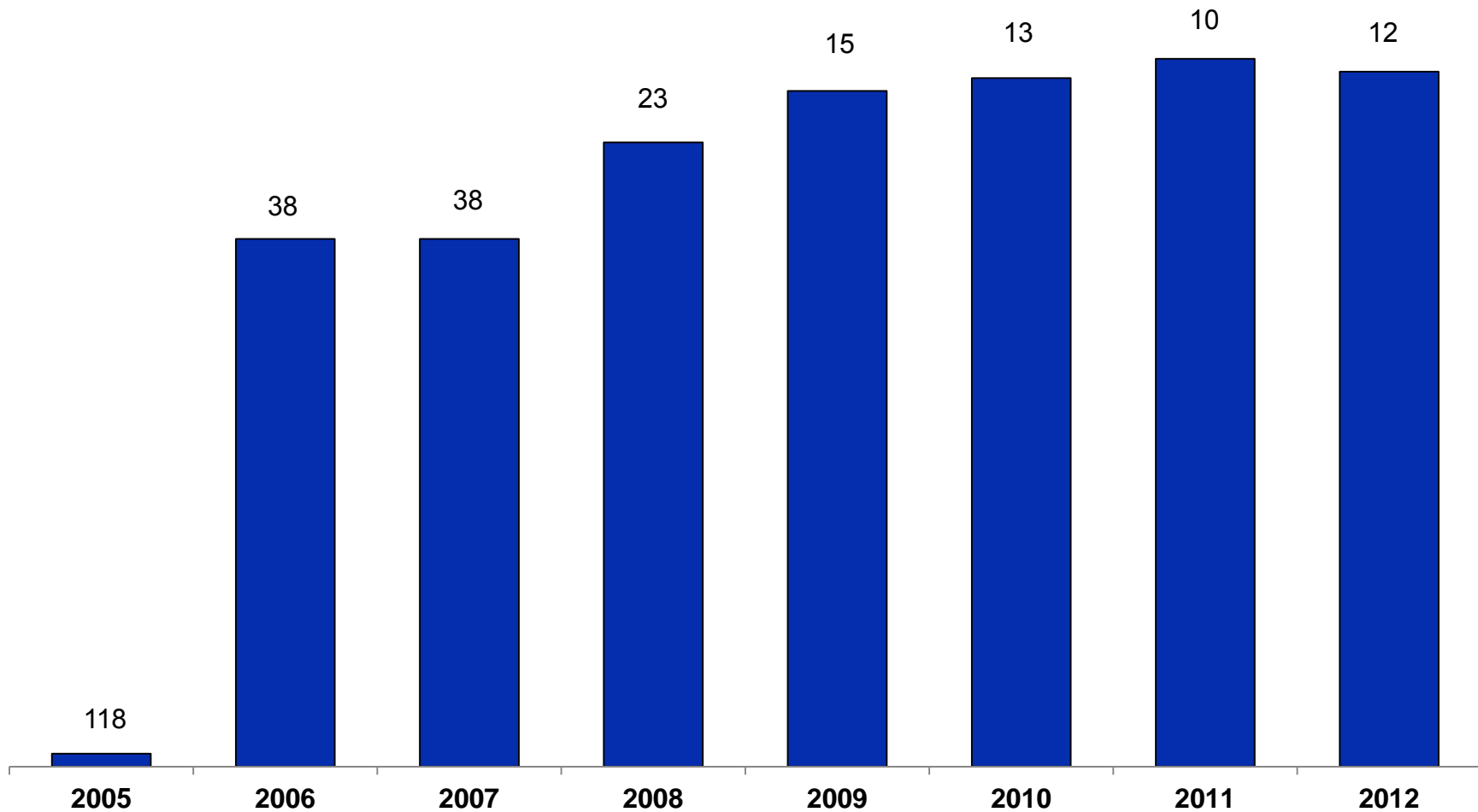
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

Saudi Arabia's Progress on Competitiveness

- Competitiveness has become **central** to Saudi Arabia's economic policy agenda
- Substantial reforms have been implemented in areas like **infrastructure**, **market opening**, **legal reform**, **business regulation**, **education**, and **financial markets**

World Bank Doing Business Indicators

Saudi Arabian Doing Business Ranking, 2005 - 2012



Note: Rankings include total of 183 countries.

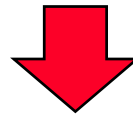
Source: World Bank, SAGIA

Saudi Arabia's Progress on Competitiveness

- Competitiveness has become **central** to Saudi Arabia's economic policy agenda
- Substantial reforms have been implemented in areas like **infrastructure**, **market opening**, **legal reform**, **business regulation**, **education**, and **financial markets**
- Saudi Arabia has established a base of **home-grown private sector businesses**, together with state-controlled companies and multinationals that are operating in the country

Saudi Arabia's Progress on Competitiveness

- Competitiveness has become **central** to Saudi Arabia's economic policy agenda
- Substantial reforms have been implemented in areas like **infrastructure**, **market opening**, **legal reform**, **business regulation**, **education**, and **financial markets**
- Saudi Arabia has established a base of **home-grown private sector businesses**, together with state-controlled companies and multinationals that are operating in the country

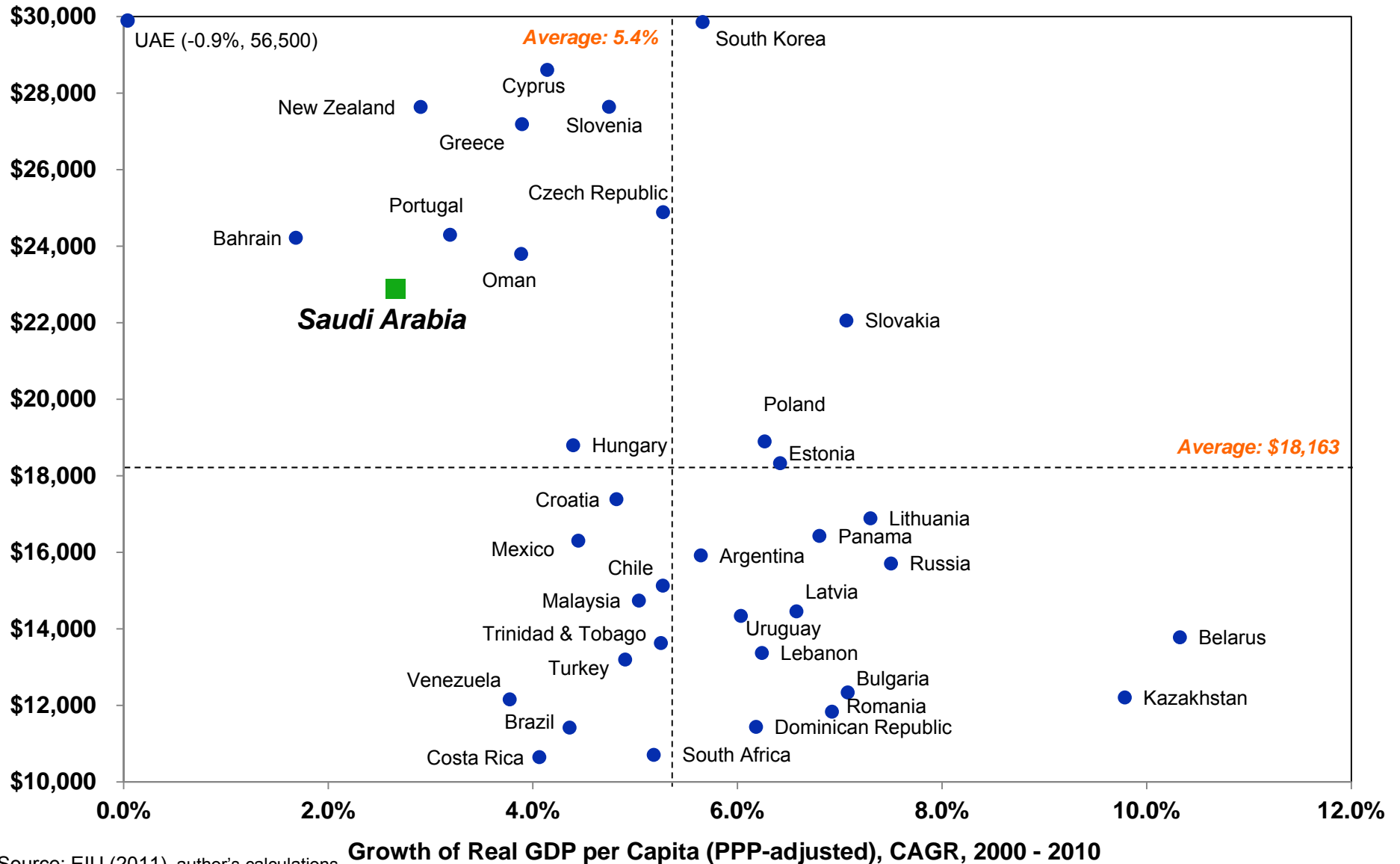


- However, **boosting** prosperity growth and job creation remain critical priorities

Prosperity Performance

Selected Middle Income Countries

PPP-adjusted GDP per Capita, 2010 (\$USD)

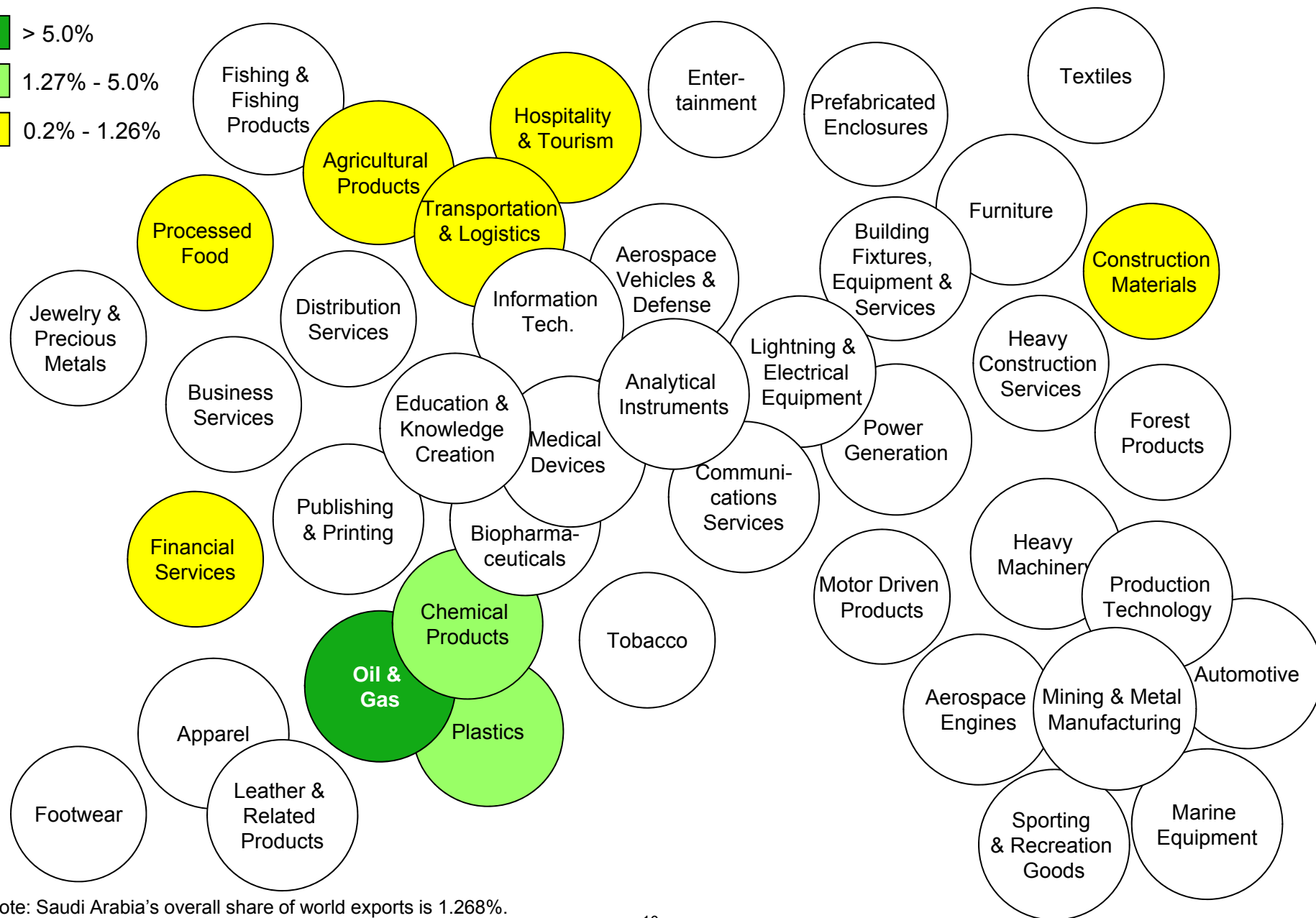
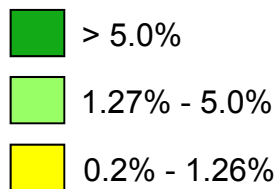


Source: EIU (2011), author's calculations

20120124 – Saudi Arabia GCF 2012 – FINAL – Prepared by C. Ketels and J. Hudson

Saudi Arabia's Share of World Exports by Cluster, 2009

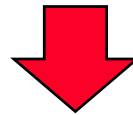
World Market Share



Note: Saudi Arabia's overall share of world exports is 1.268%.

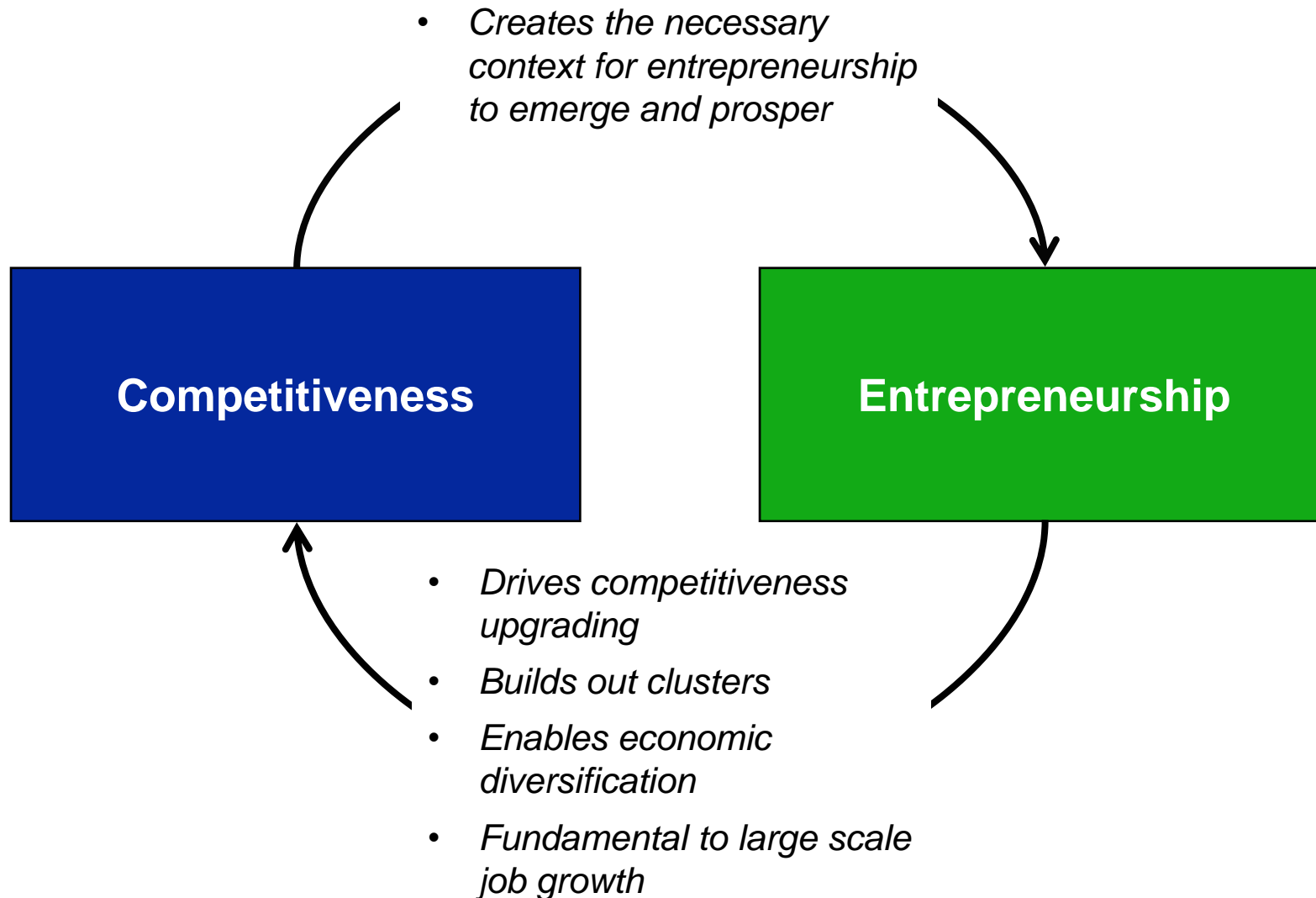
Saudi Arabia's Progress on Competitiveness

- Competitiveness has become **central** to Saudi Arabia's economic policy agenda
- Substantial reforms have been implemented in areas like **infrastructure**, **market opening**, **legal reform**, **business regulation**, **education**, and **financial markets**
- Saudi Arabia has established a base of **home-grown private sector businesses**, together with state-controlled companies and multinationals that are operating in the country



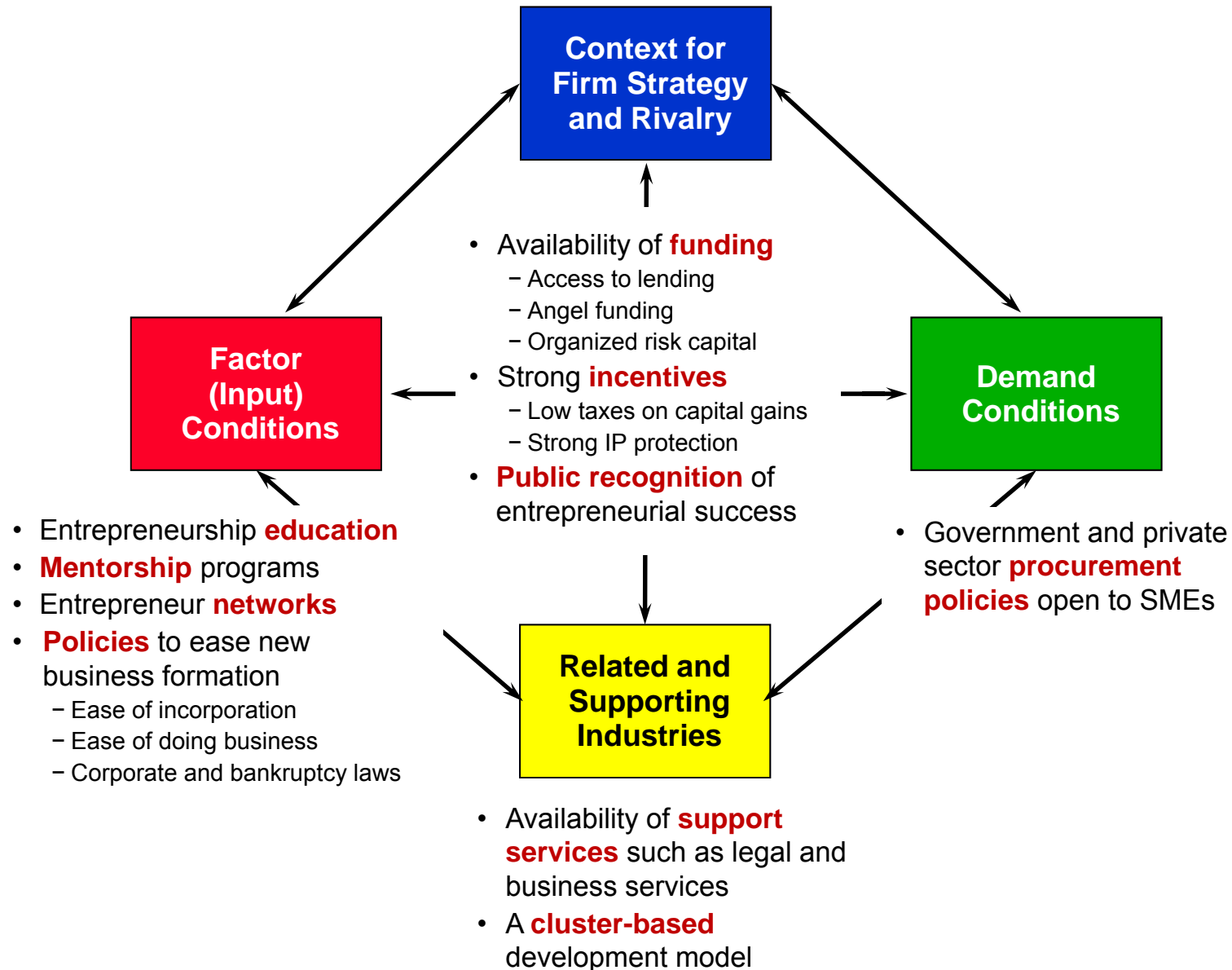
- However, **boosting** prosperity growth and job creation remain critical priorities
- Stimulating **entrepreneurship** is central to reap the full benefits of these competitiveness reforms

Competitiveness and Entrepreneurship



What Drives Entrepreneurship?

Measures to Upgrade the Business Environment for Entrepreneurs



Entrepreneurship in Saudi Arabia

The Opportunity

- Stable economy with a prudent **financial structure**
- Large, youthful and growing **population**
- Growing **markets** with many unserved niches
- No **income taxes**
- Emerging **venture capital** industry
- Large and sustained **government investments** in the economy
- Increasing **foreign interest** in investing in the Middle East
- Opportunity to serve the **entire region** from a base in the largest economy

Entrepreneurship in Saudi Arabia

Current Situation

- Competitiveness upgrading in the Saudi economy has enabled **entrepreneurship to take root**

Entrepreneurship Profile in the GCC Region

Findings from the Saudi Fast Growth 100 and the Arabia 500

- Academic background often in **engineering** or **business**
- Worked 3-5 years for a **global firm** before launching their enterprise at 30, often in a related industry
- **Creatively configured** products and services that are tailored to local market conditions
- **World class operating practices** akin to those of multinationals
- **Persistence** and **agility** in order to compete with large incumbents
- **International networks** of business partners and associates

Entrepreneurship in Saudi Arabia

Current Situation

- Competitiveness upgrading in the Saudi economy has enabled **entrepreneurship to take root**



- Entrepreneurs are making an important contribution to **diversifying the economy** (services, non-resource industries)
- Entrepreneurs are creating a mechanism for **Saudi Nationals** to enter the private sector



- However, **further efforts** to improve the context for entrepreneurs are critical in order for entrepreneurship to reach its full impact on the Saudi economy

Current Efforts to Support Entrepreneurship in Saudi Arabia

Financing

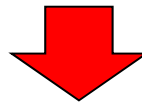
- Saudi Industrial Development Fund – Kafalah Program
- Centennial Fund
- Bab Rizq Jameel

Awareness

- Saudi Fast Growth 100
- Prince Salman bin Abdulaziz - Young Entrepreneur Awards
- Injaz-Saudi Program
- MIT Arab Business Plan Competition

Incubation

- Riyadh Technology Incubation Center
- Riyadh Techno Valley
- Dhahran Techno Valley
- National Entrepreneurship Institute



- Many of these efforts are **relatively new**, and bringing them to scale will be critical for entrepreneurship in Saudi Arabia

Source: "SME and Entrepreneurship Support Services in Saudi Arabia Stakeholder Mapping" report by SAGIA.

Challenges to Entrepreneurship in Saudi Arabia and Other Emerging Economies

- Limited, but growing **entrepreneurial culture**
 - Lack of public **visibility** and **media coverage** of emerging companies
 - **Risk aversion** and **fear of failure**
 - Limited skills in the **Saudi workforce**
 - Still cumbersome **government regulation** and **red tape**
 - Limited progress on **cluster development**, and few **cluster collaboration** organizations supporting SMEs
 - Lack of **supplier development** programs at large companies
- 
- Risk of “**crowding out**” by government-linked companies and large MNCs

Entrepreneurship and Saudi Competitiveness

Conclusions

- Entrepreneurs are **crucial** in order to translate Saudi Arabian progress on competitiveness into broad-based economic growth and employment
- Saudi entrepreneurs have begun to establish themselves as an **integral part of the Saudi economy**
- The future success of Saudi entrepreneurs will depend on **sustained efforts to upgrade the Saudi business environment** to meet entrepreneurs' specific needs