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IMPACT OF FINTECH ON FINANCIAL STABILITY OF SMALL AND MEDIUM-SIZED BUSINESSES IN KINGDOM OF SAUDI ARABIA

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Abstract

The current study analyze impact of FinTech, on financial stability of Kingdom of Saudi Arabia growth inhibitors and obstacles for small and medium-sized businesses. Agriculture, industry, FinTech and services make up the sample's three primary industries. The convenience sample technique was used to identify a much higher percentage of SMEs. The expansion of SME is hampered by a number of problems. The study used Principal Component Analysis, a multivariate statistical technique, to identify the most and least important reasons impeding these businesses' expansion and development in Kingdom of Saudi Arabia. Long wait times for loan approval, a lack of collateral, corruption, and management-related challenges are found to be the main factors preventing SMEs in this region from succeeding more. The study identified a wide range of internal and external variables. Based on the findings from the empirical investigation and survey data, the report also makes a number of policy recommendations for regulatory agencies, lending institutions, and SME sector companies.

Keywords: *Small and medium-sized enterprises, FinTech, collateral, corruption obstacles, management obstacles, principal component analysis*

Introduction

Arab states have long been the birthplace of microbusinesses and small-scale industry but after introduction of FinTech and recent bad situation its business dynamics have changed drastically. Particularly the subcontinent region has served as the centre of a civilisation that has excelled in knowledge, invention, and handicraft. Craftsmanship that has been passed down from one clan or family to another can be apparent in textiles, furniture, precious stones, precious metals, leather, and footwear. The industrial revolution turned its attention to workmanship. It was heavily dependent on manual labour and high levels of customization, with little to no mechanisation. Mechanization was introduced into the manufacturing process at various stages with the expansion of the industrial sector. The industry was first threatened by the importance of economies of scale

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and size in determining production costs. Due to its innate characteristics of high entrepreneurship and tenacious will to succeed, the sector has continued to develop and expand as a substantial component of the economy. Government controls, regulations, and/or subsidies have served as the support. The small-scale firms have evolved into small and medium-scale enterprises over the course of many years. New problems emerged as a result of economic liberalisation and globalisation, which were introduced in the late 1980s or early 1990s. In Kingdom of Saudi Arabia, successive governments have provided a variety of legislative reforms, aid, and incentives, but SMEs have been particularly hard hit by a number of issues.

According to estimates, SMEs make up over 90% of all enterprises in Kingdom of Saudi Arabia and contribute more than 25% of the nation's net income, 30% of its GDP, and more than 70% of its labour force to the economy (Shah & Syed, 2018). In the manufacturing sector, SMEs create about 35% more value. The industry accounts for 25% of manufactured goods exported, and the wholesale, restaurant, retail, and hotel industries account for almost 53% of all SME activity. 20% of SMEs' activities are in industrial establishments, and up to 22% are in services (Kingdom of Saudi Arabia Bureau of Statistics, 2011; IFC, 2012; Dar, Ahmed & Raziq, 2017). Academic experts generally concur that SMEs play a significant role in the competitiveness of our economy.

SMEs in Kingdom of Saudi Arabia are constrained by slow growth rates and FinTech and bad situation particularly in Kingdom of Saudi Arabia. They mostly deal with old goods and hardly ever use new technologies. Due to the effects of recent war and terrorism financing businesses in Kingdom of Saudi Arabia has not been a lucrative habitat for SMEs, which has caused businesses to relocate to neighbouring provinces (Haleem, Jehangir & Ullah, 2019). Furthermore, compared to provinces like Riaz and Jeddah the prosperity and development of SMEs functioning in Kingdom of Saudi Arabia has lagged behind (Sherazi, Iqbal, Asif, Rehman & Shah, 2013). The Economic Revitalization of Small businesses and FinTech startups initiative was started by the Kingdom of Saudi Arabia government to assist in the economic recovery and rehabilitation of the regions affected by the crisis in Kingdom of Saudi Arabia. The ERKF, a multi-donor trust fund project, is providing financial support to SMEs as part of Phase-II on a normal 50 percent cost-sharing basis. Rehabilitation Grant, Up-Gradation Grant, and Cluster Grant are the matching grant programmes. SMEDA organised several awareness sessions across the province of Kingdom of Saudi Arabia to give SMEs and women entrepreneurs practical information in order to boost project responsiveness.

Research Problem

Kingdom of Saudi Arabia region was always kept deprived from High Technology and innovative business like US and other G-8 Countries are doing since many decades. This can be witnessed from economic figures of small and medium business growth statistics and impact of FinTech which is door of opportunities for Arab stated like; Kingdom of Saudi Arabia to play high level business profile in Technology advance countries business development and market share

capturing war. This problem needs to be addressed by evaluating the impact of FinTech on financial stability of small and medium sized business in Kingdom of Saudi Arabia.

Research Objectives

The following are the main goals of this study:

To find the internal and external factors influencing the expansion of FinTech SMEs in Kingdom of Saudi Arabia(KSA).

To identify the challenges and problems faced after impact of Fintech after Covid-19 business turmoil financing issues in KSA that impede the growth and development of SMEs.

To evaluate the problems of Business owners of SMEs in low profile or backward areas of KSA are facing.

To deduce the main factors including FinTech and situation contributing to illness in small-scale startups cost in KSA

To determine the human resource capacity of Arabs in KSA which is one of the most important variables in the expansion and development of small enterprises of KSA.

Significance of the Research

This study would be helpful to upcoming finance scholars, Bank managers, corporate sector managers and will help to contribute to the challenges facing after impact of FinTech on the expansion of SMEs in Kingdom of Saudi Arabia. The study is important in this regard as a result. It would provide crucial details on how the development of FinTech industry and products in SME sector of KSA has been impacted by organisational structure and decision-making, small-scale operations, a high degree of owner dependence, poor management, a lack of brand identity, an unfavourable power balance, and a lack of surplus funds. It will act as a source of information for those who desire to perform similar study in the future. My focus on the impact of on the financial stability of SMEs in Kingdom of Saudi Arabia may make my study an important contribution to the discipline.

Findings and Recommendations

The impact of FinTech is felt is strong and significant on the financial stability of Small and Medium-sized Enterprises (SMEs) in Kingdom of Saudi Arabia post Covid-19 in technology and business development warfare. A conducive business and startups growth policies and environment can foster a sense of security, encouraging investors in SMEs to invest and operate confidently.

Conversely, instability business and startups growth policies and environment lead to disruptions, hampering business operations and deterring investment. The balance between directly influences the growth, profitability, and overall sustainability of SMEs in Kingdom of Saudi Arabia.

The Literature Review explores the intricate relationship between FinTech dynamics and the financial stability of Small and Medium Enterprises (SMEs) in the Kingdom of Saudi Arabia region. The review critically examines existing research and relevant studies to uncover insights into how the prevailing security situation affects the growth, investment, and overall economic health of SMEs in this specific geographic area. By examining existing research and empirical studies, this review seeks to shed light on the various factors influencing the financial stability of SMEs in Kingdom of Saudi Arabia and offer a comprehensive understanding of the current landscape.

In the realm of financial stability assessment for Small and Medium Enterprises (SMEs) in Kingdom of Saudi Arabia, quantitative research methodology plays a crucial role. By employing statistical analysis, data collection, and numerical measurements, the research approach aims to provide a comprehensive understanding of the financial well-being of SMEs in the region. Through the examination of financial data, ratios, and trends, the study seeks to shed light on the challenges, opportunities, and factors influencing the financial stability of SMEs in Kingdom of Saudi Arabia. Stratified sampling, as a robust technique in quantitative research, facilitates the categorization of the SME landscape into distinct strata based on pertinent variables such as industry sector, geographical location, and business size. By doing so, the sample is thoughtfully divided to ensure representation from various segments, preventing underrepresentation or overrepresentation of any specific group. This approach not only enhances the accuracy of findings but also enables a FinTech technical analysis of how financial stability patterns may differ across strata.

FinTech and SMEs play an indispensable role in the economic fabric of Kingdom of Saudi Arabia, contributing substantially to employment generation, innovation, and regional growth. However, the financial stability of these enterprises is subject to a myriad of internal and external influences, ranging from market fluctuations and regulatory changes to managerial practices and access to capital. The utilization of data analysis, underpinned by the precision of stratified sampling, offers a methodological framework to comprehensively scrutinize these multifaceted factors. The province of Kingdom of Saudi Arabia exhibits its own distinctive economic, social, and regulatory landscape, influencing the financial health of its SMEs. By harnessing the power of stratified sampling and data analysis, this study aims to unearth critical insights into the underlying determinants of financial stability within these enterprises. By assessing financial ratios, cash flow patterns, debt structures, and growth trajectories, the research seeks to uncover trends, disparities, and potential vulnerabilities that could shape the strategies needed for bolstering SME resilience.

Conclusion

In conclusion, the synergy between quantitative data analysis and stratified sampling provides a methodologically rigorous avenue to explore impact of FinTech on the financial stability of SMEs in Kingdom of Saudi Arabia. By dissecting the complex interplay of variables through a stratified lens, this research endeavors to contribute to the existing body of knowledge, offering insights that can inform policies, practices, and interventions aimed at fostering the sustainable growth of SMEs

in the region. This paper concludes that FinTech has string impact on small and medium-sized businesses and startups have their own shortcomings and restrictions, including KSA business startups and new businesses development policies and regulations. The Organisational structure and decision-making, small-scale operations, a high level of owner dependence, poor management, a lack of a distinct brand identity, an unfavourable power dynamic, and a lack of excess cash. The shortcomings have now been highlighted by a growing competitiveness paradigm brought on by globalisation. Coordination between businesses can take many different shapes. Businesses can band together to form a network of member enterprises and present a common offer to a sizable clientele as retail establishments, shopping centres, or for exports. To develop a thorough understanding of the obstacles and difficulties faced by SMEs in our nation, it is necessary to examine the demand-side and supply-side factors affecting FinTech industry products and services its role in financial stability of Small and Medium businesses and startups in Kingdom of Saudi Arabia.

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