THE STATE OF SMALL & MEDIUM ENTERPRISES (SMEs) IN DUBAI
Rationale for the Report

The publication on the ‘State of SMEs in Dubai’ is the first comprehensive report that provides a multi-dimensional detailed view of the SME sector.

Highlight the structure, performance and characteristics of the SME sector

Assess financial and non-financial benchmarks that could be used to assess SMEs across sectors

Act as a reference for local and international stakeholders

Facilitate formulation of development plans for SMEs

Purpose of the Report

Globally, as best practice, comprehensive SME annual reports are published to provide a detailed view of the SME sector in respective countries / regions.

- Annual Report on Small and Medium-sized Enterprises in the EU (European Commission)
- SMEs in New Zealand: Structure and Dynamics (Ministry of Economic Development)
- Small Business Publication, Australia (Department of Innovation, Science & Research)
- SME Annual Report Malaysia (National SME Development Council)

The ‘State of SMEs in Dubai’ is the first ever comprehensive publication on the state and characteristics of the SME sector, published in the region.
Extensive international benchmarking has been conducted based on SME annual reports, SME-focused surveys and other statistical reports.

Data sourced from:

- Dubai Statistics Center (contribution of SMEs to value-add and employment)
- Department of Economic Development, Dubai (Business licenses data)

To provide a comprehensive picture of the current status of SMEs, the relevant data has been extracted from a number of sources:

- Survey on a stratified randomly drawn sample of 500 SMEs
- Face-to-face meetings with business owners

Assessment of Financial Health of SMEs based on Ratio Analysis of 307 SMEs to assess Profitability, Leverage, Solvency and Liquidity status of SMEs

Assessment of the State & Characteristics of Dubai SMEs based on:

- Survey on a stratified randomly drawn sample of 500 SMEs
- Face-to-face meetings with business owners

Data sourced from:

- Dubai Statistics Center (contribution of SMEs to value-add and employment)
- Department of Economic Development, Dubai (Business licenses data)
### Structure of the Report

A comprehensive report structure was developed based on benchmarking with other international SME annual reports.

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<th>Section I: Economic Assessment</th>
<th>The Dubai Economy</th>
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<td>Business and SME Landscape in Dubai</td>
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<td>Key Gaps in the SME Support Ecosystem</td>
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### The Dubai SME Definition

<table>
<thead>
<tr>
<th>Category</th>
<th>Trading</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employees</td>
<td>Turnover</td>
<td>Employees</td>
</tr>
<tr>
<td>Micro</td>
<td>( \leq 9 ) &amp; ( \leq \text{AED} \ 9\text{ mn} )</td>
<td>( \leq 20 ) &amp; ( \leq \text{AED} \ 10\text{ mn} )</td>
<td>( \leq 20 ) &amp; ( \leq \text{AED} \ 3\text{ mn} )</td>
</tr>
<tr>
<td>Small</td>
<td>( \leq 35 ) &amp; ( \leq \text{AED} \ 50\text{ mn} )</td>
<td>( \leq 100 ) &amp; ( \leq \text{AED} \ 100\text{ mn} )</td>
<td>( \leq 100 ) &amp; ( \leq \text{AED} \ 25\text{ mn} )</td>
</tr>
<tr>
<td>Medium</td>
<td>( \leq 75 ) &amp; ( \leq \text{AED} \ 250\text{ mn} )</td>
<td>( \leq 250 ) &amp; ( \leq \text{AED} \ 250\text{ mn} )</td>
<td>( \leq 250 ) &amp; ( \leq \text{AED} \ 150\text{ mn} )</td>
</tr>
</tbody>
</table>

#### According to DSC Database:

- SMEs count for **95%** of the total enterprise population in Dubai
- SMEs employ around **42%** of Dubai’s workforce
- SMEs contribute **40%** of Dubai’s GDP
Section I: Business and SME Landscape in Dubai

- Number of Establishments
- Sectoral Distribution
Number of Establishments and Sectoral Distribution

SMEs account for 95% of the business establishments in Dubai, with a majority of these operating in the Trading sector.

Micro firms account for 72% of the total business count in Dubai, followed by Small and Medium firms accounting for 18% and 5% of the total business count, respectively.

In terms of a sector-wise split, the Trading sector accounts for a majority of SMEs, followed by Services (35%) and subsequently by Manufacturing (8%).

Source: Dubai Statistics Center
Section II: Performance of Dubai’s SME Sector

- Gross Domestic Product (GDP) & Employment Distribution

- Productivity
SMEs contribute 40% to the GDP and 42% to the total employment in Dubai’s economy.

SMEs contribute 40% to the total value-add in the economy.
Trading SMEs are the highest contributors to the total value add in the economy.

SMEs contribute 42% to the total workforce. Majority of the workforce employed by the SMEs is in the Services sector.

Source: Dubai Statistics Center
Productivity of Dubai’s SMEs

Productivity of SMEs in Dubai is comparatively lower in comparison to other trading and service economies.

The contribution of SMEs to gross value-add in Dubai’s economy is marginally lower than their contribution to employment implying that the labor productivity of SMEs is marginally lower than that of large businesses.

Productivity of Dubai’s SMEs on a PPP basis is almost one-fourth of the productivity of Singapore-based SMEs and almost half the productivity levels of South Korean SMEs.

Reasons for Low Productivity of Dubai’s SMEs

- Low focus of businesses on improvements / reengineering of business processes to improve efficiency
- Limited focus of businesses on training, development and up skilling of employees
- Limited adoption by businesses of advanced enterprise level ICT systems (ERP, CRM)

Source: Dubai Statistics Center, SMEs in New Zealand: Structure and Dynamics 2011; Department of Statistics Singapore; Small & Medium Business Administration, South Korea
Section III: Financial Health of Dubai’s SMEs

*Based on financial data of 307 SMEs across Manufacturing, Services and Trading sectors with representation of firms across enterprise sizes*
Profitability Analysis – Net Margins

A comparison across sectors reflects that the Net Margins are the highest in the case of Business & Professional Services and Trading of Building Materials.

<table>
<thead>
<tr>
<th>Key Segments – Services Sector</th>
<th>Key Segments – Trading Sector</th>
<th>Manufacturing Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Services</strong></td>
<td><strong>Building Materials</strong></td>
<td><strong>Overall Sector</strong></td>
</tr>
<tr>
<td>10-22%</td>
<td>10-14%</td>
<td>7-18%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td><strong>Machinery &amp; Equipment</strong></td>
<td>Details in the Appendix</td>
</tr>
<tr>
<td>8-20%</td>
<td>6-12%</td>
<td></td>
</tr>
<tr>
<td><strong>Construction &amp; Contracting</strong></td>
<td><strong>IT/ Telecom/ Electronics</strong></td>
<td></td>
</tr>
<tr>
<td>7-17%</td>
<td>6-12%</td>
<td></td>
</tr>
<tr>
<td><strong>Restaurants &amp; Catering</strong></td>
<td><strong>Food &amp; Beverages</strong></td>
<td></td>
</tr>
<tr>
<td>10-15%</td>
<td>6-12%</td>
<td></td>
</tr>
<tr>
<td><strong>Transport &amp; Logistics</strong></td>
<td><strong>Non-precious Metals</strong></td>
<td></td>
</tr>
<tr>
<td>8-14%</td>
<td>4-6%</td>
<td></td>
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<tr>
<td><strong>ICT</strong></td>
<td><strong>Jewelry &amp; Precious Stones – Wholesalers</strong></td>
<td></td>
</tr>
<tr>
<td>4-14%</td>
<td>2-7%</td>
<td></td>
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<tr>
<td><strong>Travel Agencies &amp; Tour Operators</strong></td>
<td></td>
<td></td>
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<tr>
<td>2-8%</td>
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*Details in the Appendix*

*Highest Net Margins within the Sector*

*Lowest Net Margins within the Sector*

*The margins across the segments within the Manufacturing sector have not been assessed due to lack of a sufficient sample size across the segments.*
Section IV: State and Characteristics of Dubai’s SMEs

• Based on a detailed survey with **500 SMEs** with representation of SMEs from Manufacturing, Services and Trading sectors across the three enterprise size classes (Micro, Small and Medium)
Themes for the Assessment of State and Characteristics of Dubai’s SMEs

Orientation towards each of these themes has been accessed at three levels:

- **Low** refers to orientation on the specific theme indicated / reflected by up to 20% of the surveyed respondents.
- **Moderate** refers to orientation on the specific theme indicated by 20-40% of the respondents.
- **High** refers to orientation on the specific theme indicated by more than 40% of the respondents.
Degree of International Orientation

Dubai SMEs portray a strong inherent focus towards exports and a high degree of international orientation.

### Key Parameters

#### Share of Revenues from Exports

- 51% of the SMEs surveyed are exporting to other countries (as compared to 44% in EU-27 and 18% in New Zealand).
- The highest proportion of Trading SMEs (40%) generate >50% of their sales from international markets / customers.

#### Mode of Internationalization

- 74% of the SME exporters do not have a physical presence in other markets.
- 18% of SME exporters (primarily Services and Manufacturing firms) in Dubai have made direct investments (FDIs) in other countries (compared with 5% of SMEs in Europe).

#### Key International Markets

GCC, Asia-Pacific and Africa are the key international markets / export destinations for SMEs in Dubai.

#### Dedicated Employee for International Business

- 41% of the exporting SMEs have at least an employee dedicated for their international business operations.

#### Dedicated Plan / Strategy for International Business

- 56% of the exporting SMEs have a defined plan/ strategy for international business operations. The tendency of having a defined plan/ strategy for international business is observed to be more prevalent across Manufacturing SMEs.

### Key Findings

- 51% of the SMEs surveyed are exporting to other countries (as compared to 44% in EU-27 and 18% in New Zealand).
- The highest proportion of Trading SMEs (40%) generate >50% of their sales from international markets / customers.

### Orientation of SMEs

- Overall Degree of Orientation: High
- Sector with the Highest Orientation: Trading

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2. Doing Business Index, 2013 by World Bank
Prevalence of Innovation amongst Dubai’s SMEs

The current state of innovation amongst Dubai SMEs is low, particularly in the case of Trading enterprises.

<table>
<thead>
<tr>
<th>Key Parameters</th>
<th>Key Findings</th>
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</table>
| Innovation Input: Allocation of an annual budget for R&D | • A meager 8% of the SMEs surveyed, maintain an annual budget for conducting R&D and product development (compared to 18% in New Zealand and 24% in the UK).  
• Manufacturing SMEs are the most oriented towards R&D (17%). |
| Innovation Output: Innovation at a product and / or process level | • Only 13% of the surveyed SMEs were found to have implemented some level of innovation (compared to 23% in both New Zealand and EU-27, and 25% in Malaysia).  
• A higher focus on R&D by Manufacturing SMEs has translated into a higher levels of innovation output for these firms (29%). |
| Type & Objective for Implementing Innovation | • The major prevalence of innovation amongst Dubai SMEs is at the product / service level (42%) compared to innovation within internal processes (30%) and distribution & delivery formats (28%).  
• The key objective for implementing innovation by businesses is to differentiate their product / services from competitors’ offerings (38%). |
| International Orientation and Innovation amongst SMEs | • There is higher prevalence of innovation amongst exporting businesses (75%), vis-à-vis non-exporting SMEs (48%). |

UAE’s Ranks on Key Indices

- Innovation: 28th (out of 144 countries)
- Global Innovation Index: 37th (out of 141 countries)

Orientation of SMEs

- Overall Degree of Orientation: Low
- Sector with the Highest Orientation: Manufacturing

3Global Competitiveness Index by World Economic Forum, 2012-13
4Co-published by INSEAD and the World Intellectual Property Organization
Level of IT Adoption amongst Dubai SMEs

The current state of ICT adoption is moderate amongst the Dubai SME community

<table>
<thead>
<tr>
<th>Key Parameters</th>
<th>Key Findings</th>
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</table>
| Level of IT Usage | • Only 21% of SMEs indicated deployment of advanced IT systems (ERP, CRM) to manage their business operations.  
• Services firms (26%) deploy IT more intensively than Manufacturing and Trading firms. |
| Presence of a Dedicated Employee / Department | • Overall 27% of SMEs have a dedicated IT employee or a full fledged IT department (comparable to 20% of SMEs in EU-27).  
• The presence of a dedicated IT employee tends to be more prominent amongst Manufacturing and Service SMEs. |
| Allocation of an Annual Budget for IT Expenditure | • Even though 70% of SMEs use basic (software for specific functions) or advanced IT systems, only 35% make an accounting provision for IT expenses in their annual budgets. The tendency to provision for an IT budget is the highest amongst Service firms (40%). |
| Presence of a Website & Online Ordering Capabilities | • Overall, half of the SMEs surveyed have a website; however a meager 6%, have online ordering capabilities (compared to 12% of SMEs in EU-27 and 31% of SMEs in New Zealand). |
| International Orientation and IT Adoption amongst SMEs | • Export-oriented SMEs have a higher rate of IT adoption versus non exporters (across all enterprise size classes). For instance, 46% of the Medium-sized SME exporters deploy advanced IT systems compared to 37% within the non-exporting category |

UAE’s Ranks on Key Indices

Use of ICT: **30th** (out of **144 countries**)  
Technological Readiness: **32** (out of **144 countries**)  

Orientation of SMEs

Overall Degree of Orientation: **Moderate**  
Sector with the Highest Orientation: **Services**

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6 The Global Information Technology Report 2012 by the World Economic Forum  
7 Global Competitiveness Index 2012/13 by World Economic Forum
The overall state of orientation towards human capital development amongst Dubai’s SMEs tends to be moderate.

### Key Parameters

<table>
<thead>
<tr>
<th>Presence of a Dedicated Employee / Department</th>
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<tbody>
<tr>
<td>• Only <strong>25% of SMEs</strong> indicated having a dedicated HR employee / department.</td>
</tr>
<tr>
<td>• Amongst the key sectors, Manufacturing SMEs tend to have the highest propensity to have a dedicated HR function (33%), closely followed by the Services sector (30%).</td>
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<thead>
<tr>
<th>Approach for Performance Appraisal</th>
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<tr>
<td>• 72% of SMEs evaluate and reward their employees’ performance on a regular basis.</td>
</tr>
<tr>
<td>• <strong>Only 24% of these SMEs have a regular KPI-based performance evaluation approach</strong> and another 34% adopt a basic feedback or sales incentive-based approach.</td>
</tr>
<tr>
<td>• Conducting <strong>regular KPI-based performance appraisals</strong> is the most prevalent amongst Service SMEs (30%).</td>
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<thead>
<tr>
<th>Type of Training Provided to Employees</th>
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<tr>
<td>• <strong>Only 26% of SMEs provide need-based or comprehensive training to their employees</strong> (compared to 63% and 55% of SMEs in New Zealand and the UK, respectively).</td>
</tr>
<tr>
<td>• Service SMEs are the most focused on training and development with 32% of these firms providing intensive training to their employees.</td>
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</table>
Degree of Corporate Governance Orientation

The current degree of orientation towards the core principles of corporate governance tends to remain low amongst Dubai’s SMEs

**Key Parameters**

**Level of Formalization of the Organizational Structure**

- 34% of the SMEs indicated that they have a formal organization structure.
- Efficiency of organizational structure is the highest amongst Manufacturing SMEs (53% indicated having a formal organization structure).

**Financial Reporting Mechanism**

- 50% of the SMEs indicated that they maintain audited financial statements.
- Propensity to maintain audited financial statements is the highest in the case of Manufacturing SMEs (63%).

**Key Findings**

**Adherence to the Corporate Governance Principles**

- Only 18% businesses indicated that they have adopted one or more key tenets of corporate governance.
  - 13% businesses have a formal mechanism for financial planning and management reporting.
  - Around 11% of the SMEs have an independent Board of Directors / formal Advisory Board to advise on the company’s operations.
  - An equal proportion (11% businesses) have documented policies and procedures for key processes.
- A higher proportion of Manufacturing SMEs (at 28%) are observed to be oriented towards corporate governance.

Orientation of SMEs

Overall Degree of Orientation: Low

Sector with the Highest Orientation: Manufacturing
Access to Finance for Dubai SMEs

The current state of access to finance reflects a moderate availability of affordable bank finance for Dubai’s SMEs.

Key Parameters

Source of Finance for Commencing a Business

Source of Finance for Business Operations & Expansion

Type of Bank Finance Accessed by SMEs

Key Findings

A majority of SMEs (80%) had used their personal money /savings /equity as the primary source of finance to start a business.

• Businesses largely tend to re-invest business profits, rather than resorting to bank finance to expand business operations.

• Only 23% of SMEs have accessed bank finance in the last five years (compared to 25% of firms in the MENA region, 45% in South Asia, 57% in Eastern Europe). In comparison, around 56% of SMEs indicated a need for bank finance for their business operations (SME financing study).

• 50% of SMEs were found to have accessed short-term finance whereas 37% have availed term loans; the remaining were found to have accessed both.

• Only 10% of SMEs have accessed bank finance for long-term investments (compared to 16% firms in the MENA region and 34% and 50% in OECD, and Eastern Europe & Central Asia, respectively).

• Use of short-term finance is the most prevalent amongst Trading SMEs (70%) whereas use of long-term finance is the highest amongst Manufacturing SMEs (48%).

UAE’s Ranks on Key Indices

Ease of Getting Credit: 83rd (out of 185 countries) 7

Level of Access to Finance

Overall Level of Access: Moderate

Sector with the Highest Use of Finance: Trading

Scalability Potential of SMEs

Scalability potential of Dubai SMEs tends to be low due to high existing capacity utilization coupled with high fixed cost overheads.

- Around 77% of SMEs have a capacity utilization of more than 50%.
- Capacity utilization is the highest amongst Manufacturing SMEs.
- (84% of businesses have indicated capacity utilization of more than 50%).

- Share of fixed cost overheads within the total cost structure is found to be more than 50% across 35% of SMEs.
- Trading SMEs have a low fixed cost structure (46% of these businesses have a fixed cost structure in the range of 0-30%).

- Overall, 70% of the SMEs expect a medium (5-10%) to high (>10%) growth in demand for their products / services over the next 3-5 years.
- Manufacturing SMEs are the most optimistic with 82% of these firms expecting medium to high growth.

- Only 19% of SMEs in Dubai have a high scalability potential.
- In spite of an expectation of growth in demand, the scalability potential of Dubai SMEs is low due to prevalence of high overhead structures, coupled with high existing capacity utilization levels.

Overall Potential: Low

Sector with the Highest Potential: Similar across sectors

A high scalability potential is reflected through a combination of high demand, coupled with a low fixed cost base (fixed costs accounting for 0-30% of total costs) and / or low to medium capacity utilization (up to 50%).
Summary

Dubai SMEs are highly oriented towards internationalization; however are low in orientation towards innovation and corporate governance and scalability potential.

- Low refers to orientation on the specific theme indicated / reflected by up to 20% of the surveyed respondents
- Medium refers to orientation on the specific theme indicated by 20-40% of the respondents
- High refers to orientation on the specific theme indicated by more than 40% of the respondents.
There are variations in state and characteristics of SMEs across sectors.

<table>
<thead>
<tr>
<th>Sector with Highest Orientation</th>
<th>Sector with Lowest Orientation</th>
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<tbody>
<tr>
<td>Trading</td>
<td>Services</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Trading</td>
</tr>
<tr>
<td>Services</td>
<td>Trading</td>
</tr>
<tr>
<td>Services</td>
<td>Trading</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Trading &amp; Services</td>
</tr>
<tr>
<td>Trading</td>
<td>Services</td>
</tr>
<tr>
<td>Similar across all sectors</td>
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