

---

# Strategic Human Resource Management and the Development of a Performance-Driven Culture in Saudi Arabian SMEs

<sup>1</sup>\*Abdulmalik Ainoso, <sup>2</sup>Dr. Ibiwani Alisa Hussain

<sup>1,2</sup>Graduate School of Management, Postgraduate Centre, Management and Science University, Shah Alam, Malaysia.

---

## Abstract

**Purpose:** This review discusses the role of Strategic Human Resource Management (SHRM) in developing a performance-oriented culture in Saudi Arabian Small and Medium-sized Enterprises (SME). It explored the impact of SHRM practices on employee engagement, responsibility, and business performance alongside cultural factors unique to the Saudi context.

**Approach:** The literature reviewed Saudi Arabian and international SME settings to discuss the major SHRM components, leadership characteristics, and cultural effects. It critically examined Vision 2030 and other government strategies that present a considerable problem and an opportunity to implement SHRM, supported by empirical research and a real-life case. The data was collected between January and May 2025 through 54 studies with Saudi Arabian and international SME literature and critically reviewed using thematic review and case-based evaluation methods.

**Findings:** The review determined that SHRM, in line with the Saudi Arabian cultural beliefs and under transformational leadership, would play a greater role in improving the performance of SMEs. The most relevant practices involve transparent recruitment, continuous training, and culturally sensitive performance systems. Although challenges as the lack of Human Resource (HR) knowledge, resources, and cultural resistance are present, government support and digital HR solutions provide great room to improve.

**Practical Implications:** To integrate SHRM practices, Saudi SMEs ought to focus on leadership development, slow formalisation of HR structures, and the implementation of cost-effective digital applications. The only way to ensure a long-term effect is to adapt the best international practices to the Saudi culture.

**Originality:** This article adds value because it creates a theoretical-to-practice connection in the context of Saudi SMEs and provides a culturally conscious outline of how to develop performance-driven organisations now aligned with the visions of Vision 2030.

**Keywords:** Strategic Human Resource Management (SHRM), Saudi Arabian SMEs, Performance-Driven Culture, Vision 2030, Leadership Styles, Employee Engagement, Cultural Barriers, Digital HR Solutions.

---

## 1. Introduction

Saudi Arabia's economic transformation revolves around Small and Medium Enterprises (SMEs), especially as the kingdom experiences a strategic realignment to end reliance on oil in its Vision 2030 agenda (Alazemi, 2022). SMEs are defined locally as businesses employing less than 250 workers and generating an annual turnover of less than SAR 200 million. They constitute more than 95 % of the total number of establishments in the private sector and 70 % of employment in the private sector (Almalki, 2023). The business sector's contribution was low and within 20-30% of Gross Domestic Product (GDP). At the same time,

the world had an average of 46% Nevertheless, there has been a significant change in the ecosystem within the last 10 years. By Q1 2022, the registered SMEs had experienced a 14.6% year-over-year growth to 752,560, which accounts for 30% of GDP (compared to 21% in 2013), 33% of non-oil GDP, and supports 45% of employment (Algan, 2019). This fast development is the result of intense governmental work. The state already supports SMEs through organisations, such as Monsha, at, and specialised schemes, including the Kafalah loan guarantee, Tamweel investment program, SME Bank, venture capital programs and the National Entrepreneurship Initiative, to raise the SME

---

**Abdulmalik Ainoso**

Graduate School of Management, Postgraduate Centre, Management and Science University, Shah Alam, Malaysia  
A.ainosa@gmail.com

Received: 02-May-2025

Revised: 10-July-2025

Accepted: 19-July-2025

GDP contribution to 35 % by 2030 and the government targets particular measures in those spheres (Alribi, 2023). SME credit needs to increase by 17% in Q2 2024 to facilitate this process. Momentum in finance is palpable, as the non-oil PMI has hit record highs since 2014 and is at its highest in January 2025. As the number and importance of SMEs increase, their performance is based on one aspect: human capital. Strategic Human Resource Management (SHRM) is pivotal, linking Human Resource (HR) practices with organisational objectives to improve skills, commitment, and competitiveness via recruitment, training, appraisal, and rewards (Jian et al., 2024). The applicability of SHRM is increased in the context of SMEs; smaller firms' limited resources require extremely dynamic, highly motivated teams to survive within the changing markets and technology environment (Harney & Nolan, 2024). Adoption of SHRM in Saudi SMEs has its problems. Most are traditionally run, do not have formal HR departments, and depend on expatriates (75 % of SME workers), with only 34 % of total employment in the SME sector. Regulatory complexity, red tape, and low budgeting further suppress strategic HR work. Even though Saudisation targets replacing non-Saudi workers with Saudi talent, the pace of change is slow (Adham & Hammer, 2021).

The increased use of performance-based culture, which is the achievement of distinct targets with feedback, accountability, empowerment, and rewards, is consistent with SHRM adoption. This transformation improves productivity, creativity, participation, and resilience, which assists SMEs in working effectively and making decisions faster. It can serve the Vision 2030 agendas of economic diversification, digital transformation, and employment of Saudi youth and women (Aljuaid et al., 2024). The historical fact entails that small and medium firms in sectors like tech, tourism, and renewable energy will be expected to grow fast with the new talent in the labor market and easing of business regulations (Tshikovhi et al., 2023). Despite all its advantages, a performance-driven culture has to be anchored in the system. The SMEs need to shift towards strategic integrated HR practices as opposed to ad hoc HR practices, the leaders need to transition from founder-driven to vision-oriented, and the reward systems and feedback mechanisms with performance metrics must be adopted even in the resource-scarce environment (Flagstad, 2023). Such initiatives require a cultural readiness to innovate, take responsibility, and learn constantly, which are not necessarily inherent in traditionally run companies.

The background of this review article focuses on the dynamic relationship between SHRM and performance-driven culture in Saudi SMEs. It will be out to: (1) track the emerging ecology of SMEs in the Vision 2030 and National Transformation Program; (2) determine the role and application of SHRM practices (recruitment, training, appraisal, rewards) to SMEs; (3) find out how such practices foster a performance-driven organisational culture; (4) identify the drivers and inhibitors in Saudi specific institutional, cultural and leadership settings; and (5) provide high-level insight and recommendations SMEs, policymakers, and HR practitioners to deploy human capital to achieve This review is rather important in its diversity. Scholarly, it will introduce an information gap in the literature on SHRM and organisational culture among SMEs in emerging markets, especially in the Gulf region. In practice, it advises SME leadership, Human resource management, and policymakers on creating composite HR systems with accountability, empowerment, and performance-oriented systems, given that they are attributes of resilience in a competitive post-oil economy. The policy implications will also include how other institutions, such as Monshaat and the SME Bank, can improve the adoption of strategic HR.

This review is organised to define the conceptual background behind SHRM and a performance-driven culture, and to report on the evolution of the Saudi SME ecosystem, the Vision 2030 objectives, labor force composition, and institutional framework. Additionally, the study discusses empirical and case-based practices of SHRM in Saudi SMEs to examine their influence on culture and performance. It also analyses leadership roles, organisational structures, and cultural factors that affect the effectiveness of SHRM. The study reviews various obstacles, such as financial, regulatory, linguistic, and cultural challenges, identifying their determinants and proposing solutions like digital HR systems, targeted training, and ecosystem-level interventions. Furthermore, the review provides practical suggestions to scholars, SMEs, and policymakers to create a capacity-driven human-centric future. It indicates the important connection between strategic HR and performance culture as the primary motor to achieve Vision 2030 objectives: a diversified, innovative, inclusive, and private-sector-driven economy. It offers a model of turning SMEs into competitive, flexible agents of change.

This review utilised a qualitative approach based on an extensive review of the literature on the subject area of

54 publications regarding SHRM among Saudi Arabian and international SMEs. The data was collected between January and May 2025 and was critically reviewed using thematic analysis and case-based evaluation. The study determined critical values of SHRM practices, leadership functions, and issues in the Saudi Vision 2030.

## 2. Conceptual Framework

### 2.1 Strategic Human Resource Management (SHRM)

#### 2.1.1. Definition and Principles of SHRM

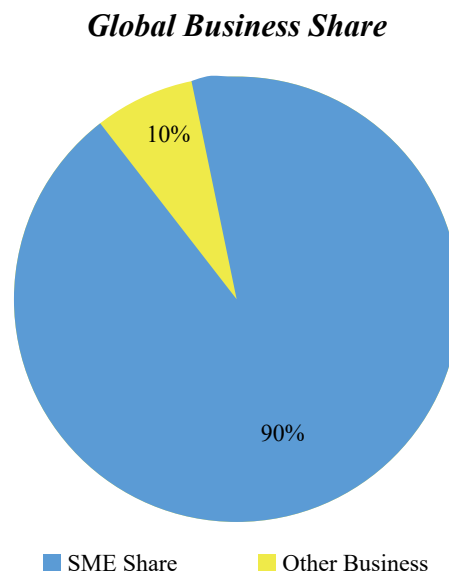
SHRM expands the role of HR into long-term and proactive systems operating in the planning of the workforce for organisational goals. In contrast with classical HRM, which is transactional (it deals with recruitment, payroll, compliance, etc.), SHRM focuses on incorporating human capital into the business strategy of an organisation with the use of practices such as talent forecasting, performance-based rewards, succession planning, and continuous learning (Rosyafah & Pudjowati, 2024). It has a theoretical anchor, the so-called Resource-Based View (RBV), according to which the sustainable competitive advantage lies in valuable, rare, inimitable, and non-substitutable resources, so, in this respect, the employees are a focus of precious resources. Core principles of SHRM include strategic alignment, long-term orientation, an integrated HR system, and evidence-based decision making. SHRM also emphasises embedding performance-related measures, developing clear goal structures, and incorporating feedback loops into its development as

part of a dynamic and flexible accountable organisation. Huselid's (1995) application of high-performance work systems (HPWS) is one of the finest examples, entailing synergies between strategic organisational objectives and HR practices. Such synergy encourages improved employee commitment, productivity, innovation, and core cultural performance (Peretz, 2024).

#### 2.1.2. SHRM in the Context of SMEs

Small and medium enterprises (SMEs) face unique constraints: low budgets, few talent pools, and slender organisations. Despite such limitations, SHRM is essential to SMEs globally, accounting for 90 % (See Figure 1) of all businesses worldwide and over 50 % of all jobs (See Figure 1) (Knezović et al., 2020). In Saudi Arabia, SMEs represent 90 % of all privately owned firms, 51 % of the total jobs in the country, generate SAR 232.5 billion (~USD 62 billion) in revenues, and contribute 28 % of total industrial output. SHRM helps SMEs improve employee retention rates, community, and performance despite limited resources, as Saleh (2020) stated. As another example, approximately 62 % of SME managers do not invest in HR research, but those who do record better training results and reduced turnover levels. The same trend has been replicated in Saudi Eastern Province, with research confirming that workforce practices in staff recruitment, training, and incentives have statistically significant positive effects on the performance of employees and organisational performance of SMEs in the region (Saleh, 2020).

*Figure 1: Global Business Share (Author Source)*



SMEs often lack HR specialisation, which leads to informal training, poor performance appraisals, and high turnover—40% within a year of onboarding, often due to subpar processes (Rubenstein et al., 2018). However, SMEs also tend to be quick to adopt policies. One study found that SMEs may implement fewer initiatives but maintain them longer and have higher success rates than large companies. Introducing SHRM to SMEs involves aligning HR with business strategy by planning hiring needs, organising hiring as a predictive process, ensuring that performance and reward systems are measurable, and focusing on actively monitoring employee retention and customer satisfaction (Ashrafuzzaman, 2024).

### *2.1.3. Global Trends Vs Regional (Saudi Arabian) Practices*

SHRM globally is changing due to increased use of digital tools, remote employees, and performance tracking analytics. AI is leaving approximately one-eighth of roles open to automation and reforming HR by using predictive hiring, screening automation, and real-time benchmarks. With AI, SMEs can now enjoy top-level HR features previously occupied by big companies (Kazlauskaitė, 2025). The factors that affect the HR environment in Saudi Arabia include regional peculiarities, such as nationalisation policies, which entail quota requirements towards local hiring that make it more complicated, yet improve national talent development. Leadership and employee engagement embrace cultural and religious values of fairness, cooperation, justice, and Islamic ethics. Vision 2030 also fosters change through privatisation, diversification of the economy, and empowerment of more women in the labour market (currently 33% of all working Saudi citizens, compared to 14% in 1990) (Abubakar et al., 2024).

Empirical data indicates the worth of SHRM in Saudi SMEs, with a 2024 survey indicating positive effects on firm performance ( $Q^2 = 0.539$ ), competitive advantage ( $Q^2 = 0.350$ ), and innovation ( $Q^2 = 0.247$ ). Research also verifies that recruitment, training, and incentives significantly improve employee performance. Still, issues such as limited HR capacity, digital shortcomings, regulatory loads, and cultural stigma for private-sector employment need to be eliminated to achieve Vision 2030 objectives (Sainger & Irfan, 2025).

## **2.2. Performance-Driven Culture**

### *2.2.1. Definition and key components*

A performance-based culture is an organisational

culture that aligns employees on strategic goals, holds employees accountable for the outcome, and constantly tries to improve. It is founded on the point of aim, visibility of the roles, and frequent performance monitoring. These goals, responsibility, and learning chain promote innovation, flexibility, and continuous competitiveness. Goal alignment is the foundation of the performance-driven culture in an organisation (Harris, 2024). Goal alignment helps employees see how their efforts can be used to achieve overall goals because it stabilises a connection between corporate goals and personal Key Performance Indicators (KPI). Businesses that apply structured goal-setting, such as Objectives and Key Results (OKR), observe an increased performance by up to 30%. Goal-oriented cultures are more successful, as this practice improves a company's direction, focus, and effectiveness, which is particularly essential to small businesses since they do not have extensive resources (Hakami & Abdwahed, 2022).

Accountability unites employee autonomy, repeated feedback, and open assessments in a performance-driven culture. A review of Saudi public-sector organisations shows that accountability aspects, such as change management and goal attainment, impact the organisation's job performance. Tools such as dashboards and check-ins can increase employee motivation by more than 15% (Fernando, 2025). Furthermore, Continuous Improvement leads to a learning and innovation process followed by performance analysis, which ensures swiftness and robustness due to strategies such as Lean and Six Sigma. Saudi digital SMEs have been empowered by integrating a culture of experimentation and risk-taking. Interventions in learning have registered profound positive effects, indicating that ongoing growth is possible without substantial expenditures. Such an attitude keeps organisations active since mistakes are not quirks but learning curves (Ghelani, 2023).

### *2.2.2. Importance of cultivating this culture in SMEs.*

Promoting a performance-based culture at Saudi SMEs has several advantages. It also positively contributes to organisational performance, with firms that are well-aligned in their goals and that are highly innovative surpassing peers in revenue, customer satisfaction, and retention (Vuko et al., 2024). It also enhances staff participation and retention, which is essential since there is a high rate of skill shortages in more than 70% of SMEs. Additionally, a performance culture drives innovation and competitiveness. The digital companies in Saudi Arabia that combined structured learning and experimentation

outwitted their counterparts, even with the limited learning investments (Abedalrhman & Alzaydi, 2024). Furthermore, it makes SMEs more resilient; that is, SMEs that can iterate and be flexible are likely to recover faster in the event of a shock to the system (e.g., supply chain disruption, regulatory change, etc.). Nonetheless, there exists a challenge in implementing this culture. Most SMEs do not have formal HR structures; in most cases, fewer than 10% have an HR department. In family-owned enterprises, the relationship aspect of business is paramount, not performance. The resources

are scarce, and the leaders resist formal systems (Snyder, 2023). To assist such efforts, strategic actions include setting KPIs, building scheduled performance reviews, cultivating low-cost learning, using visuals to track performance, role modeling performance values, and quickened targeted incentives. The evolution to performance culture will advance Vision 2030 as it will increase the productivity of SMEs, lessen oil dependence, and offer job opportunities, exploiting inclusivity, particularly to women and youth (Alajaji, 2023). Therefore, this review is conceptualised as follows:

*Figure 2: Review Conceptual Framework (Author Source)*



### 3. Saudi Arabian SME Landscape

In Saudi Arabia, SMEs are the foundation of the country’s private-sector economy, representing more than 95% of all businesses and providing approximately 70% of jobs. Nevertheless, they only contribute 20% to 30% to the GDP compared to 46% on average by developed economies. Such companies (less than 250 employees and annual revenues of less than SAR 200 million) conduct their businesses in various industries like manufacturing, service, construction, trading, agri-business, and information technology (Eltayeb, 2025). By Q1 2022, the number of Saudi SMEs had increased to 752,560 (an increase of 14.6% compared to the previous year), representing 30% of the total GDP, 45% of the national employment market, and 33% of non-oil GDP, which is substantially higher than during 2013. Most (over 90%) are family-owned and heavily depend on foreign blue-collar labour. Due to societal changes, 45% of SMEs are owned by women (Alajaji, 2023). Furthermore, most Saudi SMEs are not formally organised: less than 10% have HR, established recruiting, and performance evaluation processes, which creates high turnover and inefficiencies that negate strategic possibilities.

#### 3.1 Government Policies and Vision 2030 Impact

Vision 2030 was introduced in 2016 and is devoted to making Saudi Arabia less dependent on oil and evolving it into a heterogeneous economy with improved performance. Among its most important The objectives are to ensure that SMEs contribute 20 % of the GDP by the year 2030, compared with the current 35 %; and to enhance the role of the private sector in the GDP, which is currently 40 %, to 65 % by the year 2030 (Elneel & AIMulhim, 2022). The relevant programs to reach this are the Fighting HIV in Saudi Arabia, Fighting TB in Saudi Arabia, Fighting RHD in Saudi Arabia, Fighting TB, Fighting TB, fighting to Eliminate HIV in Children, fighting to Eliminate TB in Children, The Public Investment in Saudi Arabia, The National Transformation in Saudi Arabia, Human Capital Development in Saudi Arabia, The Financial Sector Development in Saudi Arabia, the SME Program, and the Human Capital Development Program. Founded in 2016, Monsha’at (SME Authority) drives Saudi Arabia’s SME support with advisory, training, mentorship, and financing. By 2018, it had arranged loans for more than 824 SMEs. In 2024, SME credit increased 28% year-on-year to SAR 352 billion (9.4% of total credit)

and is set to target 20% by 2030. Vision 2030 reforms, including digital infrastructure, economic zones, and mega projects like NEOM and the Red Sea, drive SME demand in target sectors. Saudisation and incentive programs for the workforce have increased women’s engagement from 17% in 2017 to more than 35% in 2021. Support initiatives include Kafalah, Tamweel, HRDF, Doroob, Tamheer, and startup incubators, which plug finance, skills, and innovation gaps (Abdelkawy et al., 2024).

### 3.2 Common HR Challenges in Saudi SMEs

Saudi SMEs struggle with massive HR challenges that hinder their long-term strategic plan. More than 90% have no formal HR departments and operate informally based on owner-led practices, and up to 70% of firms have modest resources and liquidity constraints. This slows investment in formal HR systems, including recruitment, onboarding, and performance management (Maršíková et al., 2019). Family-based practices have created cultural norms that encourage nepotism and opposition to formal systems such as diversified hiring and Saudisation because they consider that locals have higher wage expectations and low skills. The skill gaps are also a problem, as 70% of SMEs claim to lack skilled labor (Alnoaimi, 2018). Despite the Human Resource Development Foundation (HRDF) and vocational training courses, many SMEs cannot define or incorporate training requirements. The high expatriate turnover (as high as 40 annually) also adds to team building and disruption (Nyathi, 2022). Only a small portion of Saudi SMEs use well-planned appraisals or grant performance-based compensation, with 35% of businesses paying partial performance compensation and 41% sustaining typical salaries (Wang et al., 2018). However, simple acknowledgments, such as recognition

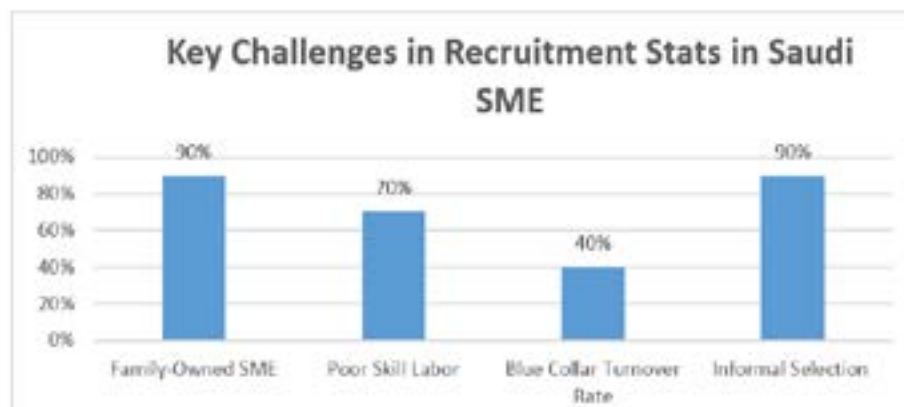
and public praise, are utilised to increase employees’ engagement levels. Furthermore, although a significant proportion of the Saudi nation is undergoing digitalisation, most SMEs include manual or paper-based HR systems. This restricts their opportunity to plan a strategy for HR planning by analysing talent requirements, turnover reasons, and compensation standards (Aldhobaib, 2025).

## 4. SHRM Practices in Saudi Arabian SMEs

### 4.1 Recruitment and Selection: Strategic Alignment & Acquisition Challenges

The recruitment and selection process within Saudi SMEs, more precisely, family-owned SMEs (approximately 90%), is commonly informal and without strategic planning limitations due to insufficient resources and regulations. Most depend on word of mouth or simple advertisements instead of systematic HR. Conversely, performance-based recruiting is higher than goal-based recruiting. Nonetheless, 70 percent of SME managers in Saudi Arabia indicate poor access to skilled labor, which makes it challenging to align their strategies (Wirba, 2017). Furthermore, Saudisation quotas and the failure to attract local talent due to high wage rates, poor career opportunities, and the preference for working in the government become barriers to recruitment in Saudi SMEs. This makes SMEs highly dependent on expatriates, especially in blue-collar positions, with turnover rates as high as 40%. Most companies rely on informal selection processes such as basic tests, unstructured interviews, and medical check-ups; only a small proportion (less than 10%) adopt structured competency-based tests. Such ad-hoc hiring creates a problematic strategic fit of the workforce and an inability to grow the business (See Figure 3) (Al Farisi, 2020).

*Figure 3: Key Challenges in Recruitment Stats in Saudi SME (Author Source)*

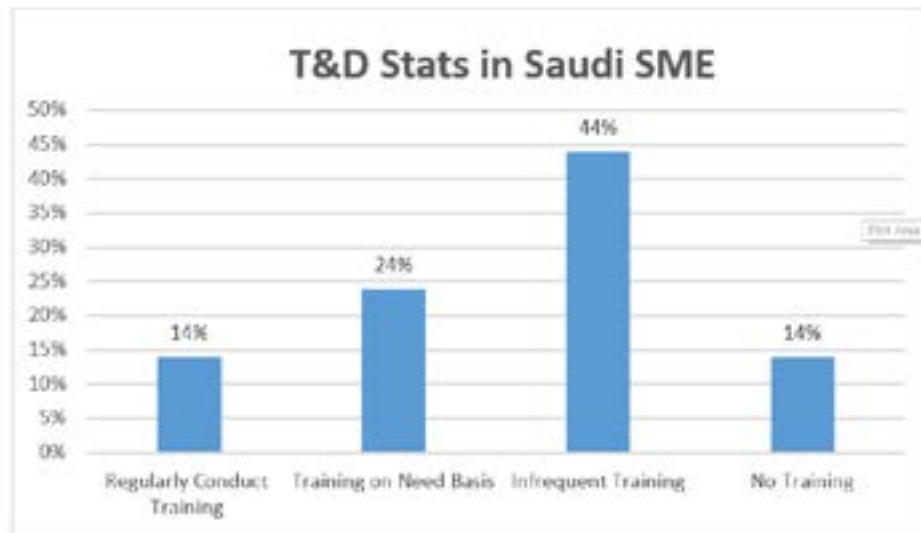


#### **4.2 Training and Development: Developing Skills and Creating Continuous learning**

The practice of training and development (T&D) in Saudi SMEs is inconsistent: 14% regularly conduct T&D, 24% organise training on a need-basis, 44% organise infrequent training (e.g., in technology rollout), and 17% do not conduct T&D (See Figure 4). This expresses an unwillingness to invest in developing, especially temporary or expatriate personnel. This disproportionate practice indicates an unwillingness to develop temporary workers, particularly expatriates, and echoes larger international patterns of SMEs with lower T&D investments and thus reduced capacity-building potential. However, the relationship between the training frequency and the

business performance is documented (Jalil et al., 2021). Programs such as the HRDF and Technical and Vocational Training Corporation (TVTC), e.g., “Doroob,” are low-cost training programs (including vocational and on-the-job training) established by the Saudi government to facilitate the SME workforce (Taweel, 2018). However, its adoption is poor due to insufficient awareness and management resources. To achieve continuous learning, the SMEs must incorporate structured T&D strategies like quarterly upskilling opportunities, mentorship, peer-to-peer learning, and post-project reviews at low costs to develop basic skills and improve learning achievements (Žilka et al., 2024).

**Figure 3: Key Challenges in Recruitment Stats in Saudi SME (Author Source)**

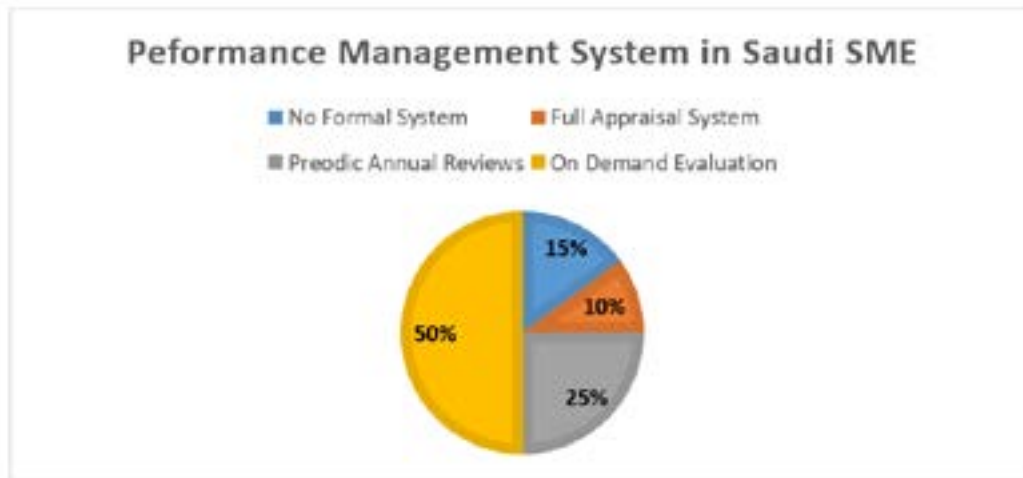


#### **4.3 Performance Management: Tools, Methods & Gaps**

Performance Management (PM) systems in Saudi SMEs are nascent. Only 10 % have full-fledged appraisal systems that capture all the measurements of performance, 25 % have periodic review (usually annual), 50 % do only as select evaluations are on demand (promotions, layoffs), and often rest on the impressions of the supervisor (Costa Ferreira Junior & Fleury, 2018) (See Figure 5). Most Saudi SMEs do not measure performance using formal systems; instead, they tend to be informal in their measures, which restrains feedback and cannot build a culture of continuous

performance improvement. Winingar (2021) observed that establishing even simple PM mechanisms, such as quarterly and peer performance reviews, helps work motivation and concentration in SMEs. Nevertheless, the culture of traditional management teams, founder bias, low HR capacities, and the cultural reluctance to express open feedback contribute to the divide between traditional and high-performance work cultures. To be effective, reward and recognition systems should take into account cultural values (Winingar, 2021).

**Figure 5: Performance Management System in Saudi SME (Costa Ferreira Junior & Fleury, 2018)**



Altassan (2024) highlighted that reward systems are crucial in enforcing performance norms. However, only 35% of Saudi SMEs provide limited performance-based compensation; 12% offer non-financial incentives, and 41% focus on fixed salaries, weakening merit-based inspiration. Different monetary and non-monetary reward systems increase innovation and retention globally. However, in Saudi manufacturing SMEs, less than 37% provide performance-based rewards beyond the salary, thus reducing creativity and discretionary effort (Altassan, 2024).

Altassan (2024) further stated that reward systems are critical to establishing consistency and enforcing performance norms. Performance-based rewards are practised in 35 % of Saudi SMEs on a limited basis, and 12 % practice non-financial benefits (e.g., housing, transportation) (Altassan, 2024). SMEs must implement culturally appropriate rewards, i.e., bonuses or holidays, employee-of-the-month, etc., based on specific performance levels, sales, quality, or innovativeness. There should be a need to implement teamwork and individual incentives provisions to help enhance colleagues' relationships and adhere to hierarchical norms. Saudi Arabian SMEs must align their recruitment with business objectives, introduce systemised training, standardise performance appraisals, and develop culturally responsive rewards to enhance strategic HRM. Such efforts align with Vision 2030 objectives, which are to increase Saudisation, the growth of the private sector, innovation, and the role of SMEs in GDP, employment, and economic diversification.

## 5. Link Between SHRM and Performance-Driven Culture

SMEs in Saudi Arabia need strategic HRM (SHRM)

to align employee performance with business objectives and increase engagement, accountability, and performance. Goal setting, feedback, and role clarity are important in motivating employees, as they help them associate their work with organisational success. An analysis of Bahraini manufacturing SMEs demonstrates the positive influence of strategic HR practices on a range of organisational cultures, such as clan, adhocracy, market, and hierarchy, pointing to the extensive impact of SHRM (Alkhalaf, 2019). Likewise, Saudi digital companies' significance of learning programs, reward systems, and employee trust defines success under conditions of scarce resources, showing that SHRM works well under conditions of thorough implementation. Through employee engagement facilitated by SHRM, performance is enhanced by 12%, and frequent feedback enhances engagement by 2.5 times. As indicated in multination and Saudi case studies on SMEs, practices such as peer recognition and inclusive PM supported by staff increase staff retention and innovation due to cultural sensitivity. Training, communication, and recognition enhance engagement even under traditional structures (Al Barwany, 2024).

The SHRM practices contribute to SMEs' accountability by including KPIs, frequent meet-ups, and open appraisals to facilitate ownership and execution. Both hierarchical and market-addicted cultures can be supported with the help of strategic HR, which ensures structure and performance orientation (Almulhem, 2018). The simple scorecards and dashboards have decreased turnover and enhanced performance, yet are used by less than 20% of Saudi SMEs. SHRM can optimise performance by incorporating measurable indicators, coaching, and performance analytics to recognise and discover the gaps quickly. Focused learning programs and reward systems

in their simplest form have made a significant difference in innovation results in Saudi digital SMEs (Elneel & AlMulhim, 2022). As per Alaghbari et al (2024), the companies in Bahrain also unveil how SHRM helps implement a culture where performance-oriented cultures are super-abundant. Despite the conventional obstacles to Saudi SMEs, strategic human resource investors (through disciplined learning, feedback, and incentive systems) report greater output, revenue growth, and productivity regarding innovations (Alaghbari et al., 2024).

The use of SHRM in Saudi SMEs has been reported positively, including a technology company that experienced a 15% increase in productivity and 25% engagement through goal structuring and peer recognition. According to Kazlauskait (2025) surveys, there are comparatively robust interconnections between pro-inclusive HR practices, clan/adhocracy cultures, and better performance indicators. However, cultural impediments, including nepotism, hierarchy, lack of transparency in feedback, and finite financial and structural resources, still block the extended implementation of SHRM. Nonetheless, a few digital SMEs are adopting lightweight tools to establish performance-based practices (Kazlauskait, 2025).

SMEs in Saudi Arabia have significant expertise gaps in SHRM, and more than 70% of SME owners do not have relevant training in strategic HR, talent analytics, or behavioral management. This lack of knowledge is a barrier to consistently implementing SHRM, particularly in areas with low digital competency. The Saudi SMEs have a problem of poor performance culture inertia because of poor role clarity, poor empowerment, and lack of timely rewards, compared to Bahraini SMEs, which have thrived in fostering trust-based and innovative practices through clan or adhocracy cultures (Smith, 2020). Innovative Western SMEs usually undertake SHRM via affordable e-channels, systematic feedback, and flexible learning to promote aligned roles and to stimulate innovation (Elneel & AlMulhim, 2022). Although cultural hierarchies, Saudisation, and resource constraints present problems to Saudi SMEs, the performance advantages generated through SHRM can also be obtained when they are locally adapted. Thus, adapting a simple SHRM framework with a culture adjustment and digital tools can result in a 10 to 15% shift in productivity and retention in Saudi SMEs.

## **6. Role of Leadership**

Leadership is an important factor in integrating SHRM and transforming the culture of Saudi SMEs.

Transformational leadership, which emphasises inspiration, innovation, and one-on-one guidance, is crucial in SHRM implementation as it helps enhance employee participation and output. In contrast to traditional authoritarian styles, it assists in dealing with the complexities of cultures and fosters accountability and trust. Research in SMEs in Saudi Arabia demonstrates better innovation and flexibility with this type of leadership (Asiri et al., 2024). Furthermore, transactional leadership emphasises performance and management by exception, is clear and consistent, and works well in low cultures of change adoption. Research at Saudi SMEs revealed that transformational leadership style greatly enhanced a positive attitude towards innovation and adaptability, which led to psychological empowerment and engagement. These leaders give vision and find ways to handle cultural issues, develop trust, encourage accountability, and productivity (Alshareef & Tunio, 2022).

In Vision 2030, participative and situational leadership styles have emerged, as younger Saudi managers involve their employees in decision-making and customise their leadership styles depending on team growth and maturity. These styles significantly influence SMEs' changing roles and group dynamics (Alhassan, 2023). Nonetheless, autocratic leadership remains popular among many Saudi SME owners, who tend to suppress innovation, diminish responses, and increase turnover despite providing coherence and fast decision-making processes. Although the cultural norms are desirable (high power distance enables the respect of authority), pure authoritarianism impedes SHRM adoption and performance-oriented culture (Alghaylani et al., 2023; Alhamami, 2024).

The concept of leadership in Saudi SMEs is changing towards Vision 2030, whereby respecting hierarchies is combined with participative communication, empowerment, and cultural sensitivity. Motivating leaders through small victories, constant evaluation, and culturally specific rewards are the primary tools to drive the leadership and position a change as a shared benefit. Digital gamified platforms such as Squalid are quickly being implemented, which increases transparency in performance monitoring and promotes innovation in organisations (Wang et al., 2023). Furthermore, the Adaptive deployment of transformational, transactional, and situational leadership styles in terms of vision, inclusiveness, and cultural sensitivity can ensure successful SHRM and a performance-oriented organisational culture.

---

## 7. Challenges and Opportunities

### 7.1. Key Challenges

Saudi SMEs face cultural resistance, resource availability, and limited SHRM expertise. Existing family ownership contributes to prioritising social cohesion, which often results in nepotism, risk avoidance, and a tendency to avoid challenging the higher-ups, which prevents innovation and performance culture (Elneel & AlMulhim, 2022). Uncertainty avoidance and high power distance are other factors that deter the adoption of SHRM. Moreover, less than 10% of SMEs invest in specialised HR, as most operate under financial constraints that do not allow them to invest in training or systems. Most SME leaders are not trained in HR and undervalue digital tools, resulting in inconsistent and rudimentary SHRM practices (Maršíková et al., 2019).

### 7.2. Key Opportunities

SHRM in Saudi SMEs is gaining momentum as one of the influences to meet the Vision 2030 objectives. The purpose of Saudi Vision 2030 is to raise the share of SME in the GDP to 35% and increase the role of the private sector to 65% by 2030. Initiatives such as Saudisation, an increase in the number of women in the leadership (now 45 percent of SME owners), the intervention of agencies and organisations such as Monsha, HRDF, SME Bank, Kafalah, and Tamweel are formalising the HR, training, and access to finance for SMEs (Khoirunnisa & Nurhaliza, 2024). Low-cost digital HR apps like Squadli would allow Saudi SME organisations to achieve SHRM by seeking real-time feedback and culturally relevant rewards to increase performance and innovation. Furthermore, Governmental programs, such as HRDF, Monshaat's capacity-building programs, and the Leader Preparation Center promote developing HR and leadership positions, filling SHRM skills gaps, and developing SMEs to meet Vision 2030 objectives of employment and inclusion (Raid et al., 2024).

## 8. Future Direction

Future research to enhance SHRM in the Saudi SMEs should focus on fixing the existing research gap in large-scale empirical studies regarding the sector. Existing studies researching SHRM in Saudi SMEs are small-scale or based on other Gulf Cooperation Council (GCC) settings, thus lacking generalisability. Therefore, longitudinal research and sector-specific studies are required to realise the diversification intent of Vision

2030. Furthermore, Saudi SMEs must embrace formal HR practices that adopt digital tools, key performance indicators (KPI), and culturally acceptable feedback mechanisms. A proper leadership development toward transformational and situational leadership styles should also be needed. Lastly, a hybrid model comprising a combination of international strategies coupled with Saudi attitudes should also be needed, which includes family-like environments and team recognition, which can help boost performance without compromising the culture.

## 9. Conclusion

In this review, there is critical importance of Strategic Human Resource Management (SHRM) relating to how a performance-driven culture can be developed through Strategic Human Resource Management (SHRM) in Saudi Arabian SMEs, which constitutes more than 95% of the private sector and is essential to the achievement of goals in Vision 2030. The Saudi SMEs are afflicted by special challenges characterised by low HR resources, opposition to formalised frameworks, skills gap, and budgetary constraints. Nevertheless, when HR practices and organisational objectives are aligned strategically, engagement, accountability, and high business performance among employees could be achieved exponentially. As per the review, leadership is a crucial aspect in SHRM, where transformational and situational leadership best suit the balance of cultural sensitivity and performance requirements in Saudi SMEs. The review suggested that formal SHRM activities such as open recruitment, job-specific training, and cultural fitting rewards enhance productivity, innovation, and retention. Thus, with the further development of Vision 2030 in Saudi Arabia, SMEs will gradually have to adopt formal, data-driven HR. By integrating global and local HR experiences and values, SMEs will construct strong, high-performance organisations that contribute to the economic change in the nation.

---

**References**

Abdelkawy, N. A., Al Shammre, A., & Almutairi, A. M. (2024). Fiscal Resilience in Times of Crisis: The Impact of Government Consumption Alongside Oil and Non-Oil Revenues on Saudi Arabia's GDP Growth. In.

Abedalrhman, K., & Alzaydi, A. (2024). Saudi Arabia's strategic leap towards a diversified economy and technological innovation. Available at SSRN 5048258.

Abubakar, A. A., Al-Mamary, Y. H., Singh, H. P., Singh, A., Alam, F., & Agrawal, V. (2024). Exploring factors influencing sustainable human capital development: Insights from Saudi Arabia. *Heliyon*, 10(16).

Adham, A., & Hammer, A. (2021). Understanding Arab capitalisms: patrimonialism, HRM and work in Saudi Arabia. *The International Journal of Human Resource Management*, 32(21), 4578-4602.

Al Barwany, F. (2024). Aligning Development Programs with Organizational Goals. Abu Dhabi International Petroleum Exhibition and Conference,

Al Farisi, Y. (2020). Effects of Entrepreneurial Characteristics on the Success of SMEs in the Saudi Arabian Market Thesis Master, Western Sydney University, (2020). Diakses dari [https ...](https://...)].

Alaghbari, M. A., Ateeq, A., & Yusuf, A. Y. A. (2024). The Role of Human Resources Management in Enhancing Employee Performance (A Case Study in Banagas Company, Kingdom of Bahrain). 2024 International Conference on Decision Aid Sciences and Applications (DASA),

Alajaji, Y. A. (2023). How strategic leaders facilitate public sector digitalisation: the context of two Saudi Arabian ministries Manchester Metropolitan University].

Alazemi, R. (2022). Accounting for national business models' adaptation and restructuring evidence from Saudi Arabia Brunel University London].

Aldhobaib, M. A. (2025). The new era of the kingdom of Saudi Arabia: Key highlights and future research agenda on organizational strategy. *Businesses*,

5(1), 5.

Algan, N. (2019). The importance of SMEs on world economies. Proceedings of International Conference on Eurasian Economies, Turkish Republic of Northern Cyprus,

Alghaylani, A. S., Alsulaimani, M. A., Algethami, F. M., Al Zahrani, M. A., Al Thumali, A. A., Altowairqi, M. A., Ghalib, A. A., Awad Aljrdahi, A. W., Althomali, M. S., & Faleh Althagfi, M. E. (2023). Charting The Course; A Systematic Review On Healthcare Leadership Styles And Their Symphony With Employee Satisfaction In Saudi Arabian Health Administration. *Journal of Namibian Studies*, 38.

Alhamami, M. A. (2024). Leading for Innovation: How Different Leadership Styles Shape Employee Innovation in Saudi Higher Education Victoria University].

Alhassan, N. (2023). An exploration of situational leadership support and impact on Ghanaian SME hotels University of Worcester].

Aljuaid, A. A., Masood, S. A., & Tipu, J. A. (2024). Integrating Industry 4.0 for sustainable localized manufacturing to support Saudi Vision 2030: An assessment of the Saudi Arabian automotive industry model. *Sustainability*, 16(12), 5096.

Alkhalaf, H. (2019). Determinants of human resource management practices in Saudi SMEs: a case study approach Dublin City University].

Almalki, A. (2023). SMEs and their Impact on Job Creations: Employment Perspectives from Saudi Arabia The University of Manchester (United Kingdom)].

Almulhem, F. (2018). The Effect of Socio-Cultural Norms on the Adoption of E-Government in GCC Countries: a Saudi Arabian Case Study Aston University].

Alnoaimi, A. (2018). The Relationship Between Culture, Manager's Leadership Styles, and Employees' Motivation Level in a Bahraini Service Organisation Environment.

Alribi, A. (2023). An examination of the Saudi

Arabian

Kafalah loan guarantee programme for small and medium-sized enterprises University of Limerick].

Alshareef, N., & Tunio, M. N. (2022). Role of leadership in adoption of blockchain technology in small and medium enterprises in Saudi Arabia. *Frontiers in Psychology*, 13, 911432.

Altassan, M. (2024). Exploring non-financial incentives for employee motivation in small and medium enterprises in Saudi Arabia. *Journal of Infrastructure, Policy, and Development*, 8(8), 1-22.

Ashrafuzzaman, M. (2024). The impact of cloud-based management information systems on hrm efficiency: an analysis of small and medium-sized enterprises (SMES). *Academic Journal on Artificial Intelligence, Machine Learning, Data Science and Management Information Systems*, 1(01), 40-56.

Asiri, M., Zafrah, F. B., & Alsufyan, M. (2024). The Impact of Transformational Leadership on Sustainability in Small and Medium Enterprises (Applied Study: Saudi Arabia). *Advanced Research In Economics and Business Strategy Journal*, 5(1), 118-137.

Costa Ferreira Junior, S., & Fleury, A. C. C. (2018). Performance assessment process model for international manufacturing networks. *International Journal of Operations & Production Management*, 38(10), 1915-1936.

Elneel, F. A., & AlMulhim, A. F. (2022). The effect of oil price shocks on Saudi Arabia's economic growth in the light of vision 2030 "A combination of VECM and ARDL models". *Journal of the Knowledge Economy*, 13(4), 3401-3423.

Eltayeb, A. A. S. (2025). Analyzing the Statistical Impact of Financing Small-Scale Projects in the Kingdom of Saudi Arabia on Unemployment Reduction: A Comprehensive Case Study.

Fernando, S. (2025). Exploring growth hacking strategies for business development in small service-based businesses.

Flagstad, I. (2023). Introducing a systems perspective on the development of a green organisational climate: Interactions and dynamics within sustainable organisations.

Ghelani, H. (2023). Six Sigma and Continuous Improvement Strategies: A Comparative Analysis in Global Manufacturing Industries. *Valley International Journal Digital Library*, 954-972.

Hakami, Y. M., & Abdlwahed, N. A. A. (2022). The Relationship Between Organizational Culture and Organizational Performance: A Study On SMEs in Saudi Arabia. *Academy of Entrepreneurship Journal*, 28(4).

Harney, B., & Nolan, C. (2024). Conclusion Reframing HRM in SMEs: Navigating Challenges and Dynamics. In *Reframing HRM in SMEs: Challenges and Dynamics* (pp. 243-254). Springer.

Harris, D. X. (2024). Culturally-responsive devising as performance. *Text and Performance Quarterly*, 44(3), 145-156.

Jalil, M. F., Ullah, W., & Ahmed, Z. (2021). Training perception and innovative behavior of SME employees: examining the mediating effects of firm commitment. *Sage Open*, 11(4), 21582440211067250.

Jian, W., Orlina-Ursula, D., & Regua, R. (2024). The role of strategic human resource management in achieving organizational agility. *International Journal of Science and Engineering Applications*, 13(8), 47-51.

Kazlauskaitė, E. (2025). The influence of digital transformation on human resource management practices in multinational corporations Vilniaus universitetas.].

Khoirunnisa, K., & Nurhaliza, S. A. (2024). Saudi vision 2030: Economic reforms and sustainable development in the kingdom. *Jurnal Public Policy*, 10(1), 10-16.

Knezović, E., Bušatlić, S., & Ridić, O. (2020). Strategic human resource management in small and medium enterprises. *International Journal of Human Resources Development and Management*, 20(2), 114-

- 139.
- Maršíková, K., Rajander, T., Clauss, A.-M., Forkel, E., Medžiūnienė, I., Dulkė, D., Meschitti, V., Davies, J., Štichhauerová, E., & Schumann, C. (2019). People management challenges for SMEs in five European regions: Spotlighting the (in) visible and the (in) formal and embedding SME HR issues firmly in the business and knowledge environment.
- Nyathi, L. (2022). Challenges facing SMEs in the Western Cape townships with a focus on gender issues.
- Peretz, H. (2024). Sustainable human resource management and employees' performance: The impact of national culture. *Sustainability*, 16(17), 7281.
- Raid, M., Ahmad, N., Bagadeem, S. A., Alzyadat, J., & Alhawal, H. (2024). The non-oil institutional sectors and economic growth in Saudi Arabia. *Cogent Economics & Finance*, 12(1), 2300819.
- Rosyafah, S., & Pudjowati, J. (2024). What are the key determinants of human resource management effectiveness in enhancing organizational financial performance? *Atestasi: Jurnal Ilmiah Akuntansi*, 7(1), 525-560.
- Sainger, G., & Irfan, M. (2025). Roadmap to Talent Management: Harnessing Artificial Intelligence (AI) for Success. In *Building Organizational Capacity and Strategic Management in Academia* (pp. 463-492). IGI Global.
- Saleh, A. (2020). Corporate social responsibility in small and medium-sized enterprises (SMEs): A Saudi Arabian perspective [Cardiff University].
- Smith, J. (2020). Transforming organisations into entrepreneurial communities: how can understanding the constructions of organisational agents and their experiences of human resource management enable SMEs to sustain strategic entrepreneurship?
- Snyder, J. L. (2023). The Concept of Strategic Culture. In *Strategic Culture (s) in Latin America* (pp. 19-28). Routledge.
- Tshikovhi, N., More, K., & Cele, Z. (2023). Driving sustainable growth for small and medium enterprises in emerging urban–rural economies. *Sustainability*, 15(21), 15337.
- Vuko, S., Thango, B., & Nethanani, R. (2024). Customer Relationship Management (CRM) Systems and their Impact on SMEs Performance: A Systematic Review.
- Wang, N., Wan, J., Ma, Z., Zhou, Y., & Chen, J. (2023). How digital platform capabilities improve sustainable innovation performance of firms: The mediating role of open innovation. *Journal of Business Research*, 167, 114080.
- Wang, T., Thornhill, S., & Zhao, B. (2018). Pay-for-performance, employee participation, and SME performance. *Journal of Small Business Management*, 56(3), 412-434.
- Winingar, J. (2021). Strategies for Improving Performance Management in Small and Medium Enterprises [Walden University].
- Wirba, A. V. (2017). The recruitment, selection and retention practices by family owned small and medium size enterprises (FOSMEs) in Cameroon. *American Journal of Business, Economics and Management*, 5(1), 1-12.
- Žilka, M., Kalender, Z. T., Lhota, J., Kalina, V., & Pinto, R. (2024). Tools to support managerial decision-building competencies in data driven decision making in manufacturing SMEs. *Procedia Computer Science*, 232, 416-425.