

# IMPACT OF OPERATING COST REDUCTION ON THE ECONOMIC CHALLENGES FACING SMALL-SIZE CLOTHING FACTORIES IN SAUDI ARABIA

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#### Abstract

The clothing manufacturing industry in the Kingdom of Saudi Arabia has faced many challenges at the local and international level. The implementation of the rules and regulations of the World Trade Organization (WTO) and the Kingdom's Vision 2030 have gained particular interest and operating with minimum costs has become one of the main objectives of small-size clothing factories. The impact of operating cost reduction on economic challenges facing the clothing factories has been studied with the aim to identify the challenges and economic factors affecting operating costs. It was concluded that some of the economic challenges are represented in the high operating cost caused by the application of new taxes, including the value-added tax (VAT), imposition of fees on non-Saudi workers and new amendments to the trade law. Minimizing operating costs through cutting-edge manufacturing technologies were found to be a key solution to ensure factories' survival and sustainability.

Keywords: operating costs, clothing factories, economic challenges, Saudi Arabia.



المستخلص

واجهت صناعة الملابس في السعودية العديد من التحديات المحلية والدولية. يعد تنفيذ قواعد وأنظمة منظمة التجارة العالمية والرؤية ٢٠٣٠ موضع اهتمام خاص، أصبح التقليل إلى أدنى حد من تكاليف التشغيل أحد الأهداف الرئيسية لمصانع الملابس الصغيرة. تم دراسة تأثير خفض تكاليف التشغيل على التحديات الإقتصادية التي تواجه مصانع الملابس. بهدف تحديد التحديات والعوامل الاقتصادية التي تؤثر على تكاليف التشغيل. توصلنا الى ان التحديات الاقتصادية تتمثل في ارتفاع تكاليف التشغيل وهي الضرائب والقيمة المضافة، رسوم العاملين غير السعوديين، وخفض تكاليف التشغيل من خلال تقنيات التصنيع الحديثة كان الحل الأساسي لبقاء المصنع واستدامته.

**الكلمات المفتاحية:** تكاليف التشغيل، مصانع الملابس، التحديات الاقتصادية، المملكة العربية السعودية.

## 1. Introduction

The global clothing industry has faced many challenges at the domestic and international levels over the past decade. The implementation of the rules and regulations of the World Trade Organization (WTO), and the trade arrangements between different groups of countries are of particular interest. The clothing industry is viewed as an emerging non-oil business in the Kingdom of Saudi Arabia and requires a rapid response and changes in order for it to grow and survive in the industrial sector. New industrial regulations and laws in the Kingdom have posed some economic challenges on small-size clothing factories, although the clothing industry has shown rapid growth at the international level over the past few years.

(Caro and Martínez-de-Albéniz, 2015) stated that small-size clothing factories have a high potential to grow in the international clothing business (Perera and Ratnayake, 2019). In order to remain competitive in dynamic marketof fast fashion clothing industry, the clothing manufacturers are under immense pressure to achieve high degree of manufacturing flexibility (Jovanovic et al., 2014). Low manufacturing cost is another important aspect that determines the competitiveness of manufacturing industries (Khannan et al., 2016). Hence, it is essential to focus on improving manufacturing flexibility while ensuring low manufacturing cost to survive under volatile market conditions. Ensuring minimum manufacturing cost is vital to be competitive in volatile market conditions (De Carlo et al., 2013).

Production/assembly department of clothing industry is known as highly labor-intensive (Guo et al., 2015). Hence, minimization of changeover-related cost has become one of the primary objectives of dynamic cellular layout designs.



Furthermore, as stated by (Shafigh et al., 2017) about 20–50% of the manufacturing cost is related to material handling. Minimization of material handling cost is the most prominent cost function used in available studies and can be obtained by optimizing a selected set of performance measures such as material handling cost, machine setup cost, grouping efficacy and exceptional elements (Deep and Singh, 2015). Therefore, there is a need to study the impact of operating cost reduction on the economic challenges facing small-size clothing factories. For the purpose of this research, the following questions are introduced:

1. What are the economic challenges facing small-size clothing factories in the Kingdom of Saudi Arabia?

2. What is the cost reduction strategy applied by small-size factories to deal with the economic challenges?

# 1-2 Research Objectives

1. Identifying the economic challenges facing small-size clothing factories in the Kingdom of Saudi Arabia.

2. Identifying the cost reduction strategy applied by small-size factories to deal with the economic challenges.

3. Determining the factors affecting operating costs in small-size clothing factories, particularly the economic impacts.

4. Providing recommendations for future actions to deal with the economic fluctuations in the clothing industry.

## 1.3 Research Importance

The research highlights the strategy applied by clothing factories to reduce operating costs and examines the impact of operating cost reduction on tackling the economic challenges in the Kingdom of Saudi Arabia.

## 1-4 Research Hypotheses.

1. A strategy of reduced operating costs in the clothing factories minimizes potential risks of cessation of production due to economic challenges.

2. Industrial and commercial labor regulations and laws are among the most important economic challenges facing the clothing industry.



## 1-5 Definition of Terms

Impact: Most definitions of research impact emphasized positive returns. While some definitions used more neutral language, negative impacts of research were rarely mentioned. The issue from a research governance standpoint is whether a focus on impacts defined in terms of non-academic benefits creates an incentive to skew results to demonstrate benefit, even where there is none. This may create perverse incentives to implement ideas before they have been properly tested or their implications fully thought through. Most definitions interpreted research impact as leading to positive gains or the reduction in societal harms. However, there are several examples of research that has had negative or, at least, contested impacts. Furthermore, a definition that encompasses a clear 'positivity bias', as is evident in these definitions, may be limited in pursuing academic understanding of how evidence impacts policy. A related concept to that of 'research impact' is that of 'knowledge valorisation'. Valorisation is a process by which academic knowledge is transformed into social and economic value. (Alla et al., 2017)

Operating cost: the term in general includes every cost incurred in business operations. As per the production process, operating cost include costs of manufacturing, and logistic activities which includes receipt of raw materials at warehouses to delivery of final products. It also includes costs of production planning and control, manufacturing processes, storing and material management during the production process, supply of raw materials, spare parts, and components or goods, purchase of materials used in the production process, transportation, storing, inventory management and material management, (Wang et al., 2016)

Small-size factories: Given the term's varied definitions, it is difficult to differentiate between small and medium size factories, as the level between both types of factories is very close. Small factories have been extensively researched and studied and are usually classified by developing countries as per the number of workers. The size of workforce within small factories usually ranges from 20 to 99 workers, (Al-Tuni, 2014). In the European Union zone, small factories have less than 50 workers, (Elasrag, 2007). In Saudi Arabia, a meeting chaired by the Minister of Trade and Investment and attended by representatives of government agencies and the private sector has identified small factories as entities which size of workforce ranges from" 6 to 49 workers or which makes sales between SAR 3-50 million, (Ministry of Trade and Investment, 2017).

Clothing production: Clothing production is one of the most important national industries. Barriers to entry are low, basic skills employed in the industry are widely distributed and raw material inputs are widely available.



Until recently, the process of clothing production was relatively standardised, technologies were easily transferred from one region to another and the required machinery (especially sewing machines) typically has a half-life twice as long as the working lives of machine operators. As a result, the industry is one of the most globalised of all manufacturing industries, providing employment, particularly for women, incomes and foreign exchange for countries and workers around the world. The industry also fosters longer-term development effects associated with industrial development, export divarication and linkages to other sectors, particularly in developing countries. (Pickles et al., 2015)

Economic challenges: Are represented in the lack of diversity in the general economy of an entity, fragile work and investment environment, taxation, as well as customs duties on import and export, (Al-Obaidly and Al-Bastaki, 2014)

## 1-2 An overview of the Saudi economy and economic challenges

The Kingdom of Saudi Arabia faces many social and economic challenges. However, the most important challenges are related to diversifying its economy and creating job opportunities for young Saudi citizens (Al Kibsi et al., 2015). The most prominent challenges are 1- Transformation from a single-commodity based economy; 2-Accession to World Trade Organization (WTO) (Al Akkad, 2018). The economic challenges facing the Kingdom of Saudi Arabia also lead to emergence of economic challenges for small and medium size businesses. These challenges emerge as the country try to address the economic challenges, for example, through setting of policies and laws which would remove obstacles and difficulties and help overcome current and potential economic crisis.

A single-commodity based economy (one which relies on oil and its derivatives) places the State in an unsafe economic situation, and therefore industrial establishments should shoulder responsibility to diversify Saudi industrial production. Meanwhile, requirements of accession to the World Trade Organization have given the industrial (non-oil) establishments an important role to achieve the WTO's goals, which would consequently raise the value of exports and set high standards of working quality that would attract investors.

Small and medium size businesses can generate great benefits from the Kingdom's accession to the WTO. Such membership enables these businesses to solve any international trade conflicts that may arise and receive compensation thereof.



It also allows and encourages businesses operating in the Kingdom to export in large quantities without being subject to any restrictions. It also encourages the application of criteria such as production efficiency and cost reduction and contributes to increasing the Saudi's trade volume globally. This subsequently would attract foreign investors and pave the way for openness to global market.

## 2-2 Research Background

# 2.2.1 Impact of the Kingdome's accession to the WTO

A study conducted by (Yusuf, N and Albanawi, 2016) to determine the factors affecting economic development has focused on how industrial and commercial businesses influences the economy of Saudi Arabia. The results of this study are equally important for economists and policymakers in the Kingdom. It associates between the Kingdom's accession to the WTO and the achievement of economic development.

In light of these economic conditions, the large fiscal deficits brought about by the precipitous decline in oil prices in late 2014 and long-standing challenges with youth unemployment have been two of the dominant underlying themes driving economic policy in Saudi Arabia in recent years. These trends have also formed the backdrop against which significant domestic political change has taken place, with new leadership that is attempting to undertake a series of transformational economic reform programs, most notably the Vision 2030 plan and the more granular National Transformation Program (Al-Sulayman, 2018).

Al-Sulayman's study (2018) has focused on the changing dynamics of state-business relations in particular and tried to understand what challenges this might pose to the broader reform agenda. By exploring the dual pressures being exerted on the State by high levels of unemployment on the one hand, and large fiscal deficits on the other, the seemingly conflicting policy outcomes can be identified, examined, and contextualized.

2-2-2 Reduction of operating and supply costs and use of cutting-edge technologies in industrial establishments.

A study by (Abdulmalek and Rajgopal, 2007), has examined the use of cutting-edge technology in manufacturing. The "lean" approach has been applied more frequently in discrete manufacturing than in the continuous/process sector, mainly because of several perceived barriers in the latter environment that have caused managers to be reluctant to make the required commitment.



Value stream mapping was the main tool used to identify the opportunities for various lean techniques. A simulation model that was developed to contrast the "before" and "after" scenarios in detail was also described, in order to illustrate to managers potential benefits such as reduced production lead-time and lower work-in-process inventory.

Smart technologies can lead to real time operational status and maximized equipment utilization by IoT, machine learning technologies, data integration and advanced analytics,

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Seamless virtual verification for product development: Major commercial software vendors support development of virtual factories via integrated solutions for product, process and system design, simulation, and visualization.

Smart IT in assembly and materials handling: Technology solutions for human-robot collaboration as well as AR and VR based operator support will radically change the operator work situation.

Internal and external data as well as technologies (e.g. AI and machine learning) can be used to improve overall quality, traceability, and regulatory compliance. (Wiktorsson et al., 2018)

Manufacturing technologies focus on developing production technologies, concepts of automated tools, and factory management technologies. This ensures that every product can be manufactured using resources that support economic standards. For this to be accomplished, specific indicators that enable the optimization capabilities of the process need to be identified. At the machine level, appropriate plant models and simulation technologies need to be applied, to enable optimal routing of processes within the manufacturing system, (Herrmann and Thiede, 2009).

As for the development of new technologies, current efforts include, for example, the development of internally cooled cutting tool, (UHLmann et al., 2012). At the manufacturing level, the development of sustainable manufacturing machine tools, (Kianinejad et al., 2016), and automated workplaces that protects workers against muscle and bones injury, (Krüger and Nguyen, 2015).



While these solutions are a necessary foundation for sustainable manufacturing, macroeconomic calculations confirm the application of the best available technologies in all regional industry sectors worldwide, (Ward et al., 2015). This proves that solutions are needed to move beyond manufacturing technology and meet economic challenges.

## 3.1 Literature review

The manufacturing process is a complete cycle that include the supply of raw materials, production or processing and final products. It also encompasses functional activities such as transport, storage, packaging, loading, transportation, delivery, and distribution. The development of manufacturing process does not only help small clothing factories reduce costs but can also play a major role in meeting economic challenges. Therefore, it is considered vital for the economic development of the clothing industry.

There are three key aspects of manufacturing economics and they are costs of manufacturing, labor costs, and benefits of use of technology. This paper provides an assessment of the impact of operating cost reduction as a tool to tackle economic challenges, reviews literature on operating cost reduction and identifies cases that effectively utilize cost reduction strategy. Additionally, the current research reveals the role of new technologies in reducing operating costs for clothing manufacturing while maintaining centralized production.

## 3.1.1. Operating costs in industrial businesses

The global financial crisis occurred in the second half of 2007 has led to a slowdown of economic growth in the U.S. and other developed counties, which in turn resulted in their decrease of domestic consumption demands and transfer of consumption pattern to commercial investment and conservative financial management. Heavily relying on the overseas market, China's dollar-denominated exports in 2005 accounted for (37.3%) of the GDP, much higher than the global average (27%), according to the statistics from World Bank, (Mao, 2019). The slowdown has halted the growth of Saudi Arabia's non-oil industry. Given its heavy dependence on foreign market, Saudi industrial businesses have had to face some economic challenges and have severely suffered from decline in demand. It had to cut production and reduce uptime to overcome the financial crisis.

Operation and production management includes activities related to manufacturing management. These activities are overall equipment efficiency, productivity, the performance rate of manual labor, the utilization of manual labor, delivery precision, manufacturing lead-time,



Operation and production flexibility (eg. manufacturing flexibility), and a maintenance plan. These activities are also considered and used as indicators for the operation and production management, (Garbie, 2016).

Production efficiency includes operating and production management that relies on latest machines and equipment, the role of employees in the manufacturing and production lines, adoption of flexibility and responsiveness in operations, and measuring the performance rate of operational processes determines the sustainability of facilities.

There are some factors that have negatively impacted the operating cost. First, import duties for raw materials have increased. Second, labor fees have risen. The application of the new labor contract law has increased the cost of employment, while lack of employment has forced most factories to attract new employment. Third, the introduction of value-added taxes has weakened the price advantages. In 2016, industrial factories faced serious challenges, such as upward pressure on financial liabilities, high operating costs and weak price competitiveness which have led to lower profits. This rise in operating costs forced industrial entities to shift and modernize.

For example, in 2007, the percentage of clothing products in Taiwan was less than 70%. This was achieved by maintaining equipment and processes that improve productivity of cost-effective resources. Thus, operating costs have declined through technology development and redesign of production processes, (Mao, 2019).

Two elements are related to the major problems of high operating costs; labor and supply of raw materials. Therefore, factories must redouble their efforts to reduce operating costs. (Dang, 2012). Industrial businesses must actively promote the development of manufacturing technologies, use logistics network in the service industry to provide professional services for third parties, actively integrate their business into the supply chain of third-party's services and materials, solve problems related to costs and operational efficiency, and improve supply to factories. The Kingdom's five-year plan explicitly states that the country must strive to strengthen the supply and demand side, while promoting the non-oil industry. Thus, economic reform must be promoted, and operating cost of factories must be reduced as per the real economic value. Additionally, domestic and international manufacturing competitiveness must be enhanced, and more efforts must be exerted to promote the cost system and maintain a clear cost of supply of raw materials from suppliers (He, 2015). Therefore, new technologies must be enhanced, and more efforts must be exerted to enhance industrial facilities through researches, development, and innovations.



On-the-job training must be promoted by encouraging high-level training for workers in the manufacturing area.

We are also aware of many economic challenges that make it difficult for industrial facilities to continue survive on their previous strategy. For example, factories rely on a mix of new technologies for manufacturing processes, and these technologies can be used to overcome economic challenges, (Batith et al., 2018). A practical solution for the industry is to support clothing manufacturing technologies, such as cutting and spreading tools for more precise clothing production, and design products for export in the developing countries. Moreover, use of software, simulation and 3D printing in manufacturing can help reduce waste.

# 3.1.2 Development of factories' operational techniques

Information technologies like cloud computing and big data are deeply integrated into traditional operating business forms, thereby bringing about significant changes in the services industry. First, manufacturing must build on this opportunity to improve operational models of operations and accelerate the transformation of development dynamics. Regulatory tools must be innovated, and modern operating techniques must be applied. Second, factories must develop a supply administration to improve the work environment with suppliers, (Dang, 2012).

The two words *industrial and revolution* are always associated with each other. It describes future industrial developments to achieve smarter technological aspects in the industry by combining many key technological innovations. Key aspect of manufacturing is to make manufacturing process fast, advanced, efficient, and reliable in order to discover new opportunities and business models, (Lee et al., 2014) that mainly focus on digitization of manufacturing process, (Chen et al., 2017). Thus, factories can take advantage of new technologies to bring further benefits to the industry. Being important for practitioners, academics, and industrialists at present, industry is a kind of a future vision for us in which it illustrates various aspects of industrial and economic challenges.

## 3.1.3 Training of employees and its impact on reduction of operating costs

Employees must be motivated, and their productivity must be monitored. Employees' feelings concerning job security, motivation and workplace comfort, and the accessibility of employees' skills are considered indicators of employee satisfaction, (Garbie, 2016). Employees and workers play an important role in the production process and management of facility's departments.



Therefore, it is imperative to ensure security, safety conditions, moral support and financial incentives are provided to them. They also must be accorded trust and their role in problem solving and development must be activated. Additionally, technical and vocational training programs should be organized to hone employees' skills and uplift their performance.

The application of time-spaced training methodology helps employees acquire the necessary hard skills and brings about increase in their work performance. This, consequently, will help businesses reduce operating cost. The trends of research in training and work performance in organisations that focus on the acquisition of technical or "hard skills" for employee training and evaluating work performance were studied. The study was conducted to redirect the focus of employee training and development goals to the acquisition of skills, which have a very high and lasting impact on improving employee performance, (Rosli et al., 2017). Policies to raise human capital do not only raise productivity via a direct impact on worker skills, but also via an indirect effect as firms with a skilled workforce are more likely to adopt better management practices, (Feng and Valero, 2020).

The combination of skill acquisition and training methodology such as "time-spaced learning" brings about significant increase in employee work performance. This approach was applied in Malaysia and has shown that the effects of skills acquisition and the training methodology adopted on employee performance is very important for organizational survival at the global level. Labor productivity has become the buzzword and one of the most discussed topics. In most countries, labor cost comprises 30 to 50% of the overall project's cost, and thus is regarded as a true reflection of the economic success of the operation.

Jarkas and Bitar (2011), have found that there are many challenges facing the construction industry in the state of Kuwait but one of the most important is low productivity. The objective of their research, therefore, is to identify and rank the relative importance of factors perceived to affect labor productivity on construction sites in Kuwait. The results obtained fill a gap in knowledge of factors affecting labor productivity in Kuwait, which can be used by industry practitioners to develop a wider and deeper perspective of the factors influencing the efficiency of operatives and provide guidance to construction managers for efficient utilization of the labor force, hence assist in achieving a reasonable level of competitiveness and cost-effective operation.



Roberts et al. (2018) have examined the issue of unmet goal of training initiatives amounting to billions of dollars lost annually and masses of under- skilled workers due to the lack of application of training content to their job. The results of their study suggest that trainee proactive personality positively influences transfer intentions partially through its influence on motivation to learn and that higher levels of conscientiousness weakens this relationship. The findings demonstrate the importance of the training process in improving the work quality within industrial establishments, as well as the importance of proactive personality and conscientiousness as factors that need to be accounted for to achieve the aspired goals.



Figure (1): Economic Challenges facing clothing factories in the Kingdom **Resource: The figure above was created by the researcher** 

## 3-1-4 Economic Challenges facing clothing factories in the Kingdom

## A-Taxation system in Saudi Arabia

The value-added tax (VAT) was implemented in Saudi Arabia in January 1, 2018. The period separating the issuance of the Royal Decree on VAT to the actual application thereof has been dedicated to introducing correct information, guidelines, laws, bylaws and decisions pertaining to the VAT system. It has also witnessed close cooperation between concerned parties in order to achieve the goal for which VAT was created.



The private sector has significantly benefited from substantial tax exemptions that could have been paid for its purchases, revenues and services, (Public Authority for Zakat and Income, 2017). Despite tax exemptions, some challenges and economic hardships have evolved, requiring the restructuring of establishments to minimize losses and ensure their survival.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, from when a manufacturer purchases raw materials to when a retailer sells the end-product to a consumer. Unlike with other taxes, eligible businesses will both: (1) collect VAT from their customers equal to a specified percentage of each eligible sale, and (2) pay VAT to their suppliers equal to a specified percentage of each eligible purchase, (Public Authority for Zakat and Income, 2018).

Overall, businesses will not pay higher pre-tax prices for input goods and services. Costs should not change because businesses are able to deduct their input VAT from their output VAT. The end-consumer, however, will not collect or be able to deduct any VAT. All goods and services bought or sold in, or imported into the Kingdom are eligible for VAT unless otherwise specified as exempt. (The General Authority for Zakat and Tax, 2018).

Moreover, there is a need for clothing factories to become aware of how taxes are spent. (Williams and Krasniqi, 2018). In addition, the small enterprises sector and rapid growth is also an issue of concern as the government is still struggling to revive the economy from the effects of the economic meltdown. The concern is the loss of revenue through tax evasion. (Mukorera, 2019).

## B— Fees imposed on Non-Saudi employees

The Kingdom of Saudi Arabia began charging companies a monthly fee for each foreign worker they hire. These fees have remarkably increased operating costs. As of January 1st 2020, the monthly fee increased to SAR700 per worker. Companies employing more foreign nationals than Saudi nationals would have to pay a monthly fee of SAR 800 per foreign national employee or SAR 700 if they employ more Saudi nationals. The kingdom also has announced that it will waive the expat fees for industrial companies for a period of five years. Meanwhile, the Labor Law, Article 40(1) has stated that "an employer shall incur the fees pertaining to recruitment of non-Saudi workers, the fees of the residence permit (Iqama) and work permit together with their renewal and the fines resulting from their delay, as well as the fees pertaining to change of profession, exit and re-entry visas and return tickets to the worker's home country at the end of the relation between the two parties." (Ministry of Labor and Social Development, 2019).



Moreover, the Ministry of Labor and Social Development launched the collective bill in January 2018 to collect expat work license fees from private sector companies. The collective bill includes the difference in work license fees issued for expats before the beginning of the year and extends after Jan. 1, 2018. Additionally, taxes imposed on raw materials imported by small and medium enterprises, counting the value of annual supplies for enterprises, imposition of conditions and controls on tax payments as well as imposition of taxes and fees on non-Saudi workers require a financial plan and economic strategy in order for enterprises to be able to pay financial expenses. This is considered one of the economic challenges facing Saudi clothing factories.

# 3-1-5 Approach applied by financially troubled industrial entities

CEO of small businesses facing economic challenges will exert every possible effort to bring operations of their business to normal. How will they do that? The usual and wrongful act is to reduce production in order to reduce cost, close some branches, lay off some workers and replace some members of the management team (Yokoyama and Obara, 2017). To improve profitability, entrepreneurs may also delay payments to suppliers, tighten collections, and reduce stocks.

Layoffs and reduced wages in the performance-based payment system during times of financial crisis in companies, reduces workers' productivity and damages their morale, as paying for work is what motivates them to perform. The most optimal solution is to reduce work tasks so that there is equivalence between work load and wages paid to workers, which motivates them to produce without prejudice to their wages or laying them off. (Yokoyama and Obara, 2017).

There should be another input into production that can be used at least partly as a substitute for layoffs. (Galí and Van Rens, 2020). Factories may cancel their preferred acquisitions and research and development projects. Alternatively, more active sales campaigns may be offered, and loss reduction and other measures should be accelerated to improve productivity, (Blackburn, 2012).

## 3.1.6 Summary

Based on existing literature, we highlight the potential to reduce risks and face economic challenges. The main economic challenges facing small-size clothing factories are represented in the amendments of trade laws which came as a result of Saudi Arabia's accession to the World Trade Organization. This indicates the presence of significant economic difficulties, financial requirements and tax obligations. To clearly define the theoretical basis of the study, see Figure (3-1).



Within the conceptual framework, we needed to highlight and examine means to reduce operating costs through the application of latest technologies that save time and efforts and reduce waste, as well as means to reduce costs related to receipt and delivery through use of cutting-edge transport technology. We also needed to identify trade laws and economic difficulties from a holistic perspective, to identify potential gaps that need to be bridged. This section has examined three key topics including small enterprises, challenges facing small enterprises, and the established approach for financially distressed enterprise. The outcome of this chapter is related to the next chapter which examine the methodology and framework of this research.

# 4.1 Methodology

The Kingdom has so many small-size clothing factories, but production in these factories is very low and they do not have strong presence in the Saudi market due to global competitors. Therefore, we assume that it would be effective to apply some modern strategies on clothing factories in order to address the economic challenges. The implementation of operating cost reduction is one sure strategy. Based on the above, the title of this research was created which also refers to the research question: What are the challenges facing small-size clothing factories as a result of the amendments of trade laws in the Kingdom of Saudi Arabia.

Thus, reducing operating costs by means of applying cutting-edge technologies in clothing manufacturing as well as providing quality training to workers are two challenges that need to be addressed.

## 4.1.1. Research Methodology

Knowledge is sought through an objective and systematic way in order to find a solution to the problem. The research methodology includes analysis of the research problem, formulation of hypothesis, collection of facts or data, analysis of facts, and reach specific conclusions in a form of solutions addressing the problem or generalizations of some theories.

This study follows the descriptive approach by which a theoretical study is conducted based on several library sources, including books and articles published in scientific journals as well as on a field study in which information and data about small-size clothing factories in the western region are collected. The descriptive survey approach searches for accurate descriptions of the phenomenon to be studied. Questions are answered through collection of facts and quantitative or qualitative data on the specific phenomenon with an attempt to adequately explain these facts.



"The descriptive approach does not only collect, classify and disaggregate data and facts, but it also includes an in-depth analysis and some explanation of these findings, (Mohamed, 2017).

# 4.1.2 Design of methodology

The nature and results of this research can best be described as a mining phase that relies on data collection and analysis, and derives power of impact and relationships using qualitative methods for the collection of useful data, where personal interviews with a group of managers and administrators are conducted to reach a deeper understanding.

Such design has been selected to (1) prove the hypothesis that the impact of cost-cutting strategy reduces risk of cessation of production due to economic challenges in clothing factories, and that (2) industrial and commercial labor regulations and laws are the most important economic challenges facing small-size clothing industry. Thus, the study provides initial data-derived results, which is the first phase of the study of a group of individuals specialized in the operation and financial management of small-size clothing factories. This design is in conformity with the research because it employs qualitative data to explain important and non-important results, as well as external or unexpected results.

A choice of research design reflects decisions about the priority being given to a range of dimensions of the research process, (Bryman, 2016). Therefore, personal interviews were adopted as a source for data collection. Based on this design, the research output is likely to determine the impact of applying economic sustainability theory on clothing factories to help deal with the economic challenges. This may contribute to educating owners of factories about the efficiency of operating cost reduction in ensuring their sustainability and overcoming the economic challenges.

## 4.1.3 Data collection

This study used structured personal interviews as key tool of data collection in order to effectively collect data through interviews and by assigning arbitration panel to review the interview questions as shown in table (4.1)

Tabl	e	(4.	1)	
		· ·		

Name of ArbitratorUniversity degree		Name of University
First arbitrator: Prof. Dr. Rania Dabbis	Associate Professor, Faculty of Human Sciences and Design Department of Clothing and	King Abdul Aziz University - Jeddah



	Textiles	
Second arbitrator: Prof. Dr. Maha Abdullah Al Dabbagh	Associate Professor, Faculty of Human Sciences and Design Department of Clothing and Textiles	King Abdul Aziz University - Jeddah

**Resource:** A table produced by the researcher and shows names and positions of the arbitration panel within the researcher's university.

The approved interview tool for this research consists mostly of open-ended questions divided into two axes. This study has given the priority to designing questions that probe the study's questions. The purpose of the interviews was to obtain two different types of information from clothing factories and departments associated with the study's objectives: First, identifying the strategy followed by small-size clothing factories to reduce operating costs, second, identifying the challenges facing small-size clothing factories as a result of the amendments of Saudi Arabia's trade laws, and third, identifying the strategy followed by small-size clothing factories to face economic challenges and the impact of this strategy on reducing operating and suppliers-related costs.

## 4.1.4 Sample design:

A sample design is a definite plan determined before any data are actually collected for obtaining a sample from a given population (Kothari, 2004). It can be presumed that in such a step when all the items are covered no element of chance is left and highest accuracy is obtained. The items so selected constitute what is technically called a sample.

The purposive sample was selected. Intentional sampling methods are non-probabilistic procedures that select a group of individuals for a sample with the purpose of meeting specific prescribed criteria. This sampling method involves a deliberate or intentional selection. There are 115 clothing factories in Saudi Arabia, of which 75 are in the Western region according to the last annual report of the General Statistics Authority (2017). We were planning to conducted 9 interviews, but unfortunately, we have interviewed only 3 managers of small clothing factories in the western region of Saudi Arabia (Jeddah, Medina). The other managers refused to be interviewed for circumstances to be discussed in the next pages.



#### 4.1.5 Personal Interviews

Interviews are a primary research tool for data collection (Cooper and Schindler, 2001). Kvale (1996) defined interviews as " an interview, an interchange of views between two or persons conversing about a theme of mutual interest., and he believes that the core of human interaction lies in the production of knowledge and emphasizes the social role of interviews in research data." The interview can be categorized according to the structure of the questions used to collect the initial data. Thus, there are structured, semi-structured and unstructured interviews. The decision to choose any of these types depends on the nature of the research problem and the variables to be addressed. (Saunders et al., 1997).

Therefore, we conducted personal interviews directly with managers and administrators, who have sufficient experience in the research subject in order "to obtain answers to previously prepared questions or to question emerging during the interview and conversation in order to add more information and correct ideas. It is a sort of brainstorming process " (Mehdi, 2015).

The culture in the Kingdom of Saudi Arabia observes a conservative socio-cultural environment when providing information to researchers or participating in the data collection process. Consequently, information about names of respondents and factories has not been disclosed and was treated as confidential. Although this condition may initially affect time, it will ensure the authenticity and reliability of the data collected. Before starting to ask questions, the sample individuals received a Demographic Information Form, which contains some questions related to the sample including: (1) Age; (2) Years of working in the factory; (3) Educational qualification; and (4) Job title. These questions were meant to facilitate the interviewing process and focus on its intended topics of discussion.

Based on pre-identified relevant literature and studies, two main themes of personal interview questions were created. The first theme sample was related to operating cost reduction (3 questions) while the second was related to economic challenges (4 questions) and the factory's strategy to face these challenges (2 questions).

3) The current study relies on a sample of individuals in the selected clothing factories in the western region of the Kingdom of Saudi Arabia (3 factories). Personal interviews for data collection were carried out in November 2019. In order to enhance the authenticity of the audio content of the personal interviews, the study analysis included special phases such as transcribing the audio recording into written text using (word) program, assigning a reviewer to check grammar and spelling mistakes, and finally analyzing the data to



reveal the effect and the relationship built through it.

# 4.1.6 Data Analysis

Based on the data collected from 3 interviews, the analysis was done using strategies of different case study, where each clothing factory is considered as a case in order to identify the challenges facing small clothing factories following the development of the trade laws in Saudi Arabia, and distinguish between the different approaches and strategies pursued by these factories to face the challenges posed by such laws, and reduce the operating costs . Qualitative data analysis adopted the thematic analysis method because it provides a flexible and useful research tool that describes the data in detail, by focusing more on identifying and describing both implicit and explicit ideas within the data (Guest et al., 2012).

## 4.1.7 Thematic Analysis

Thematic analysis is defined as a process of "encoding qualitative information" to be converted into qualitative data. The study followed the thematic analysis process described by (Braun and Clarke, 2006) which includes data identification, searching for topics, reviewing the main topics and sub-topics, defining the topics and producing analytical tables in a form of a report. This analytical method has been used in several studies. After that, texts of interviews were read in order to gain a comprehensive view of the topics related to the research objectives.

## 4.1.8 Difficulties and Challenges encountered during personal interviews

Securing dates for personal interviews played an essential role in prolonging the research duration. The following problems were observed:

- An interview was conducted with the previously mentioned research sample. However, the researcher encountered some difficulties and challenges while trying to secure meetings with managers and administrators, and it was hard sometimes to receive responses from interviewees via emails or phone calls.

- The sample included owners of factories. Given the nature of the new questions which focused on the economic challenges encountered by clothing factories following the amendments of trade laws in the Kingdom, the administrators were unable to provide all of the desired information.

- Each interview was conducted in two phases; a first introductory meeting for arrangements, clarification and simplification of some questions and a second meeting to conduct and record the interview.



The time duration dedicated for information gathering was modified.

- Many factories' managers have opted against completing respective personal interviews for fear of the type of questions being asked regarding the economic challenges and the new labor laws in Saudi Arabia.

- We were planning to conduct 9 interviews, but unfortunately some interviews with factories' managers were cancelled due to the Coronavirus pandemic (Covid-19) and the imposition of total and partial curfew to curb the pandemic by the Kingdom of Saudi Arabia.

#### 4.1.9 Summary

In the first part of the study, a comprehensive view is formed about the strategy followed by small factories to reduce operating costs, and answers to research questions were elicited. In the second part, the study answers questions on challenges facing the clothing factories following the amendments of trade laws in the Kingdom of Saudi Arabia.

The summary introduced the research methodology and methodology design. It specifies the study's sample and the tools used, which constitute a set of interviews. It also described a pre-test to personal interview questions. Also, the study's ethical issues, scope, limitations and challenges were identified.

## 5.1 Data Analysis and Discussion

As mentioned in the methodology, the nature of this research and its results are very relevant to the qualitative thematic analysis method. This chapter covers the qualitative part only. According to (Gartner and Biley, 2002), it is important to go beyond providing an explanation of the concept of theory that may explain the "cause" of the phenomenon being studied. This chapter focuses on the "cause". In-depth interviews are likely to provide an opportunity to learn more about the state of the study (Rubin and Rubin, 2011). Given their natures, the interviews adopted an unorganized format for the conversation, as previously described in Chapter 3, to facilitate interviewing and provide the required information. Setting the relationship at this point is very crucial according to (Walsh and Bull, 2011). Consequently, the aim of this chapter is to obtain remarks from managers of clothing factories in Saudi Arabia, who have expressed their willingness to participate in this research. The most important thing is to obtain their total views on the subject matter; i.e. operating cost reduction and its relevant impact on economic challenges facing the clothing factories. The same main and sub-questions are used for research and hypotheses. This chapter includes five more sections as follows:



# (1) Conducting interviews to introduce interviewed persons;

- (2) Pillars of interview;
- (3) Results of Interviews; and

(4) Exhibiting the importance of the study through answers made to the interview questions.

## 5.1.1 Interviewing

(3) Interviews were conducted in November 2019 with managers of clothing factories on two relevant subjects. They were face-to-face interviews in their offices. All of the interviewees allowed audio recording of interviews. The interviewees have background about the community of small and medium size clothing factories in the Kingdom. Two of the persons interviewed were factory owners and the other two were managers in charge of production. Three of the interviewees occupy leadership positions.

A quick look at the interviewees:

Factory (A): a small uniform factory in the city of Al-Madinah Al-Munawwarah. The interview was conducted with the Operation Manager, 27 years old, holds a university degree, and has been working at the factory for more than 7 years.

Factory (B): A small uniform factory in Jeddah. Two interviews were conducted. The first was with the factory owner and second with the general manager who has been working in the factory for more than 7 years. He was 56 years old and holds a secondary school certificate.

Factory (C): A small uniform factory in Jeddah. The interview was conducted with the Development Manager, 62 years old, with more than 7 years of experience and holds a university degree. See Table (5-1)

Factory	Interview Date	Age	Qualification	Years of Experience	Job
(A)	03.11.2019	26 – 30 years old	University Degree	3 – 7 Years	Operation Manager
(B)	20.11.2019	36 years old or more	General Secondary Certificate	3 – 7 Years	General Manager
(C)	24.11.2019	36 years old	University	3 – 7 Years	Development

Table (5-1)



		or more	Degree		Manager
Deserves	The table men			1	. f :

Resources: The table was produced by the researcher and includes information of interviewed managers of clothing factories

#### 5.1.2 Discussions Dialogues & Questions

Given its nature, the interviews adopted an unorganized format with open-ended questions, in order to facilitate the interviewing process and obtain the required information. Establishing the relationship at this point is very crucial (Walsh and Bull, 2011) and the intended relationship was to help interviewees talk in depth about the issue, and provide opinions that could be of great value to the study. Based on the questions structure, (Rubin and Rubin, 2011), the questions were grouped into three main categories, for all pillars of discussion. These questions have guided the conversation. The three categories of questions were primary, investigative, and follow-up questions.

There were five pillars for discussion as follows:

(1) The existence of economic challenges, and if these challenges are based on the research discussion.

(2) The survey results including similarities of the challenges facing clothing factories. Interviewees in this section may add their experiences and observations, which can be a valuable input to better understand the affecting factors.

(3) Impact of operating cost reduction on the economic challenges facing the clothing factories, and how this can help clothing factories deal with economic challenges in a better way? Experienced interviewees are most likely to give insightful opinions on the subject matter.

(4) The role of proposed strategic solutions in helping clothing factories meet economic challenges by means of reducing operating costs. This will be clearly identified through the interviewees' answer on the matter.

(5) The views of the interviewees on the importance of conducting such studies to empower small clothing factories in Saudi Arabia in order for them to meet economic challenges, and the potential to replace existing operating technologies by modern ones. It is very crucial to obtain the interviewees' views on the impact of such studies on the clothing sector, and receive more in-depth views from their experience and practical observations.



# (1) The Existence of Economic Challenges

The interviewed managers confirmed the existence of economic challenges facing their factories. This answers the first question of the study which is "What are the economic challenges facing small clothing factories in the Kingdom of Saudi Arabia?" (See Table 5.2)

# (2) Similarities of Economic Challenges

The second hypothesis: Industrial and commercial labor laws and regulations are among the most important economic challenges facing the clothing industry. The interviewed factories' managers indicated that the economic challenges in the Kingdom of Saudi Arabia started after the new amendments to trade laws such as the value-added Tax Laws, in addition to the implosion of fees on non-Saudi employees which have been temporally waived until 2023. See Table (5.2)

Question 1. What are the economic challenges that have faced the factory recently?				
Factory (A)	Factory (B)	Factory (C)	Related Study	
There were many challenges during the last three years, including the Saudization of the clothing sector. Generally speaking, the recent period has witnessed many challenges and problems.	The economic challenges started with the imposition of fees on non-Saudi workers, and the second challenge was linked to tax increase, while the third and last challenge was linked to doubling the fees five times, which consequently increased the operating cost.	The decisions of 2017, which many people did not understand, but they will understand them as the days pass on.	The Labor Law, Article 40(1) has stated that "an employer shall incur the fees pertaining to recruitment of non-Saudi workers, the fees of the residence permit (Iqama) and work permit together with their renewal	
Question 2. When did the factory start facing economic challenges?				
Since 2017	The factory started	In 2017	In 2016, industrial	

Table (5.2)



	1	1	1
	to face economic		facilities faced
	challenges, between		serious challenges,
	2015 – 2016, with		such as upward
	the imposition of		pressure on financial
	fees on non-Saudi		liabilities and high
	employees.		operating costs.
			(Mao, 2019)
Questions 3: How ma	ny times did your facto	ry encounter economic	challenges?
			In recent years, the
			Kingdom of Saudi
			Arabia has been
			implementing a
We did not food a		We did not find	series of economic
we did not face a	Three or four	anything but to	reform programs, in
problem within a	consecutive times.	overcome all	particular the Vision
three-year period.		difficulties.	2030 and the
			National
			Transformation
			Program. (Yusuf, N
			and Albanawi, 2016)

Resource: The table was produced by the researcher based on her interviews with managers of clothing factories

(3) The impact of operating cost reduction on dealing with economic challenges.

Managers of three factories spoke about the ways to reduce operating costs in order to overcome the economic challenges facing the factory. This provides an answer to question 2 " 2. What is the cost reduction strategy applied by small factories to deal with economic challenges?" See Table (5.3)

(4) The strategy applied by small clothing factories to encounter economic challenges and its relationship to reduction of operating costs through use of cutting-edge manufacturing technologies.

The first hypothesis: The application of strategy of reduced operating costs in the clothing factories minimizes potential risks of cessation of production due to economic challenges.



The three managers have demonstrated the strategies of their respective factories towards overcoming the economic challenges. These strategies relied on use of cutting-edge manufacturing technologies to reduce operating costs. See Table (5.3).

Table (5.3)

Question 1. List the training and workforce productivity improvement programs that are provided for the workers?

Factory (A)	Factory (B)	Factory (C)	Related Study
Training are provided to the factory workers upon their arrival to the Kingdom. The training program lasts for one to one and a half month.	The workers receive training on operation of new machines. The training duration does not exceed three days.	Female workers need training, while foreign male workers come from their countries sufficiently trained and highly qualified, and we rely on their expertise to train other untrained workers.	Training staff and its role in reducing operating costs appears in exploring the impact of skills acquisition, which has a very high and lasting impact on improving performance of employees. (Rosli et al., 2017)
Question 2. How were			In Taiwan: the
The best way is to use modern technology that minimize the work procedures.	Bringing modern equipment and machines that reduce the number of manpower.	We started to hire Saudi workers. Therefore, the costs and expenses were reduced.	operating costs were reduced by installing equipment, and applying processes that improve productivity, as well as by using resources that reduce operating costs. (Mao, 2019)
Question 3. What is the	he benefit of modern ma	anufacturing technologi	es?
Modern	Every year we have	The machines are	Factories rely on a



manufacturing technologies are the foundation of business, therefore technology is one of the best ways to save money.	a plan to replace a part in the production lines.	very modern, shearing operations are done with high technologies, and controllers are used instead of relying on persons.	mixture of modern technologies in manufacturing processes, and these technologies can be used to overcome economic challenges. (Batth et al., 2018).
Cost-effective operation of a factory requires import of large quantities of raw materials to be processed in order to save money. (At least five to ten thousand pieces).	We have our sources of raw materials from a number of countries that we have previously dealt with, so each product has several alternatives and a different price list and costs.	In the clothing manufacturing process, costs cannot be reduced significantly, even if the order is in large quantities.	Factories should use the supply network services of third parties to provide them with services and the scope of the supply chain of materials from other parties in order to solve problems related to operating cost. (He, 2015).

Resource: The table was produced by the researcher based on her interviews with managers of clothing factories

## (5) Importance of the study: Judging the interviews

The interviews revolved around the impact and importance of the study. Based on the interviewees' remarks, it is likely that implementing operating cost reduction to help small and medium size factories in the Kingdom tackle economic challenges will reap fruitful results.

## a) Importance of cost reduction for the Saudi economy

As for clothing factories and non-oil industrial facilities, the interviewed managers agreed that the persistence and survival of small and medium size clothing factories contribute significantly to the private sector by helping to diversify the economy and create job



opportunities in Saudi Arabia. This problem cannot be compromised because relying on oil only puts the entire economy at risk due to fluctuations in oil prices (Al-Zahrani, 2015). This factor is in line with the plan announced by former governor of the General Authority for Small and Medium Enterprises in the Kingdom of Saudi Arabia to scale up financing for industrial enterprises to 20% (Alriyadh Newspaper, 2016).

# b) Importance of cost reduction for the small clothing industry

As a value for the clothing sector in the Kingdom of Saudi Arabia, this study is likely to help small and start-up clothing factories apply modern technologies to reduce operating costs. The results of this study highlight the impact of operating cost reduction on the challenges facing managers of small clothing factories nowadays. (Becker, 1962) stated since a long time that there is a need to include intangible aspects, such as development and creativity, as distinct factors that would help improve production. Table (5.4) lists the interviews' most important remarks.

Table (5.4)

8			
Factory (A)	Factory (B)	Factory (C)	Related Study
Now the factory manufactures more than eighty different products. We are currently working with the same production capacity but with the distribution of new products, and the factory is stable.	We have purchased cutting-edge machines to minimize the number of workers	There was only one solution, which was to support the owners of the factory financially and morally.	The most optimal solution is to reduce the work tasks so that there is equivalence between work load and wages paid to workers, which motivates them to produce without prejudice to their wages or dismissing them. (Yokoyama and Obara, 2017)

Question 1. What are the solutions that contributed to the economic stability of the clothing factory?

Question 2. What are the solutions that did not contribute to the economic stability of the clothing factory?



Reducing production and numbers of workers.	All the solutions we took were right.	There were no other solutions.	Executives of small businesses facing economic challenges will exert every possible effort to bring operations of their business to normal. The usual and wrongful action is to reduce production in order to reduce cost, close some branches, lay off some workers and replace some members of the management team (Yokoyama and Obara, 2017)
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Resource: The table was produced by the researcher based on her interviews with managers of clothing factories.

Rubin, and Rubin (2011) state that in-depth interviews are likely to provide an opportunity to learn more about the issue. According to (Loannidis, 2005), the opinions of the interviewees are likely to help putting the results of a quantitative study in a frame or context. This was the case in the second part of this research. As explained in the previous chapter, the interviewed persons contributed by providing valuable points of view about this study.

Through the interviews' sessions, the research argument was presented about the need to reduce operating costs through use of latest manufacturing technologies to meet the economic challenges. Participants in the interview expressed their acceptance and appreciation of this study being conducted in the Kingdom of Saudi Arabia. The managers were also aware of the challenges facing owners of small industrial facilities in the Kingdom.



According to their answers, the main problems were represented in tax increase, the application of value-added tax, and the imposition of fees on non-Saudi employees.

The experience-based information provided by the interviewed managers can be considered important hints towards identifying the causes of the economic challenges facing clothing factories. In addition, they highlighted the necessary to develop a new factory management plan based on operating cost reduction, which is in line with many literature reviews as mentioned earlier.

Furthermore, awareness of the impact of operating cost reduction on overcoming the factories' financial distress reveals the value of financial crisis management which in turn help encounter the economic challenges.

#### 5.1.3 Summary

Qualitative analysis of the study in terms of data collection and analysis

The interview was conducted with a group of managers and owners of small clothing factories in the western region of the Kingdom. As mentioned earlier, the interview's questions were open-ended in order to gain deeper points of views from the interviewees on the research subject.

The interviewees' practical knowledge and visions about ways to tackle economic challenges facing small clothing factories in the Kingdom may contribute a lot to the research subject.

Additionally, their suggestions and recommendations may reinforce justifications for the importance of the subject. The interviewees' contributions were key factor that helped complete this study. The interviews' outputs have clearly demonstrated their appreciation for covering this new issue which as far as they are concerned has not so far been tackled.

#### 6.1 Summary and results

#### 6.2 Introduction

The introduction summarizes the research's objectives and main results. It also provides potential implications and recommendations to enhance the argument on the need to reduce operating costs in small clothing factories in the Kingdom of Saudi Arabia. The contribution of this study is expected to add to the existing literature. More suggestions are provided for further research in the field of this study.



#### 6.3 Study Summary

The interviewees' opinions regarding the value of the study have referred to the study's important issue of operating cost reduction in light of the economic conditions facing small clothing factories. The summary of their observations has disclosed two areas that may be positively affected. The first is the Saudi economy, given the fact that these small factories help diversify the economy in the Kingdom of Saudi Arabia. This result is in line with the Kingdom's 2030 vision to increase the contribution of small and medium size enterprises from current 20% to 35% by 2030. The second area is the clothing industry and the transition from small to medium factories by means of reducing the operating costs which in turn contribute to a potential increased production.

There is an urgent need to solve the problems related to the economic challenges facing clothing factories in the Kingdom. This new strategy deals with two critical economic challenges as follows:

First: the plan recommends diversifying the nation's economy and not to rely on a single source of income, i.e. oil revenues. It also highlights the importance of having many resources of income along with the oil sector, such as the clothing sector.

Second: Ensuring the stability, survival and growth of small clothing factories.

## 6.4 Main Objectives & Results of the Study

This study aims to highlight the impact of operating cost reduction on small clothing factories as a procedure to help deal with the economic challenges. It is likely to help solve challenge related to financial pressures and tax obligations. Therefore, the first question of the research was "What are the economic challenges facing small clothing factories in the Kingdom of Saudi Arabia?" This question was further subdivided into four sub-questions that aim to identify the economic challenges, when they started, the occurrence frequency of these challenges based on the literature review, and the actual situation in the Kingdom of Saudi Arabia. The research's pursued goal to identify the economic challenges facing small clothing has been successfully achieved

The second research question of the study is "What is the cost reduction strategy applied by small factories to deal with the economic challenges? The question was further subdivided into four sub-questions on training of workers, application of cutting-edge manufacturing technology and reduction of costs of overseas suppliers.



The goal to identify the cost reduction strategy applied by small factories to deal with the economic challenges was achieved.

The interviewees have also spoken about other issues related to labor laws and imposition of fees on non-Saudi workers, which were supported in the literature reviews. These issues were as follows:

a) Employing Saudi citizens in clothing manufacturing contributes to operating cost reduction. The interviewed managers stressed that employing Saudi workers would reduce operating costs because employing non-Saudi workers entails imposition of additional fees and financial obligations which in turn lead to economic challenges. However, reluctance of female graduates of clothing and textiles department to work in the clothing industry forces factory's owners to rely on non-Saudi workers. According to the interviews, there is a need to focus on and encourage university female students to work in the clothing and textile factories and meet the requirements of the labor market.

b) Profitability growth has ceased since the adoption of the value-added Tax. The managers have emphasized that they suffered stagnation following the imposition of value-added Tax on goods and services between 2016-2017. They have also highlighted the critical nature of the tax issue.

Consequently, and based on the literature review and qualitative interview data, the results indicate that specific knowledge components concerning operating cost reduction can constitute a key solution to overcoming economic challenges facing small clothing factories. As one of the solutions to face economic challenges, operating cost reduction is likely to prevail through its different manifestations, including the use of cutting-edge technologies in clothing factories and minimizing the number of non-Saudi workers.

## 6.5 Contribution to Existing Literature

This study aims to enrich the literature with specific contributions. It is likely to be of value reference in the future for researchers examining methods to tackle economic challenges facing clothing factories, or seeking information on the development of small and medium size factories in the Kingdom of Saudi Arabia.

First: the study adds current details and perspectives on operating cost reduction as a mean to meet challenges facing small clothing factories in Saudi Arabia. For example, we noticed during our review of literature that cost reduction was not mentioned in any of the studies that dealt with that subject, and therefore,



This approach is likely to assist future researchers to obtain a clearer understanding of the challenges facing SMEs in the Saudi economy and become familiar with recent discussions on matters related to the growth of non-oil industrial sector after it was presented as an important issue in the Saudi economy in 2010. In light of the changes occurring in the Kingdom due to the new Strategic Transformation Plan (Vision 2030), this study presented the subject plan at a glance. This introduction includes hints about the plan's potential effects on the industrial sector. Vision 2030 predicts that the industrial sector's SMEs' will contribute nearly 35% to the GDP of the Saudi economy by 2030.

First, this research is likely to help obtain more in-depth and practical knowledge on the impact of operating cost reduction on economic challenges facing factories in the Kingdom.

Second: the research is likely to enrich knowledge on how edge-cutting manufacturing technologies can help reduce operating costs. This study deals with an important issue that faces managers of small and medium factories in the Kingdom. It is also equally important for countries with similar characteristics and conditions of Saudi Arabia.

## 6.6 Determinants

This research explores an important subject affecting the economy and growth of small clothing factories in Saudi Arabia. Although it is not new in literature, as far as we are concerned, the study is likely to be the first of its kind to be conducted in the Kingdom of Saudi Arabia looking at economic challenges and the potential positive impact of operating cost reduction in tackling such challenge.

First: access to financial information related to owners of small clothing factories is a real challenge in the Kingdom, and it is unlikely to be easily availed to researchers.

Second: Securing the participation of Saudi community in the academic research was a key limitation to the research. The researcher noted that people in the Kingdom are conservative in providing or presenting information for research and academic purposes.

Based on our communication efforts, we expected to interview more managers of small clothing factories, but only 3 managers agreed to be interviewed. As a result, managing of expectations is vital for the researcher.



This unexpected response can influence the concept of generalization of results, as this small number of respondents may not represent a generalized perspective of economic challenges facing the entire small clothing factories. To overcome this challenge, expanding the scope of the field study could bring more lively and diverse respondents in a way that leads to valuable results, such as covering more countries in the MENA region, as this region "has a lot of common characteristics" (Alsharif, 2015).

Third: there is another factor related to the previous one, which played a role in limiting the study at the stage of personal interviews. It took a long time to reach the managers of clothing factories. Initially, the researcher received initial responses from 5 managers, but only three of them were ready for the interviews. The other two managers apologized at the last minute, causing some disruption to the search. For qualitative interviews, the plan was to interview experts in the subject matter. The talks were fruitful and provided valuable points of view on the economic challenges and action plans. The interviews have also provided insight on the importance of operating cost reduction and the economic situation in the Kingdom. Despite the rich experience and passion of the research's respondents, they spoke freely and, in some occasions, provided unnecessary details or irrelevant information. For example, they have focused on their experiences and what they are looking for. In his study (Alsaeed, 2012) stated that "discussion might unintentionally divert from the core subject and relevancy". This factor is related to the general practice within the culture of the Kingdom of listening and offering the freedom to speak to people known to be experts in the industrial field.

## 6.7 Implications & Recommendations

This study may have some implications in many areas - not only because of the economic challenges facing small clothing factories, but also because of the strategic transformation plan in the Kingdom, namely Vision 2030. In light of the limitations of this study and literature related to the subject of research in Saudi Arabia, there is a basis for conducting further research in the ecosystem of the development of small and medium enterprises in the Kingdom of Saudi Arabia.

This subject is of a strategic importance for the Kingdom, where there is an urgent need for this promising sub-sector to emerge within the private sector of the Saudi economy. This should be done with the speed and quality necessary to achieve the aspired contribution of 35% to the Saudi GDP by 2030, as per the Kingdom's vision of strategic transformation.



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