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The Role of Government Regulatory and Tax Policies in Shaping SME Performance in the UAE

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ABSTRACT

Government-related challenges continue to be a major obstacle to the sustainability and growth of small and medium-sized enterprises (SMEs), particularly in emerging economies such as the United Arab Emirates. This study aimed to examine the impact of government challenges on SME performance by investigating the effects of government regulation challenges and tax policy challenges. A quantitative research approach was adopted using data collected from 658 owners, shareholders, chief executive officers, directors, and senior managers of SMEs operating in the UAE. The proposed research model was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS to assess both the measurement and structural models and test the proposed hypotheses. The findings revealed that government regulation challenges and tax policy challenges have significant negative effects on SME performance. The results highlight the importance of establishing a supportive regulatory and taxation environment to enhance SME competitiveness and long-term sustainability. This study contributes to the growing body of literature on SME performance by providing empirical evidence on the influence of government-related challenges within the UAE context.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) performance is a critical factor in the UAE's economy, particularly in the non-oil sector, as SMEs account for a significant share of employment and GDP. According to the latest data from the UAE Ministry of Economy, SMEs contribute approximately 60% of the UAE's GDP and account for 94% of the total companies operating in the country. Additionally, they are responsible for employing over 86% of the private sector workforce. This significant contribution underscores the importance of SMEs in driving economic diversification and employment within the UAE. In Dubai specifically, SMEs contribute around 47% to the emirate's GDP and employ 52.4% of its workforce. These figures reflect the pivotal role that SMEs play not just in economic terms but also in job creation and sustaining the local economy (Dubai Statistics Center, 2018). However, SMEs in the UAE face a spectrum of challenges that constrain both their operational efficiency and overall performance. Challenges faced by Small and Medium Enterprises (SMEs) in the UAE are numerous, preventing these businesses from succeeding and growing in the UAE's competitive economy (Refass et al., 2023). One of the most significant challenges is finance, as most SMEs lack sufficient capital and are turned away by stringent lending rules at financial institutions (Temouri et al., 2022). This financial factor affects their capacity to open new branches, introduce technological improvements, or even properly manage their cash flow. Furthermore, operating costs, such as rents and wages, remained high and affected SMEs, especially in strategic city hubs of Dubai and Abu Dhabi, where commercial space is expensive (Ghak & Zarrouk, 2022). However, significant problems with regulation and compliance remain unresolved despite various government initiatives. As noted, businesses face numerous legal demands that are both time-consuming and costly to meet.

Government challenges refer to obstacles and limitations that affect a government's ability to operate efficiently and effectively. These challenges can include regulatory complexities, bureaucratic inefficiencies, limited resources, and policy inconsistencies. In the context of SMEs, government challenges may involve complex regulatory frameworks, tax policies, and administrative hurdles that impact business performance and economic growth (Zhu et al., 2023). These factors can include government regulations challenges, and tax policy challenges (Rana et al., 2022). Numerous studies have identified government challenges as significant threats to the operations and performance of SMEs. One of the primary challenges highlighted by scholars is excessive regulation. SMEs often face stringent, increasingly complex regulations that are typically designed for larger companies (Ahn & Chen, 2020). For small businesses with limited capital and resources, compliance costs can be disproportionately high. When the reporting and administrative burdens become overwhelming, or when the legal environment is ambiguous and uncertain, these challenges can divert SMEs' focus from crucial activities such as innovation, growth, and maintaining competitiveness (Biea et al., 2024). This regulatory environment can also create significant barriers to entry for new SMEs, stifling innovation and reducing the overall vitality and growth of the SME sector within the economy (Popova & Popovs, 2023). In addition to regulatory challenges, the literature identifies significant obstacles in financing and government support programs. SMEs often struggle to secure affordable and appropriate sources of funding, as they are perceived as higher-risk ventures, particularly during periods of economic crisis and volatility (Sidek and Abdulraqeeb, 2022). Although many governments attempt to support SMEs through various funding initiatives, training programs, and market access opportunities, these efforts are frequently criticized for being ineffective, poorly targeted, or insufficient in scale (Bertello et al., 2022). Addressing these government-related challenges requires comprehensive policy reforms to simplify regulatory frameworks, improve access to finance, and enhance the effectiveness of support programs. Such reforms are crucial to creating a more conducive operating environment for SMEs, thereby enabling them to thrive and contribute more significantly to economic growth. (Kumarasamy et al., 2024) According to a study, one challenge the country faces is the regulatory processes that make it hard for businesses to register, obtain licenses, and comply (Harischandra Tanuraharjo, 2021). Another study indicates that when bureaucracies hinder the efficiency of business operations, there are concerns about added costs and time, which slow down entrepreneurship (Ghak & Zarrouk, 2022). Moreover, different policies and unclear legal admissibility contribute to unpredictability, which is considered a threat to SME planning. This uncertainty not only hinders innovation but also compromises their ability to get funding since financial institutions may be discouraged from funding institutions that operate in a highly changing legal environment (Potter et al., 2023)

1.1. The research objective

The study aims to assess the governmental regulatory challenges (GRC) and tax policy challenges (TPC) faced by Small and Medium-sized Enterprises (SMEs) in the UAE, focusing on identifying and analyzing the specific regulatory hurdles, bureaucratic processes, and government policies that impact SME performance. Furthermore, to propose recommendations for enhancing SME performance in the UAE, formulate actionable recommendations for policymakers, business leaders, and stakeholders to mitigate challenges and foster an enabling environment for SME growth and sustainability in the UAE market. This includes suggesting policy reforms that can significantly contribute to the long-term success of SMEs.

1.2. Significance of the study

The significance of conducting empirical research on the challenges SMEs face in the UAE cannot be overstated, as it addresses critical gaps in the existing body of knowledge regarding the complex interplay of factors that influence SME performance in a contemporary, dynamic economic environment (Graafland & Bovenberg, 2020). By analyzing the challenges posed by the government, particularly government regulation challenges and tax policies challenges, this study has the potential to illuminate how SMEs navigate bureaucratic obstacles and leverage government support mechanisms (Eniola & Entebang, 2015).

2. LITERATURE REVIEW

2.1. Government challenges overview

Government challenges refer to obstacles within regulatory and administrative frameworks that can hinder the effective support and growth of SMEs. These challenges often stem from the complexity of regulations, bureaucratic inefficiencies, and inconsistencies in policy implementation. According to Vejaratnam et al. (2020), difficulties arise when regulations are designed without fully considering the specific needs and limitations of SMEs, making compliance burdensome and costly. Francis Fukuyama highlights issues such as the depletion of institutional capacity and public trust, which can further complicate regulatory environments (Bertello et al., 2022). When public institutions lack efficiency or consistency, SMEs may struggle to navigate legal requirements, access necessary resources, and compete fairly in the market. These government-related obstacles limit SME growth and impact their overall competitiveness, reducing their contribution to economic development. When examining the world through the lens of international relations, emerging issues and shifts on the global geopolitical map, along with the dynamics of power in contemporary global politics, further complicate these challenges (Bertello et al., 2022). These global shifts emphasize the need for governance strategies that adapt to evolving regulatory demands, particularly to support SME growth (Adanu et al., 2020). Government challenges encompass a range of complex issues that require problem-solving strategies to foster business development and reduce barriers for SMEs. Scholars offer different definitions of these challenges, underscoring their complexity. For instance, Chatterjee (2020) highlights how complicated labor, health, and safety regulations can create significant obstacles for SMEs, depriving them of growth opportunities. Additionally, bureaucratic factors, such as the slow processing of permits and licenses, can hinder the operational efficiency of SMEs, delaying their ability to respond quickly to market demands (Alkahtani et al., 2020). These challenges constrain SMEs' functional capabilities and discourage entrepreneurship, thereby affecting broader economic development. Addressing these issues can help build a favorable environment that promotes business activity and innovation within the SME sector, which is essential for economic growth.

2.2. Government regulations challenges and SME's performance

Government regulation challenges refer to the complexities encountered in developing, enforcing, and complying with policies that govern activities across various sectors (Harischandra Tanuraharjo, 2021). Government regulations are a major obstacle that significantly influences the performance of SMEs. Literature identifies compliance with regulatory measures as a primary challenge. Independent small businesses, particularly those managed by inexperienced owners, face significant difficulties because they lack the scale and experience of large corporations to navigate and adapt to regulatory environments. SMEs face excessive, often ambiguous regulations that are typically designed for larger firms (Ahn & Chen, 2020). This creates high compliance costs, diverts resources, and discourages innovation. Additionally, frequent legal changes introduce uncertainty, further limiting SMEs' ability to plan long-term (Biea et al., 2024). While studies highlight regulatory burdens globally, limited research explores how UAE SMEs adapt to these challenges, particularly in sectors undergoing diversification. The financial costs of compliance, coupled with the time and effort required for regulatory reporting, can divert resources from an SME's core business operations, such as innovation, efficiency improvements, and growth initiatives (Graafland & Bovenberg, 2020). Additionally, the unpredictability of legal environments—marked by frequent regulatory updates—further hampers SMEs' ability to quickly and efficiently strategize to meet compliance requirements, thereby increasing operational costs and diminishing competitiveness (Graafland & Bovenberg, 2020). Moreover, the literature highlights the disproportionate regulatory burden placed on SMEs compared to large organizations. Regulatory frameworks are often designed with large enterprises in mind without fully considering the unique conditions and capabilities of SMEs. This imbalance not only hinders new SMEs from entering the market but also restricts their potential for expansion (Moslehpour et al., 2022). Higher regulatory requirements in areas such as environmental protection, labor laws, and consumer rights can be particularly challenging for small businesses, which may lack the experience or financial strength to comply without significant strain. Addressing these issues necessitates a detailed understanding of the specific conditions and capabilities of SMEs. Simplifying procedures, providing clear and adequate assistance, and removing unnecessary formal obstacles are essential to fostering SME development. (Al-Hiyari, et al., 2025) Additionally, there is a need to strike a balance that ensures adequate protection without impeding business growth (Bertello et al., 2022). Moreover, one of the main concerns is the lack of clarity and the heterogeneity of the rules governing relationships between vendors and customers. Studies show that SMEs are frequently challenged by such regulations, thereby incurring higher compliance risks and additional expenses (Harischandra Tanuraharjo, 2021). For instance, time-consuming licensing procedures and shifting tax parameters make it tough to focus on core business, resulting in hampered growth and innovation (Naradda Gamage et al., 2020). Besides, the effects of regulations on the government may not be limited to compliance costs but may also affect competitiveness (Zhu et al., 2023). It has been demonstrated that rigorous rules and procedures may pose a threat to small companies because they cannot afford to allocate the necessary resources to implement changes (Zarrouk et al., 2020). This regulatory disadvantage contributes to limited entry opportunities, restricted expansion possibilities, and, consequently, lower overall performance than large enterprises capable of meeting regulatory requirements. Thus, some SMEs have to limit their scope of activity due to regulatory obstacles and do not contribute to a highly dynamic economy as they could (Naradda Gamage et al., 2020). These are the regulatory challenges that need to be overcome to create a favorable environment for the effective functioning of SMEs and their input to the nation's development. Based on the above discussion, the following hypothesis is proposed:

H1: Government regulations challenges negatively impact SME's performance.

2.3. Tax policies challenges and SME's performance

Tax policy challenges refer to the complexities involved in identifying and implementing tax measures that effectively meet revenue needs, promote economic development, ensure fair burden-sharing, and simplify the tax system (Nikitishin, 2021). These challenges can act as significant hurdles that may hinder the performance of small and medium enterprises (SMEs) (Hall & Jorgenson, 1967). Scholars have noted that tax laws are often bureaucratic and difficult to understand or predict. SMEs typically face challenges related to insufficient capital and experience when dealing with complex tax legislation (Nurlis & Ariani, 2020). Moreover, tax policies and regulations are frequently subject to change, necessitating corresponding adjustments in SME strategies and procedures. (Nurlis & Ariani, 2020). Studies on international conditions further underscore the importance of top marginal tax rates for SME competitiveness. High tax rates or unequal taxation conditions can exert disproportionate pressure on SMEs compared to larger companies, which often benefit from economies of scale and greater capital reserves (Scheuer, 2020). In some cases, tax measures can effectively obstruct the development of new businesses and the growth of existing SMEs, creating barriers to market entry and expansion (Almezaini, 2023). Addressing these issues requires that key decision-makers consider SMEs' specific needs and significance, simplify the taxation process, effectively utilize tax incentives, and foster a more favorable tax environment for the SME sector (Stantcheva, 2021). Prior studies have indicated that high levels of tax regulation and changes in tax laws create uncertainty for small businesses, hindering their planning (Barthold, 2023). Since many SMEs cannot afford professional assistance, many companies could be at risk of noncompliance and penalties. This is usually the case because businesses spend considerable time understanding the tax system rather than using that time effectively elsewhere (O'Reilly et al., 2020). Furthermore, high taxes may constrain the funds available for reinvestment in the sustenance of the organizations and for radical changes, innovations, and expansion, which are key foundations for sustainable development (Naradda Gamage et al., 2020). Research shows that SMEs report considerably lower profits relative to their turnover and are therefore more responsive to taxes (Scheuer, 2020). It should also be understood that many times SMEs may not be able to pass these costs on to consumers fully, and therefore, they lose competitiveness. Also, the lack of adequate tax breaks or relief measures poses a problem for SMEs, as it prevents them from rewarding corporate expansion or embracing innovation (Alkahtani et al., 2020). Tax policy implementation thus compounded SMEs' existing struggles by inhibiting their growth and competitiveness. Besides, there is a lack of tax policy implementation among the operatives, which, in turn, affects the competitive position of SMEs (Barthold, 2023). Therefore, managing these government-related challenges remains central to improving SME performance, ensuring an accommodating environment that creates space for economic growth, and strengthening the overall economy in the UAE. Based on the above discussion, the following hypothesis is proposed:

H2: Tax policies challenge negatively impact SME's performance.

2.4. The proposed research model

The research model for this paper is shown in Figure 1.

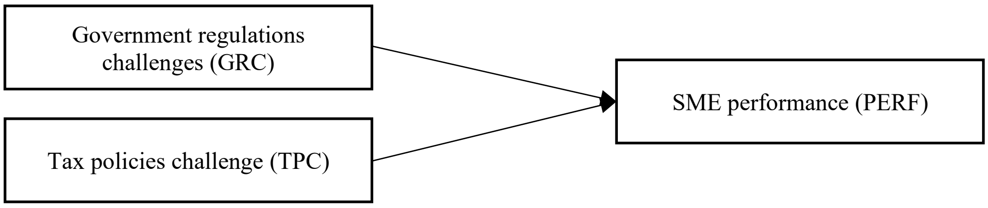

Figure 1. The study model

3. METHODOLOGY

3.1. Population and sample

The population of this study comprises approximately 557,000 SMEs in the UAE, a diverse and dynamic sector crucial to the national economy (Need et al., 2024). For this study, the research sample includes SMEs listed with RUWAD (2,200 companies), Khalifa Fund (1,200 companies), and Dubai SME (4,800 companies), totaling 8,200 SMEs. The sampling technique used is purposive sampling, as SMEs were deliberately chosen from RUWAD, Khalifa Fund, and Dubai SME to ensure the sample is comprehensive and representative of the broader SME population in the UAE (Need et al., 2024). This group was chosen because of their knowledge and experience in the topic area under investigation. The SMEs listed in the databases of RUWAD, Khalifa Fund, and Dubai SME constitute an influential and representative research sample, reflecting a broad spectrum of the UAE's SME population. This sample is representative of the broader SME landscape in the UAE, providing a comprehensive overview of various industries, sizes, and stages of development. Given the substantial number of SMEs in the UAE, a rule of thumb was used to determine a sample size that would be both reliable and generalizable. According to this rule, a sample size of around 10% of a smaller population or at least several hundred respondents is often sufficient in large populations, especially when aiming for a broad, representative view. In this study, we selected 658 respondents, well above the typical threshold. This sample includes key decision-makers—owners, shareholders, CEOs, directors, and senior managers—who represent the main SME sectors across the UAE. This approach ensures that a diverse and comprehensive range of perspectives is captured, enhancing the robustness and credibility of the findings. The 658 participants were contacted via email and asked to complete an online questionnaire. The sample selection process aimed to ensure the sample was diverse and representative of the target population, thereby enhancing the generalizability of the study's findings to the broader population of SMEs in the UAE.

3.2. Questionnaire Design

The study used a structured, closed-ended questionnaire to collect data. This format ensured consistency in responses and facilitated statistical analysis. A five-point Likert scale was used, as it is widely applied in similar studies. The scale ranged from (1) "strongly disagree" to (5) "strongly agree," with (3) "neutral" as the midpoint. The questionnaire was designed to be straightforward and efficient while capturing the necessary data. It included sections on demographic information and the main research variables. By using a standardized format, the study was able to compare findings with previous research while ensuring that the instrument was well-suited to the research objectives. By carefully adapting the measurement items to the UAE SME context, this study ensured the variables were measured reliably, clearly, and relevantly. The modifications to the scales were based on expert validation, pilot testing, and contextual refinement, enabling an accurate and meaningful analysis of the relationships between government challenges and SME performance.

4. DATA ANALYSIS

This research attempts to utilize two distinct statistical software applications, SmartPLS 3 and SPSS 27, to conduct a comprehensive data analysis. This quantitative study aimed to capture SME managers' perceptions of government challenges systematically. Moreover, the analysis focuses on variables, specifically Government Regulations Challenges (GRC) and Tax Policy Challenges (TPC). SPSS was used to explore and summarize the characteristics of the sample, including demographics (e.g., gender, age, education level), SME profiles (e.g., employee level), and other relevant variables. SEM was selected using SmartPLS to test the relationships between the study's constructs, government challenges, and SME performance. This method allows simultaneous testing of the measurement model (construct validity and reliability) and the structural model (hypothesis testing).

4.1. Demographic profile

The demographic characteristics of the respondents are presented in Table 1. The gender distribution results indicate a notable predominance of male respondents, comprising 66.4% of the sample, compared to 33.6% for female respondents. This disparity suggests that male perspectives are overrepresented in the dataset, which may influence the study's overall findings and interpretations. An analysis of age shows that the majority of respondents fall within the 31-40 years age group, with 38.8%, followed by the 41-50 years age group at 26.1%. The analysis of the age distribution of respondents shows that the youngest people aged 30 and under make up 16.9%, while the older people aged 51-60 and 60+ make up 18.2%. In addition, 42.7% of respondents have a master's degree and 37.8% have a Bachelor's degree. Conversely, only 5.3% said they obtained their secondary school leaving certificate, and 4.6% of the respondents possess a Doctorate. The distribution of SME employees' levels indicates that the majority of respondents are at the middle and lower levels, with 59.4% of the sample at these levels. Senior-level employees are at 34.2%, while executives are at 6.4%.

Table 1. Demographic profile.

Characteristic	Frequency	Percentage
Gender		
Female	221	33.60%
Male	437	66.40%
Age		
Up to 30 Years	111	16.90%
31-40 Years	255	38.80%
41-50 Years	172	26.10%
51-60 Years	74	11.20%
More than 60 Years	46	7.00%
Education		
Diploma	63	9.60%
Secondary School	35	5.30%
Bachelor's Degree	249	37.80%
Master's Degree	281	42.70%
Doctorate Degree	30	4.60%
Levels of Employee		
Mid-Level	391	59.40%
Senior Level	225	34.20%
Executive Level	42	6.40%

4.2. Descriptive Statistics

Mainly, the descriptive analysis employed includes the following statistical measures of central tendency: frequency, minimum, maximum, mean (M), standard deviation (SD), and variance. The results are shown in Table 2. The mean score (M=3.48) for government regulations challenges (GRC) indicates a moderate level of compliance with governance standards among respondents. The standard deviation (SD=1.01) reflects a fair level of variability in responses, with higher variance (variance=1.03), suggesting that while many individuals view governance regulations positively, opinions vary significantly across the group. Tax policy challenges (TPC) also register a mean of (M=3.48), reflecting a similar moderate perspective among respondents. The standard deviation (SD=1.06) suggests notable variability in how individuals perceive the tax policy challenges, highlighting diverse experiences and expectations in this area. SME Performance (PERF) scores a mean of (M=2.45), indicating a relatively low perception of overall performance among respondents. This suggests that many feel dissatisfied with current performance levels, possibly due to inefficiencies or unmet goals within the organization. The standard deviation of (SD=1.03) and variance (1.07) reflect moderate variability, underscoring a range of opinions and highlighting the need for organizational strategies to enhance performance and address employee concerns.

Table 2. Descriptive statistics

Variable	N.	Min.	Max.	Mean	SD	Variance
GRC	658	1	5	3.48	1.01	1.03
TPC	658	1	5	3.48	1.06	1.12
PERF	658	1	5	2.45	1.03	1.07

4.3. Correlation analysis

The correlation analysis indicates that government regulation challenges (GRC) and tax policy challenges (TPC) are both negatively associated with SME performance (PERF). GRC shows a negative and significant correlation with PERF ($r = -0.187$, $p < 0.01$), and TPC also shows a negative and significant correlation with PERF ($r = -0.196$, $p < 0.01$). This indicates that higher levels of government regulation and tax policy challenges are associated with lower SME performance. Among the two independent variables, TPC shows a slightly stronger negative correlation with SME performance than GRC. The results are shown in Table 3.

Table 3. Correlation analysis.

	GRC	TPC	PERF
GRC	1		
TPC	0.154**	1	
PERF	-0.187**	-0.196**	1

4.4. Measurement model

Before testing the structural relationships, the measurement model was evaluated to establish the reliability and validity of the constructs included in the study. In partial least squares structural equation modeling (PLS-SEM), the measurement model is assessed by examining indicator reliability, internal consistency reliability, convergent validity, and discriminant validity (Hair et al., 2017). Indicator reliability was evaluated using outer loadings, while internal consistency reliability was assessed through Cronbach's alpha and composite reliability (CR). Convergent validity was examined using the average variance extracted (AVE), and discriminant validity was assessed using the heterotrait-monotrait ratio (HTMT). The measurement model was estimated using SmartPLS, and the results indicate that all recommended thresholds were satisfied, confirming that the constructs are both reliable and valid for subsequent structural model analysis. The results of the measurement model assessment are presented in Table 4.

4.4.1. Indicator reliability

Indicator reliability assesses the extent to which each observed indicator adequately represents its underlying latent construct. In PLS-SEM, indicator reliability is evaluated using the outer loadings of the measurement items. According to Hair et al. (2017), indicator loadings of 0.70 or higher are considered acceptable, as they indicate that the construct explains at least 50% of the variance in the corresponding indicator. The results in Table 4 show that all indicator loadings exceed the recommended threshold of 0.70, indicating satisfactory indicator reliability.

4.4.2. Internal consistency reliability

Internal consistency reliability evaluates the degree to which the indicators of a construct consistently measure the same underlying concept. In PLS-SEM, this is commonly assessed using Cronbach's alpha (CA) and composite reliability (CR). Although Cronbach's alpha is widely reported, composite reliability is generally preferred because it does not assume equal indicator loadings and therefore provides a more accurate estimate of construct reliability (Hair et al., 2017). Values of 0.70 or above for both Cronbach's alpha and composite reliability indicate satisfactory internal consistency. As shown in Table 4, all constructs exceeded the recommended threshold, confirming adequate internal consistency reliability.

Table 4. Measurement model.

Variable	Indicator	Loadings	CA	CR	AVE
Government regulations challenges (GRC)	GRC1	0.910	0.943	0.957	0.815
	GRC2	0.927			
	GRC3	0.868			
	GRC4	0.901			
	GRC5	0.906			
Tax policies challenges (TPC)	TPC1	0.897	0.876	0.900	0.674
	TPC2	0.928			
	TPC3	0.877			
	TPC4	0.912			
	TPC5	0.925			
SME performance (PERF)	PERF1	0.868	0.954	0.961	0.731
	PERF2	0.856			
	PERF3	0.855			
	PERF4	0.856			
	PERF5	0.824			
	PERF6	0.844			
	PERF7	0.846			
	PERF8	0.857			
	PERF9	0.885			

4.4.3. Convergent Validity

Convergent validity refers to the extent to which the indicators of a construct share a high proportion of common variance and collectively represent the intended latent variable. It is assessed using the average variance extracted (AVE), which measures the average amount of variance captured by a construct relative to the variance due to measurement error (Fornell & Larcker, 1981). An AVE value of 0.50 or greater indicates that the construct explains more than half of the variance of its indicators, thereby demonstrating adequate convergent validity (Hair et al., 2017). As reported in Table 4, all constructs achieved AVE values exceeding the recommended threshold of 0.50, confirming satisfactory convergent validity.

4.4.4. Discriminant validity

Discriminant validity assesses the extent to which a construct is empirically distinct from other constructs in the model. In this study, discriminant validity was evaluated using the Fornell–Larcker criterion (Fornell & Larcker, 1981). According to this criterion, the square root of the Average Variance Extracted (AVE) for each construct should be greater than its correlations with all other constructs, indicating that the construct shares more variance with its own indicators than with other constructs in the model. As presented in Table 5, the square root of the AVE for each construct exceeded its corresponding inter-construct correlations, thereby confirming satisfactory discriminant validity among all constructs included in the study.

Table 5. Discriminant validity.

Indicator	GRC	PERF	TPC
GRC	***0.90***		
PERF	-0.19	***0.85***	
TPC	0.16	-0.20	***0.91***

4.5. Structural model

The structural model assessment examined the predictive relationships among the constructs and evaluated the explanatory power of the proposed research framework. After verifying the reliability and validity of the measurement model, the PLS-SEM structural model was analyzed by assessing the path coefficients and their corresponding significance levels (Hair et al., 2017). According to Table 6 and Figure 2, government regulations challenges (GRC) had a negative and significant impact on PERF (B = -0.067, t = 2.143, p < 0.001), with a small effect size (F^2 = 0.006); thus, H1 was supported. In addition, tax policy challenges (TPC) had a negative and significant impact on PERF (B = -0.077, t = 2.225, p < 0.001), with a small effect size (F^2 = 0.008); thus, H2 was supported.

Table 6. Hypothesis testing.

Path	Coefficient	T	P	F^2	Status
H1: GRC -> PERF	-0.067	2.143	0.032	0.006	H1: Supported
H2: TPC -> PERF	-0.077	2.225	0.026	0.008	H2: Supported

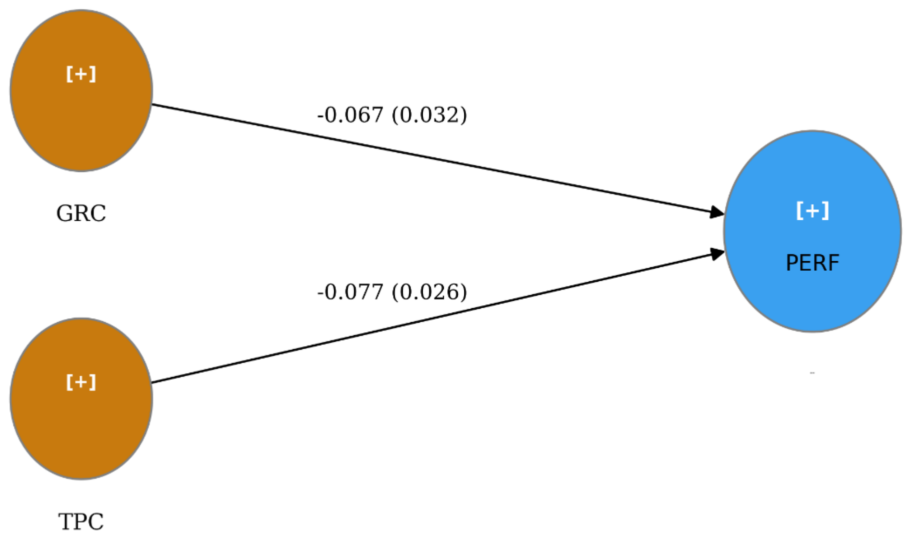

Figure 2. Hypothesis testing.

5. DISCUSSION

This paper aimed to examine the impact of government challenges on SME performance in the UAE, specifically the impact of government regulation challenges and tax policy challenges on SME performance. The first hypothesis proposed that government regulation challenges have a significant negative impact on SME performance. The findings confirmed this hypothesis, with a robust negative path coefficient, indicating that regulatory challenges present a real obstacle to SME performance. The institutional environment presents various challenges to SMEs, including stringent regulations that complicate and make operations more expensive. Sometimes, these regulations may actually have a negative impact on the business environment, as they limit the ability of businesses and markets to adapt quickly to new changes and respond effectively to new opportunities and challenges. This concurs with earlier studies that have cited regulation as one of the key impediments to SME performance, stressing the need for a better and more favorable regulatory environment (Graafland & Bovenberg, 2020). Also, the second hypothesis proposed that tax policy challenges have a significant negative impact on SME performance, and the result supported this hypothesis through a significant negative path. High taxes and frequently changing, complex tax measures may put pressure on SME cash flow and negatively affect their net returns. This finding affirms previous works suggesting that negative tax systems can adversely affect the financial viability and performance of SMEs (Nurlis & Ariani, 2020). In examining the impact of tax policy on SME performance, this research's findings align closely with the existing literature, which consistently demonstrates a significant negative relationship between tax policy and SME performance. Studies indicate that high tax rates and complex tax regulations can hinder the financial stability and growth potential of SMEs, often leading to reduced investment capacity and constrained cash flow. For instance, empirical evidence from various regions shows that burdensome tax obligations disproportionately affect smaller businesses, which typically operate with tighter margins and fewer resources than larger firms (Barthold, 2023).

6. CONCLUSION

This study examined the impact of government challenges on SME performance in the United Arab Emirates, with particular emphasis on government regulation challenges and tax policy challenges. A quantitative research design was employed, and data were collected from 658 SME decision-makers, including owners, shareholders, CEOs, directors, and senior managers. The proposed research model was analyzed using PLS-SEM through SmartPLS. The findings confirmed that both government regulation challenges and tax policy challenges negatively influence SME performance. These results indicate that regulatory complexity and taxation issues remain significant barriers to the growth and competitiveness of SMEs. The study provides empirical evidence that improving the regulatory environment and tax policies can enhance SME performance. The findings enhance understanding of government-related barriers affecting SMEs and provide policymakers and business stakeholders with useful insights to strengthen the SME sector in the UAE.

6.1. Policy implications

The findings indicate that government regulation challenges negatively affect SME performance, suggesting the need for policymakers to simplify and improve the regulatory environment for small businesses. Government authorities should review existing regulations to eliminate unnecessary administrative procedures and reduce bureaucratic burdens that delay business operations. Developing transparent, streamlined licensing and compliance procedures can enable SMEs to allocate more resources to business development rather than regulatory compliance. In addition, greater coordination among government agencies and the expansion of digital government services can improve the efficiency of regulatory processes while reducing compliance costs. The results also demonstrate that tax policy challenges negatively affect SME performance, highlighting the importance of developing taxation policies that better reflect SME capabilities. Policymakers should consider introducing tax incentives, simplified tax reporting procedures, and financial support mechanisms for SMEs, particularly during their early stages of development. Providing clear tax guidelines and advisory services can also improve compliance while reducing uncertainty among business owners. Furthermore, periodic reviews of tax regulations should be undertaken to ensure that taxation policies remain aligned with changing economic conditions and the needs of SMEs.

6.2. Limitations and future studies

There is a risk of response bias in this study, as SME managers and employees may provide answers influenced by personal experiences, emotions, or preconceptions about their industries and environments. Such subjectivity can lead to inaccurate or skewed representations of the challenges SMEs face regarding government, market, managerial, employee, and technological factors. For instance, a manager with recent negative experience with regulatory processes may exaggerate government-related challenges, while those with limited exposure to new technology may underreport technological issues. This response bias may distort SMEs' perceptions of the overall environment in the UAE, thereby affecting the accuracy of the findings and the reliability of conclusions drawn from the data. Future research should consider using multiple data sources to reduce the potential effects of response bias in self-reported questionnaires. For example, researchers may combine survey responses with objective organizational data, interviews, or secondary performance indicators to obtain a more comprehensive assessment of SME challenges. Additionally, collecting data from multiple respondents within the same organization could improve the reliability and accuracy of the findings by minimizing the influence of individual perceptions and experiences.

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