

Overview on the Current Status of SMEs in Oman: Challenges and Recommendations

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Abstract: Small & medium enterprises (SMEs) are very important and play great role in Oman economy. The SME sector has shown an incredible growing in the past few years in Oman and yet there is potential for more growing and improvement. However, SMEs contribution to the national economy is still relatively small. Moreover, limited research conducted on SMEs in Oman. This study aimed to highlight the current challenges faced in the SME sector in Oman based on the previous literature review in order to identify the current gaps and overcome the current obstacles. In spite of this, SMEs are still facing heaps of challenges and obstacles that deter them from further expanding their businesses and sustainable growth. Different challenges were highlighted related to different points of view such as social responsibilities in SMEs and women entrepreneurs.

Keywords: small and medium enterprises, SME, Oman, Challenges.

I. INTRODUCTION

In each country, small & medium enterprises (SMEs) are very important and play great role in its economy due to the contribution to increase the country's economic and employment growth. The sultanate of Oman's government is taking serious of actions to support and strengthen SME sector due to the critical economy role in the country. Even though the SME sector has shown incredible growth, but still there is potential for improvement. In Oman governments' 2040 vision, creating economic diversification and private sector partnership is one of its economy pillars [1]. The SME sector is noteworthy growing in the past few years, and yet it still growing. According to the Public Authority for SME Development (Riyada), over 40,000 SMEs are currently registered and the number is keep increasing. Based on the current statistics, over 30500 micro enterprises, over 8900 small enterprises, over 3300 medium enterprises, and over 40 large enterprises are registered in Oman [2]. The following Fig. 1 presents the current registered enterprises in Oman.

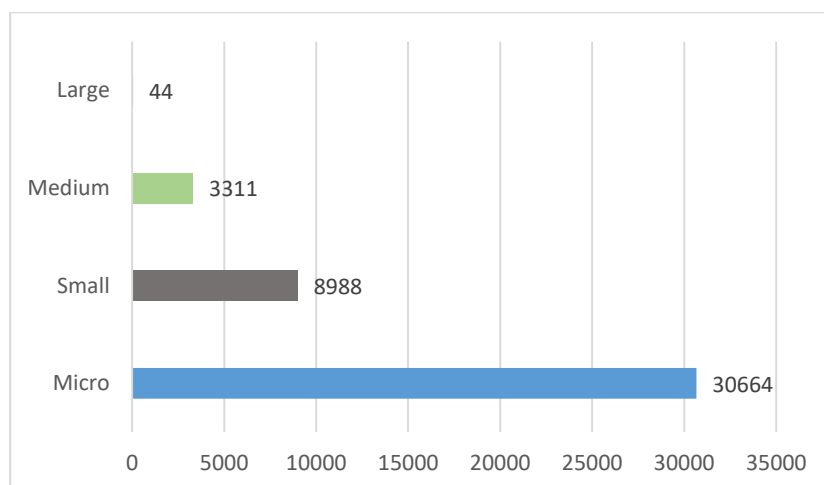


Figure 1: Current statistics of registered enterprises in Oman

SME Definition in Oman

Definitions of SMEs are different country by country. The criteria for the categorization in some countries is capital, it is based on the employees’ number in some countries, and other countries use a mixed criteria. However, there is a lack of consensus over the single definition of SMEs. Therefore, SMEs have been defined in different ways in different contexts. However, there is no general definition of SMEs (Omer & Ismail, 2010). In the context of Oman, the SMEs definition is based on the registered number of workers and the annual sales. The Ministry of Commerce and Industry in Oman has defined the term of Small and medium Enterprises (SMEs) as micro, small, and medium. In micro enterprises, establishments with less than 5 employees and annual sales of less than O.R 25,000. In small enterprises, establishments between 5 and 9 employees, and annual sales ranging from O.R 25,000 to O.R 250,000. In medium enterprises, establishments between 10 to 99 employees, and annual sales ranging from O.R 250,000 to O.R 1.5 million. The sales of an existing establishment is determined according to the latest final audited results, and according to initial estimates made by the management in new establishments. The number of workers in Oman is set according to the manpower registers and the number of Omani workers registered in the Social Insurance. The existing sales establishment is determined based on the latest final audited results, and based on initial estimates made by the management in new establishments. The following table 1 illustrates a summary of SMEs definition in Oman.

TABLE I: DEFINITION OF SMES IN OMAN

Size of Enterprise	Number of workers	Annual sales range
Micro	1 - 5 employees	Less than O.R 100,000
Small	6 – 25 employees	O.R 100,000 - O.R 500,000
Medium	26 – 99 employees	O.R 500,000 - O.R 3 million
Large	More than 99	More than O.R 3 million

GDP in Oman

The Gross Domestic Product (GDP) of Oman is calculated in Billion USD. The data of GDP in Oman were derived from the World Bank. The data of Oman showed that Oman GDP is increasing from 2010 to 2018. However, the highest GDP of Oman was registered in 2014 with 81.08 billion US dollars but it was decreased to 68.92 billion US dollars in 2015. GDP in Oman was worth 79.29 billion US dollars in 2018. The following Fig. 2 presents the GDP of Oman from 2010 to 2018 in USD billions.

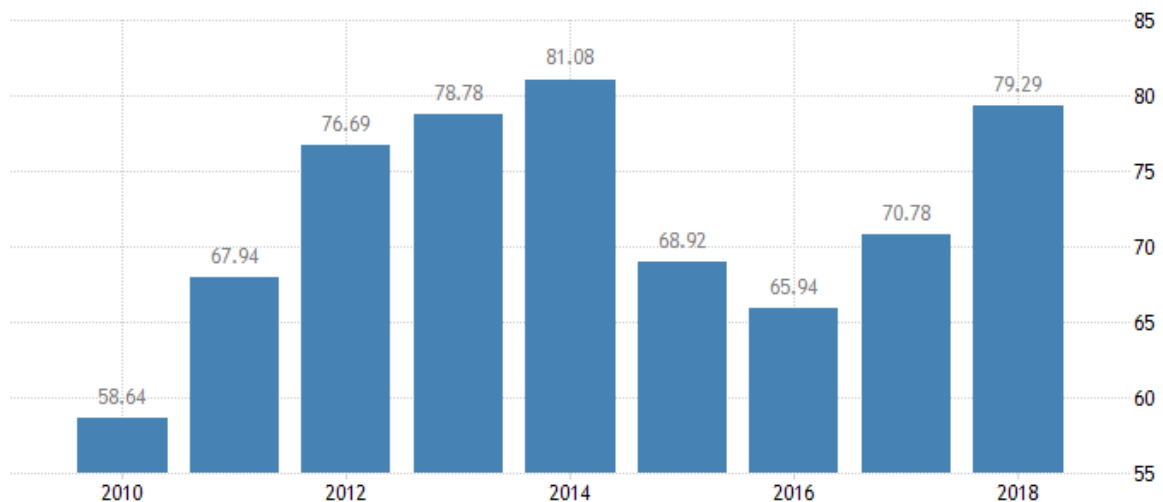


Figure 2: Oman GDP from 2010 to 2018 in USD billions

Different studies have conducted on the SME and its impacts on the growth of economic. However, SMEs’ situation is differ from one country to another due to many factors such as political, geographical, and cultural factors. Limited studies were conducted on Oman’s economy and the SMEs in Oman. Hence, this study presents an overview of the status of SMEs in Oman based on the previous literature review.

II. LITERATURE REVIEW

Small enterprises represent the main catalyst of economic development. Those small businesses contribute intensely to achieving the fundamental goals to any national economy, becoming the backbone of social-economic progress [3]. The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system. The vital contribution to SME in economic development is a reality unanimously recognized. Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy [4].

Based on the literature, the causes of new SMEs' failure are both internal and external. Internal factors include lack of functional skills, poor attitudes towards customers, poor staff training and development, and lack of management experience. External factors include lack of finance and crime, high cost of distribution and non-availability of a logistics chain, competition, rising costs of doing business. SME failure development is usually the results of failure in meeting the expectations, although the concept of failure means different things to different people. There are several reasons behind the failure of a business such as lack of finance, poor management, lack of location, lack of experience, poor plan poor preparation, lack of inventory control, and poor strategic plan.

In a study on barriers to socially responsible supply chains in SMEs in Gulf Cooperation Council (GCC) [5], fourteen potential barriers were revealed; shortage of incentives and support, short-term objectives of SMEs, management constraints, over-riding influence and lack of knowledge of the owner-manager, affordability and applicability, lack of recognition as a responsible organization, sustainable resources non-availability or costly implementation, lack of cooperation and willingness among supply chain partners, pressure from customers, dilemma related to supply chain partnerships or limiting innovation potential, difficult to collaborate with multinational corporations as vendors, implementing standards is lengthy and expensive, barriers to entry in newer markets, and lack of recognition by society or government.

In a study on Islamic finance and SMEs in Oman mentioned that Oman's economy is still largely reliant on oil revenues only and a single-track development strategy; thus, the government is taking a number of initiatives to develop the non-oil economy in areas such as the financial sector. Distinguishing the differences between Islamic and conventional financing, and understanding how Islamic financial types relate to SMEs' financing are important in terms of SMEs' adoption and acceptance of this new phenomenon in Omani banking due to the misunderstanding may prevent SMEs from adopting Islamic finance [6].

In a study on SMEs' growth strategies in Oman, lack of resources to manage the increase in customer's demand. Further, lack of production capacity in terms of finance is the biggest problem for these companies to expand their business. Moreover, a lot of issues in the form of lack of finance, adoption of new technology, and identification of new customers because all these issues have a direct link to the increase in the cash flow circle of a company. Hence, a theoretical framework was proposed based on four independent variables; financial management, human resource management, operations management and marketing management [7].

A study was conducted on the relationship between knowledge management and SMEs' performance in Oman. It was mentioned that SMEs face many constrictions such as adoption and applications of emerging technologies, limitation of human resource skills, poor management and entrepreneurial capabilities, absence of knowledge management and innovative practices. Hence, the growth of efficiency and contribution to the GDP in these countries are far low as compared to developed countries. A conceptual framework was proposed comprising knowledge management as predictor, technology orientation as moderating variable and the outcome is the performance of SMEs [8].

III. CURRENT CHALLENGES AND RECOMMENDATIONS

Different challenges were found in the literature from different industries and aspects of SMEs in Oman.

Knowledge management implementation challenges: based on a study conducted investigating the relationship between knowledge management and SMEs' performance in Oman [9], different challenges were addressed toward implementing knowledge management systems in SMEs sector such as lack of studies in the literature on knowledge management's implementations and effects in SMEs sector. Furthermore, knowledge management system implementation's complexity due to the integrated framework's absence. As recommended, it is important to teach entrepreneurship in modern age need to be abreast with latest technology, and the full usage of such technology in motivating knowledge search.

Social responsibilities in SMEs' supply chain management related challenges: based on a study conducted on this subject and Oman was one of the countries used for data collection [5], the current challenges in SMEs' social responsible supply chain management are lack of coherence in prioritizing social responsibility issue, shortages of incentive, short-term objectives, constraints (managerial, finance and technological), willingness among supply chain partners, and customers' pressure. Hence, as recommendation, social responsibilities need to be more promoted and SMEs' managers and owners need to work along with the government to engage more in social issues to overcome on these barriers.

Women entrepreneurs challenges: based on studies investigated the various issues experienced by women entrepreneurs in Oman [10], [11], different major challenges are still facing women entrepreneurs such as accessing to specialized suppliers for staying ahead of the competition, accessing to government for current business needs, and high cost of raw materials. Moreover, traditional socio-cultural practices continue to restrict women to their maternal and family roles, limiting their participation in the economic development of their country. Hence, as recommendation, policymakers need to make more efforts in supporting entrepreneurs in general and women entrepreneurs especially by starting new ventures while simultaneously contributing to the socio-economic development of the region

Cloud enterprise resource planning (ERP) adoption: based on a study conducted on ERP adoption by SMEs and Oman was one of the countries used for data collection [12], the current challenges faced by some SMEs toward adopting ERP solutions are competitive pressures, compatibility, technical barriers, enterprise size, technology readiness, enterprise readiness, and top management support are effecting significantly the adoption of ERP solutions. Hence, governments need to eliminate technical barriers and establish regulations that support ERP adoption by SMEs' management through enhancing the strategies for adopting cloud ERP by highlighting more the potential benefits behind adopting this technology and pointing the reasons why some enterprises have adopted this technology as example.

Social Media Services: based on a study aimed to explore the usage of social media and social media business services in Oman [13], the current challenges found are lack of digital skills of social media services which results in outsourcing these services. Moreover, there is a gap between clients' expectations and the currently available services. Hence, current opportunities for local entrepreneurs to establish local digital and social media agencies with more understanding for local costumers' need.

IV. CONCLUSION

In conclusion, SME sector is very important and plays a great role in Oman's economic and employment growth. SMEs number is increasing year after year which contributes to increase the GDP of the country. The government of Oman is taking serious of actions to support and strengthen SME sector in order to grow the economics of the country. This paper highlighted different SMEs challenges in Oman to investigate more and overcome on the current challenges in order to improve the performance of SME sector and, hence, achieving Oman 2040 vision in contributing to create more opportunities to the potential entrepreneurs and create economic diversification in Oman.

In the future work, more comprehensive research need to be taken in different fields and areas of SMEs sector in Oman to have comprehensive vision and understanding of the current situation in Oman. Moreover, enterprises registered under the SME development fund (SMEF) need to be investigated in term of the effectiveness of SMEF on developing entrepreneurship and financing SMEs in Oman.

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