SMEs in Sultanate of Oman: Meeting the Development Challenges

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INTRODUCTION

The small and medium enterprises (SMEs) not only play an important role in the economy of a country but are crucial to the country’s economic stability. In most countries SMEs generate a substantial share of GDP and a key source of new jobs as well as breeding ground for entrepreneurship and new business ideas. The United States of America, UK, Japan, Australia, New Zealand, Canada and other developed, as well as developing countries are making policies to facilitate the growth of SMEs. In New Zealand SMEs make up more than 99% of all business and account for about 60% of employment. In the USA more than half of all the employment comes from firms with fewer than 500 employees (Baldwin et al 2001). In the UK, SMEs employ 67% of the workforce (Lange et al 2000). Estimates from the World Bank indicates that SMEs have contributed over 55% of GDP in OECD countries and between 60 to 70 per cent of GDP in middle income and low income countries generating 60 to 70 percent employment (Oman Economic Review, 2007). The above facts show that SMEs play a very important role in the growth of economy of a country, and Oman is no exception.

SMEs IN OMAN

Oman is a country with unique features. It is a developing country and an oil producing country but is neither as poor as some of the other developing countries nor as rich as other oil producing countries. It does not depend much on foreign labour as some of the other GCC countries and expanding its small industrial base. With its small population and a large geographical area Oman has international standard roads to link all major cities of the country. Similarly, education and health facilities are expanded to rural and remote area. Telephone land lines or mobiles and internet services are available to more than 80% of the population. The female workforce represents 17% of the total workforce of Oman which is a very distinctive feature as compared to other Arab countries of the region (Rafi Ashraf and Muhammed Murtaza, 2008). Oman has limited resources, monetary and human and has to use these resources in an efficient way learning from the experiences of other countries. Oman is a country where there are ample scopes for the local people to generate income from different sources especially after the introduction of Omanisation policy.

The SME sector in Oman comprises a variety of business units. Ministry of National Economy, Sultanate of Oman has identified and classified the present SMEs into fifteen economic activities group (agriculture, fishing, mining and quarrying, manufacturing, electricity-gas and water, construction, wholesale-retail trade and car repair, hotels and restaurants, transport storage and communication, financial intermediaries, real estate and renting services, social insurance, health and social work, community and personal services and domestic services) and some of the SMEs which are not identified particularly are put in ‘Unknown’ and ‘Not stated’ group. According to the Ministry of National Economy the total number of SME units registered in Oman in 2009 is 118,386 which are scattered in four governorates, Muscat, Dhofar, Musandam and Al Buraimi and five regions, Al Batinah, Al Dhahirah, Al Dakhliyah, Ash Sharqiyyah and Al Wusta. According to an estimate of HSBC Middle East Bank there are only 15000 to 20000 SMEs in Oman generating only 10-20% employment (Oman Economic Review 2007). According to the Oman Ministry of Commerce and Industry, SMEs represent more than 90% from the total number of enterprises in Oman. They contribute around 23% of the gross domestic product (GDP). There are about 118,386 SMEs in the Sultanate with a labour force of 156,135 in the year 2009 (Ministry of National economy, 2010 and Ministry of Commerce and Industry, 2010). These estimates show that there is a significant potential for the SMEs in Oman to grow in terms of contribution to GDP and employment, and to be competitive at regional and international level.

OPPORTUNITIES AND BARRIERS

Government of Oman has established a Sanad programme to encourage entrepreneurship and develop SMEs by providing them necessary finance, guidance and training. From the private sector a number of organisations are contributing in the growth of SMEs. For example Shell has established a $10 million Intilaqaah Enterprise Fund to provide capital and on-going support for SMEs in Oman (Rafi Ashrafi and Muhammed Murtaza, 2008). In addition, Business Diagnostic Centre, Youth Fund Projects, and a proposed PEIE Innovation Centre are all meant for the promotion of SMEs in Oman. Even then country faces the problems of economic diversification, employment creation, income generation and poverty alleviation. The main strategy to achieve these goals has been the promotion of entrepreneurship and small business development. Like other countries the sustainable growth of SMEs in Oman will also depend on the efficient and disciplined financial management of the enterprise. There are many published research including those of Olsen et al (1992); Higgins (1977) and Babcock (1970) who are strongly of the view that growth must be viewed in a strategic context of financial management. They emphasis on a concept which has been referred to as sustainable, affordable and attainable.
growth. This sustainable growth is defined by Higgins (1977) as “the annual percentage of increase in sales that is consistent with the firm’s established financial policies”. Departments under various governments have enacted legislation aimed at enabling small and medium enterprises (SMEs) to get access to funding, technical support, tax incentives and markets. But these projects get only limited support in most developing countries (Financial Access, 2010). In Oman too, SMEs have a vital role in energizing the national economy and supporting big enterprises. Besides, they provide employment opportunities. Understanding their importance, the government provides a lot of incentives and assistance to them. Still, there are some challenges and constraints that they face. Insufficient funding is one of the biggest challenges they face in the path of development and expansion (Directorate of SMEs, 2010). The role of the Ministry of Commerce and Industry is to reduce difficulties as much as possible in cooperation with competent authorities. The Directorate General for the development of SMEs cooperates with enterprises from the private sector in order to achieve the desired results in the short term and long term. The role of the directorate is to conduct awareness and training programmes for the entrepreneurs and find alternative funding sources in coordination with government agencies to resolve the financing problems faced by these institutions. Before the inception of any exclusive directorate for the development of this sector, there were only two units to finance such projects in the Sultanate; but today all banks have the units to finance them. Besides, its responsibilities include introducing appropriate legislation and facilitating a favourable environment where SMEs can function successfully and with consistency.

SMEs enjoy a lot of privileges unlike big companies. One of the main characteristics of these enterprises is the small investment required. This makes them less vulnerable to risks. This advantage creates opportunities for better administrative and technical development and creates new areas of individual entrepreneurship and promotes a culture of self-reliance among the youth. It also reduces the pressure on the public sector in creating employment opportunities.

SMEs face problems in all parts of the world. Though the nature of these problems may vary according to the regions and sectors, there are some common problems faced by SMEs in all parts of the world. The main constraint faced by SMEs is the cost of capital, which is reflected directly on the profitability of such projects. They have to pay interest at rates which are higher than that paid by large enterprises. Inflation also affects the prices of raw materials and labour costs, which will inevitably lead to higher operation costs. They face competition from large-scale projects, which limits their ability to raise prices to avoid the impact of high labour costs and prices of raw materials. Besides, SMEs find it difficulty in giving guarantees and the absence of a credit history. Financial institutions are exposed to a number of risks in the financing of small and medium projects in various stages of growth.

Other constraints are legal procedures, competition and scarcity of raw materials. The government provides incentives and assistance to SMEs, including identifying investment opportunities available in the Sultanate, awareness about the importance of SMEs in the development of local communities providing advice and guidance to establish economically viable projects and developing skills of individuals and institutions. The government supports them by allowing them loans without interest and helping them in supervision of the projects so that they would be able to generate profit. It also has advisory bodies that give ideas for projects, directing the investor to the appropriate sources of funding and helping them overcome obstacles.

In spite of the concerted efforts made to promote the development of Small and Medium Enterprises (SMEs), their failure is increasing at an alarming rate. The rate of sickness among the SMEs shows an increasing trend recently (Directorate of SMEs, 2010). Industrial experts cited many reasons for these failures but inefficient and undisciplined financial management and lack of entrepreneurship were the main reasons for the majority of failures (World Bank Survey, 2004). Therefore, it is quite proper to analyse the existing overall management practices in general and financial management practices in particular in these SMEs in the light of accepted theories and see how far these are responsible for their present state of affairs.

To provide an updated appreciation of pertinent aspects of SME internationalization, the report reviewed the post OECD-APEC survey evidence on the top barriers, drivers and support programs across OECD and APEC member economies and other economies involved in the OECD enlargement and enhanced engagement processes. This has yielded important longitudinal insights, thereby indicating that support programs are appropriately focused on the most resilient and enduring of the factors affecting SME internationalization.

Growth of SMEs in Oman shows an increasing trend for the past few years but at the same time many SMEs are going sick. The alarming rate of sickness, especially among the Omani SMEs is due to the lack of entrepreneurship quality in Omani people. Discussion with some of the sick small and medium entrepreneurs envisaged that the alarming rate of sickness was mainly because of neglecting the financial management sector of the enterprises. It is very significant that most SMEs could stay in the industry for a very long time if they could apply financial management techniques effectively (Zongsheng Liu, 2010). Proper maintenance of accounts, periodical analysis of working capital, cash flows, ratio analysis etc., will make SMEs financially sound in the economy. But, since the Omani owner-managers have many duties to carry out, it was observed that they do not have enough time to devote to long term planning of the company. Instead, most of their time is spent on day-to-day operational activities and in solving the current day’s crisis. Also due to cyclical or seasonal nature of much small business the amount of working capital required can vary enormously. SMEs are for that matter vulnerable to working capital management fiasco which can degenerate into poor financial management. A recent study made by Intilaqa identified the following ten major reasons for the small business failures in Oman (Crew R. William, 2001); lack of business planning skills; lack of entrepreneurial focus on the core business; unrealistic sales projections; inadequate competition analyses; lack of industry specific skills, experience; insufficient working
capital management; inadequate financial reporting; mingling personal and business funds; lack of diverse client base; borrowing more money than necessary. All these revealed that the Omani entrepreneurs have not given much attention on the financial management in general and working capital management in particular in the business concern. The professional financial management is conspicuously absent in Omani owned SMEs.

CONCLUSION

SMEs all over the world have been recognized as the silent drivers of a nation’s economy. Their enterprise is laudable and their ability to generate pools of growth and employment, invaluable. This is true for most developed, as well as developing economies. In the emerging economic order SMEs are the leading edge when it comes to innovation and entering new global markets. The SME story in the Sultanate is not different. SMEs form the backbone of Oman’s economy. The studies show that SMEs’ contributions towards GDP and employment creation in Oman is far below when compared to other developed and developing countries. A number of factors, ranging from the overall business environment to the availability of an educated and trained labour force, affect the growth of SMEs. But lack of access to finance consistently ranked as the most important obstacles to doing business in Oman. Many failures in SME sectors reported in the past few years were due to the absence of efficient management systems especially the financial management practices in the enterprises. A study of the management practices of SMEs of Oman particularly the financial management practices will give light to the real issues of this sector and thereby strengthen the very base of the SMEs in Oman.

References:

26. World Bank Enterprise Analysis Surveys (various years)
ANNEXURE

Table 1. Barriers ranked by SMEs using the top ten ranking method

<table>
<thead>
<tr>
<th>Rank – Weighted factor</th>
<th>Description of barrier</th>
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<tbody>
<tr>
<td>1</td>
<td>Shortage of working capital to finance exports</td>
</tr>
<tr>
<td>2</td>
<td>Identifying foreign business opportunities</td>
</tr>
<tr>
<td>3</td>
<td>Limited information to locate/analyse markets</td>
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<tr>
<td>4</td>
<td>Inability to contact potential overseas customers</td>
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<tr>
<td>5</td>
<td>Obtaining reliable foreign representation</td>
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<td>6</td>
<td>Lack of managerial time to deal with internationalisation</td>
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<tr>
<td>7</td>
<td>Inadequate quantity of and/or untrained personnel for internationalisation</td>
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<tr>
<td>8</td>
<td>Difficulty in matching competitors’ prices</td>
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<tr>
<td>9</td>
<td>Lack of home government assistance/incentives</td>
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<tr>
<td>10</td>
<td>Excessive transportation costs</td>
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