



## Framework for Oman's Economic Development through Small & Medium Enterprise

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### Abstract

*Enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development. From the socio-economic development viewpoint, SMEs provide a variety of benefits. The purpose of this study is to examine the link between economic growth and small and medium enterprise performance and develop a conceptual framework in Oman context. Desk Research technique was conducted for this study. The contribution which small and medium businesses can make to national economy and wealth creation needs to be recognized by the governments from the beginning and be considered as part and parcel of the economic development process. SMEs are the major growing force behind the growing economy of the Sultanate of Oman. Experts and economists are unanimous about the role of small and medium enterprises in the development of Oman's economy. Small and medium enterprises, now representing the largest category in the economic sector, will complement the activities of large-scale businesses as industrialization gains pace in Oman. There is a need to emphasize the role of SME entrepreneurs in economic development, and to ascertain the role of SMEs in capacity building, employment generation, promoting competitive market, technological development for the economic growth of the Sultanate of Oman.*

**KEYWORDS:** Capacity Building; Competitive Market; Economy Growth; Employment Generation; Technology

### 1. Introduction

Entrepreneurs are the potential future designers of any economy. The development of entrepreneurship is one of the sources of economic development. The concept of entrepreneurial development is to prepare a person with essential knowledge and information that are required for building the enterprise and shine his entrepreneurial skills. The development of entrepreneurs and enterprise is a vital part of entrepreneurship development through the entrepreneurship process (Melwani,2018). Entrepreneurship has been assessed as a driving force of decentralization, economic restructuring, and movement in the direction of the market economy (Smallbone et al., 1996).

Small and Medium Enterprises have been discovered to be a key driver for a country's economic growth of any country (Schmiemann,2009). Small and Medium Enterprises occupy a place of pride in virtually every country or state. Because of their significant roles in the development and growth of various economies, they have aptly been referred to as "the engine of growth" and "catalysts for socio-economic transformation of any

country". SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology(Nwachukwu,2012). According to the Global Entrepreneurship and Development Institute(2015), the USA ranks first in terms of supporting its entrepreneurs with respect to business formation, expansion, and growth followed by Canada and Australia. But now in 2019 in terms of government support, financing, and policy formulation, Japan ranks as the top entrepreneurship country followed by Germany and the USA. The economic growth of a country depends on the number of entrepreneurs present in that country as well as on a favorable social-economic environment of that country (Kumar & Raj, 2019).

### 2. Purpose & Method of the Study

Small and medium-sized enterprises represent the dominant form of business organization in the economic system globally and play important roles in the economic development and increased competitiveness of the



economy (Neykova & Miltchev, 2019). The objective of the study are as follows

- To review the previous researches and understand the contribution of entrepreneurship development in the economic development of the country.
- To examine the link between economic growth and small and medium enterprise performance and develop a conceptual framework in Oman context.
- To ascertain the role of SMEs in capacity building, employment generation, promoting competitive market, technological development for the economic growth of the Sultanate of Oman.

Desk Research technique was conducted for this study. The entrepreneurship and economic growth-related literature were collected from various books, journals, online databases, and other web resources.

### 3. Literature Review

There available number of literatures for economic development and small and medium enterprise, some of the important aspects were reviewed and presented in this study. The definitions of SME are usually derived in each country, based on the role of SME in the economy, policies, and programs designed by particular agencies or institutions empowered to develop SME (Etuk, et al., 2014). SME can be defined based on certain criteria including, turnover, number of employees, profit, capital employed, available finance, market share, and relative size within the industry. The definition can be based on either some quantitative or qualitative variables. Quantitative definitions mainly express the size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as a quantitative index like the number of employees (Etuk, et al., 2014). In order for SMEs to fully participate in the process of

globalization, they must develop capacities that will enable them to be internationally competitive in global markets. This will involve building upon the advantages possessed by them entrepreneurial spirit, flexibility, resourcefulness, and an ability to identify business opportunities and market niches based upon their unique products and services (Harvie, 2004).

In many countries, the past few have witnessed a renewed interest in the development of small and medium enterprises (Oyeniran, et al,2015). SMEs represent a means to attain key macroeconomic objectives such as employment generation, increased growth, and poverty reduction at low investment cost while developing a country's entrepreneurial capabilities and indigenous technology(Adebiyi,2004). Economic development, achieved largely through productivity growth, is very important to both developed and developing nations. However, it is known that higher productivity leads to improved economic outcomes, for example, higher income, more choices to the consumers, better quality product (Lal & Clement, 2006).

### 4. SME in Sultanate of Oman

Late His Majesty of Sultanate of Oman vision is that the National Economy of a country is based on small and medium industries, these are the fundamentals, the foundations of all national economies. The Public Authority for Small & Medium Enterprises Development (Riyada) is the Sultanate of Oman's arm for the development of small and medium enterprises and the strengthening of their contribution to the local economy through a wide range of business advisory services and training programs. According to the Public authority of small and medium enterprises development, the total number of registered small and medium businesses is around 80000 in Oman. In Sultanate of Oman, Public authority of small and medium enterprises development categorized enterprise based on three criteria.

Enterprise size	No of Employees	Annual Sales
Micro	1 – 5	Less than RO 1,00,000
Small	6 – 25	RO 1,00,000 – 5,00,000
Medium	26 – 99	RO 5,00,000 – 3,000,000

Source: Public Authority for Small & Medium Enterprise Development

Both developed and developing countries Medium Enterprises (SMEs) make in the development of recognize the important contributions which Small and national goals. As a result, SMEs are, in most countries, a

key component of the development agenda and strategy. Small and medium-sized enterprises (SMEs) are now recognized as being of major importance to the strategic agendas of many countries around the world since they can lower unemployment and increase economic growth. This is particularly significant for a small country like Oman which is seeking to diversify its production base (Al-Kharusi, 2003). The contribution made by Small and Medium Enterprises (SMEs) in developing and achieving national goals is recognized in developed and developing countries alike and, as such, they are seen to be of vital importance in many nations' strategic agendas. Indeed, forward planning in many developed countries emphasizes and encourages the creation, promotion, and support of SMEs in order to combat unemployment, distribute income and increase the rate of economic growth (Kemashky, et al.,1995).

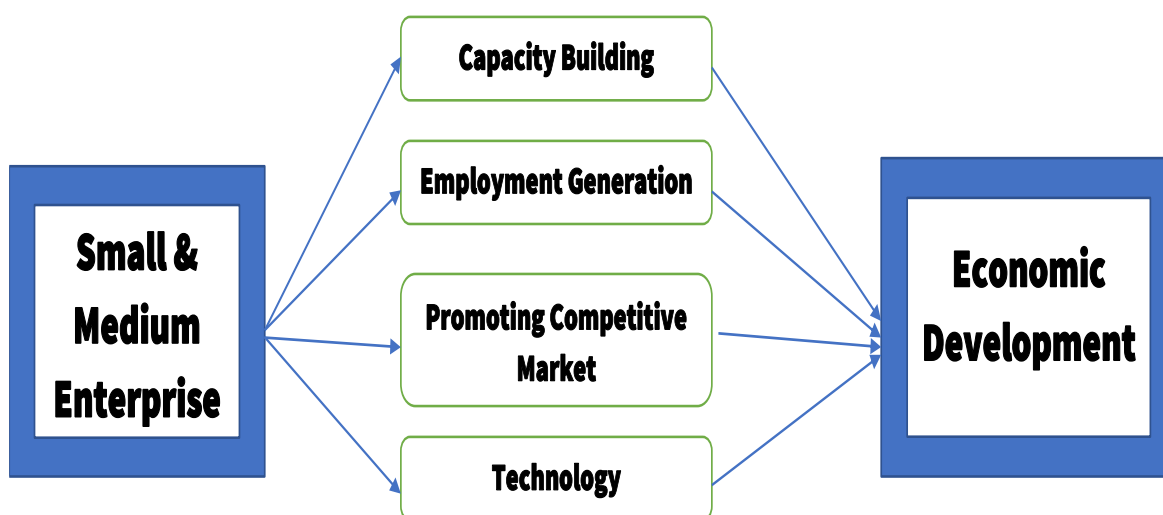
In Oman, small businesses have earned recognition from the government (Oman daily,2001). This is because of their importance in generating new jobs, developing local resources, and playing an important complementary role to large firms (Al Markazi, 2001). By reinforcing economic growth and development, small firms help to create a more prosperous society, thus improving the nation's well-being as a whole. The high priority given to promoting small business in Oman is not

just because of the above-mentioned contributions, but also more significantly due to Oman's industrial structure.

As the pace of industrialization increases, it is expected that Small and Medium Enterprises will complement the activities of Large-Scale Enterprises through integration into the mainstream of industrial development. Small and Medium Enterprises (SMEs) represent the largest category of establishment in economic sectors (Al-Kharusi, 2003). Furthermore, Small and Medium Enterprises are the most useful platform upon which entrepreneurs can upgrade their investments and hone their management skills. SMEs have played many vital roles in providing avenues for local investors to diversify into manufacturing outputs as well as offering affordable investment opportunities that are suitable for domestic investors and the present managerial capability (Al-Dhahab, 2001).

Small and Medium Enterprises are mostly endogenously based enterprises, their links with large companies in Oman contribute indirectly to the same goal and therefore, by encouraging these links, the growth and expansion of SMEs are fostered. As the Omani economy moves into a more complex phase of industrialization and because more global, in its activities, the integration of an efficient network of supply industries is extremely essential if export activities are to expand (Al-Markhazi, 2001).

## 5. Conceptual Framework



Source: Developed by author

### 5.1 SME & Economic Development

Carree and Thurik (1998) studied the effect of small firms on industry output growth and found positive effects between the measure of entrepreneurship and

growth. The outcome of their study was that the share of small firms has an impact on industry output, in particular with that industry, and have better performance. Lal & Clement (2006) studied the role of individual enterprises



in relation to economic development. The study showed that reforms in market motivate the individual enterprises and a way to higher economic growth. The results of the study concluded that by fostering entrepreneurial activities India can generate additional economic growth. The study by Thurik(2008), provided a view on emerging economies and throws the light on the view that Entrepreneurship has emerged as an important element in the organization of economies. Smith (2010) studied entrepreneurship and economic growth in terms of the function of entrepreneurship in economic growth. The study confirmed that the level of entrepreneurship has a positive effect on economic growth. Shrivastava & Shrivastava (2013) emphasized the fact that entrepreneurs help to create new jobs for the people and hence helped in economic development. Toma et al.,(2014) studied the interconnectivity of economic development and entrepreneurship. The paper developed a theoretical model that showed some of the main factors which were connected with the association of entrepreneurship and economic development.

### 5.2 Capacity Building

Researchers have made significant efforts to deal with the problem of measurement difficulties as well by constructing measures of capacity building. It has been observed that in the light of the definition put forth by Teece et al. (1997) of dynamic capabilities, the research has put more emphasis on a firm's ability to integrate, build and reconfigure its internal competencies. However, there is not enough evidence in the literature on the dynamic capabilities employed to integrate, build, and reconfigure external competencies. Extant strategic management theory highlights that firms use alliances as a medium for acquiring external competencies, technology innovation, and enhancing core business activities (Mitchell & Canel, 2013).

### 5.3 Employment Generation

According to Birch(1979), one of the SME's potentials is to generate employment and thus reduce unemployment in the economy. Employment contribution of small business has been the main focus of policymakers at all levels of the economy. Ayyagari et al.(2011), in a unique cross-country database of 99 countries analysis, found that small firms with less than 100 employees and mature firms (firms older than ten years) have the largest shares of total employment and job creation ability with the young small firms standing out in job creation. ILO (2015) publication: "Small and medium-sized enterprises and decent and productive employment creation", found empirical evidence

confirming small businesses to be the engine of job creation in the developing economies. The job creation or destruction dynamics are driven by births and deaths, expansions and contractions, and in- and out-migration of firms.

### 5.4 Promoting Competitive Market

According to Kirzner (1983), it is not the entrepreneur who causes disequilibrium. To him, 'entrepreneurship identifies market opportunities. The entrepreneur is the one who correctly anticipates where the next imperfection will be'. According to Low et al.(2007, p.879), market orientation is depicted as a customer-led practice. This is because, market orientation requires organizations to monitor rapidly changing customer needs, and wants, determine the impact of such changes on customer satisfaction, enhance the innovation success and organizations' competitive advantages. Understanding the present and future needs of customers is crucial for organizations to spur the culture of innovation in the organization so as to continuously improve and develop products and services that meet customer wants and needs (Pelham and Wilson,1995). On the other hand, competitor orientation involves active monitoring of all existing and potential competitors in the marketplace and collect competitive intelligence to differentiate the competitors' approaches (Narver and Slater1990). The key objective of market-oriented organizations is to be attentive towards the competitor's activities and consider this as a source of ideas for new product development. In fact, a greater understanding of competitor orientation may reduce the failure of new products (Mahmoud et al. 2016).

### 5.5 Technology

SMEs are more flexible and can easily adapt the technology for better progress. SMEs are better placed to develop and implement new ideas. The flexibility of SMEs, their simple organizational structure, their low risk, and receptivity are the essential features facilitating them to be innovative(Shamim,2008). Research has shown that the introduction of new technology in SMEs has a major impact on the structure and functioning of those businesses (Ojukwu, 2006). For instance, several SMEs of the United Kingdom, France, and Germany have adopted "Internet Business Solution" which has resulted in huge cost savings to the organizations. SMEs can be benefited from the new process, techniques, or new ideas of production. SMEs with new technology may be able to overcome diseconomies of scale so as to compete with large enterprises. To compete in this



competitive market, SMEs have to monitor technological development actively. SMEs need technology to meet or exceed the expectations of customers (Islam & Nasira, 2017).

### 6. Discussion

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership (Nwachukwu, 2012). The development of the SME sector, therefore, represents an essential element in the growth strategy of most economies and holds particular significance in the case of the Sultanate of Oman. SMEs not only contribute significantly to improved living standards, employment generation, and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. From a planning standpoint, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth, and dispersal. In most countries, including the developed countries like Japan, the USA, UK, and many more SMEs account for well over half of the total share of employment, sales, value-added and hence contribution to GDP (Nwachukwu, 2012).

SME contributes to economic development in various ways by capacity building, employment generation, promoting competitive market, technology development. Unfortunately, SMEs have not played a significant and crucial role they are expected to play in Oman's economic growth, development, and industrialization. It is difficult to fathom out the reason why the SMEs would not lead Oman to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards. The most common constraints hindering small and medium scale business growth in Oman are lack of financial support, poor management, lack of training and experience, insufficient profits, and low demand for products and services.

The mortality rate among SMEs in Oman is very high within their first five years of existence. The reasons for the high mortality rate include the following among others: Many prospective entrepreneurs do not have a clear vision and mission of what they intend to do. Many of the SMEs are not business-specific and hence have no focus and are easily blown away by the wind. With the dismantling of trade barriers as part of globalization, SMEs in developing countries are facing intense

competition from industries of other countries, which have an enabling environment for production, distribution, and marketing (Nwachukwu, 2012). Omani Government may support Omani graduates to realize their entrepreneurial ambitions, contribute to the Omani economy, and achieve national inclusion (Subrahmanian, et al, 2017).

### 7. Future Study

The further study will provide a direction for the development of new SMEs and the expected role of SME entrepreneurs for the contribution to the economic development in the Sultanate of Oman through capacity building, employment generation, promoting competitive market, technological development. An intensive study will provide recommendations to the Government on the matter of urgency assist prospective entrepreneurs to have access to finance and necessary information relating to business opportunities, modern technology, raw materials, market, plant, and machinery which would enable them to reduce their operating cost and be more efficient to meet the market competitions. For the government to succeed in reinventing the future of SMEs, it has to extend the current reforms to the educational system to make it more functional, relevant, and need-oriented and driven. The thrust and emphasis should be on modern technology, practical technological, and entrepreneurial studies aimed at producing entrepreneurs.

### 8. Conclusion

In the past decades, there has been a growing interest regarding the concepts of economic development and entrepreneurship. Researchers have concluded that although "economic development theory can still be argued to lack a 'general theory' of entrepreneurship, one that could encompass a variety of development outcomes, progress has been made in extending the notion and understanding of entrepreneurship in economic development" (Naudé, 2008, p.1). Small businesses have earned government recognition in Oman because they have been important in generating employment, complementing the work of large firms, and in developing local resources (Al-Markazi, 2001). It is expected that small and medium enterprises, now representing the largest category in the economic sector, will complement the activities of large-scale businesses as industrialization gains pace in Oman. This will come about through their integration into the mainstream of industrial development since Oman is seeking to diversify its production base and also to develop a viable private sector capable of sustaining and increasing economic growth (Al-Kharusi, 2003). There is a need to emphasize the role of SME entrepreneurs in



economic development, and to ascertain the role of SMEs in competitive market, technological development for the capacity building, employment generation, promoting economic growth of the Sultanate of Oman.

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