

The Problems and Prospects of Small and Medium Enterprises (SMEs): Case study of Al-Dhakhilia Governorate, Oman

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Abstract - This research paper focuses on the problems faced by SMEs in Oman. What is the scenario before starting the business or enterprise and are they aware of financial institutions which support the growth and development of SMEs is the focus of this research. Primary and secondary data has been collected and analyzed through SPSS. The major findings are that it is the first generation of Omanis entering into business with new technology, till date they have been traditional businessmen. Another problem is not obtaining financial or business training prior or during establishment of the business, obtaining the professional advice mainly from families and friends and not preparing financial statements for decision making. Some recommendations have also been suggested. This research will be helpful for policy makers and students studying entrepreneurship.

Key words-Entrepreneurship, Oman, SMEs

I. INTRODUCTION

Small and medium enterprises are one of the salient drivers of a nations economy. They are able to generate not only employment but also gives a boost to economy by adding value to the overall output. All developing economies of the world focus on small and medium enterprises as they are the source of innovation and an easy way to enter the global market. Most of the SMEs are owned by small and medium entrepreneurs from different facets of economy be it agriculture , tourism, finance, education or even services. In order to survive and grow the SMEs utilize the best of equipment, resources and scientific methods along with their own capabilities and skills to develop new employment opportunities. The private sector is therefore a bonafide partner in terms of applying new development plans and experimenting societal/upliftment. Most of the economies witness 70 to 80% of industries in the SMS sector. The micro scale industries are high in number employing five or fewer persons.

II. RESEARCH PROBLEM

Why the SMEs are not able to survive for a longer period? In-spite of promotion from the government, from the financing authorities, yet their survival is a question.

The challenges that SMEs, especially the younger and smaller ones (as prevalent in Oman) face are many. Less than two out of three small businesses survive two years, and less than a third reach the four-year mark. Anecdotaly, this has been the experience of the major financiers of SMEs in Oman, all of whom have faced the challenges of the vulnerability of the sector. The financial position of SMEs is weak and they face difficulty obtaining good loans. Due to their smaller size they have their own limitations regarding management, bargaining power with suppliers and customers, inability to compete for big orders, payment delays, technological setbacks and highly skilled workers.

III. RESEARCH OBJECTIVES

This research aims to identify the relevant problems and challenges faced by the SMEs, search out the root cause of such problems and suggest recommendations for survival and growth of SMEs.

IV. LITERATURE REVIEW

A detailed systematic literature review was done on database 'Masader' TX 'Small and Medium Sized enterprises' and TX 'Problems and challenges' and TX 'Oman' but the initial result did not show any studies done in Oman. The key words were again searched with Oman and SMEs which again resulted in no studies in Oman. Google scholar was searched there after which resulted in very few studies.

Our first search was limited to Full Text, References Available and scholarly (Peer Reviewed) Journals with publication Date from 2017 to 2019, which resulted in 53 studies but none from Oman. The major Source Types was Academic Journals (53), Thesaurus Term were business enterprises (3), entrepreneurship (3), organizational performance (3), businesswomen (2), corruption (2) and economic development (2). Apart from this other sources like Google Scholar, the various published and unpublished data was searched and articles from newspapers was also included.

Formal MSMEs employ more than one-third of the world's labor force and are more likely to identify access to finance as their biggest obstacle than are large firms (Kushnir et al. 2010). The researchers Ghouse, S. et al. (2019) identified various problems faced by cottage-based women entrepreneurs and how the traditional omani families can promote their businesses. They studied 142 omani women run enterprises and found that it was difficult to get government aided funds and facilities and the cost of raw materials was high and their access to supplies was limited. Rakmachandran and Yahmadi (2019) also studied the challenges faced by SMEs in Oman and concluded that there is lack of basic business and market related knowledge and due to lack of easy access to finance and complicated financial procedures of banks and other financial institutions, the SMEs fall behind the large industries. They are also in short of skilled labor and technical expertise.

Knowledge Management (KM) and its impact on performance management of SME, has been studied by the researchers and found that knowledge management is in its infancy stage and has a lack of integrated framework, thus it has a mere impact on SME sector (Saqib, 2017).

Ashrafi & Murtaza (2008) studied the benefits of ICT adoption in SMEs. A survey was made on 51 SMEs and found that there was a lack of internal capability, lack of infrastructure and high cost of ICT, being some of the major barriers in adopting ICT. But SMEs were aware about the benefits of adoption as it would result in higher performance, better customer service and staying ahead of competition. The researchers also highlighted the need of more training facilities and professional advice and consulting at a reasonable cost. According to Al-Barwani et al. (2014) SMEs contribute 51% to GDP with a workforce employment of 50%, whereas in Singapore 99% of enterprises account for micro or small enterprises employing almost 70% of their workforce and adding up to 50% to GDP. In UAE, Dubai SME data shows that 95% of businesses employ 42% of workforce and contribute 40% value added to the economy (Dubai SME, 2011).

The researchers studied the problems and challenges in the Albanian SMEs and found that 98.5% of private businesses composed of SMEs in Albania and most of the SMEs use borrowed capital for developing their business and insurance costs are major factor in their profitability and impacts the competitiveness (Tomorri et al. 2015).

V. CHALLENGES IN THE SMES SECTOR

In the globalized economic era SMEs are the engines of growth and sustainable development but they are not aloof of challenges. The biggest challenge is related to sustainability, followed by competition and technological challenge. Prasanna et al. (2019) identified six driving forces of SMEs, social capital, link with Multi-National Corporations (MNCs) and Transnational Corporations (TNCs), innovation, sharing and networking, information technology, and adoption of productivity-enhancing technology. Most SMEs lack the all six driving forces due to their size and inability to compete with bigger players.

The SME challenges differ from country to country and industry to industry. Exporting challenges and problems of small and medium scale enterprises (SMEs) were studied by Paul et al. (2017), ICTs skills and expertise challenges (Duan et al. 2002; Asare, S.D., et al. 2012); Implementation of lean manufacturing by AlManei et al. (2017) and financing policies and the innovation in financing system, by Wonglimpiyarat (2015), are some of the SME challenge studies. Some of the other challenges identified by various researchers are lack of sufficient capital, inadequate market research, improper future planning, improper recording, inability to keep separate records for family and personal finance, non-availability of skilled personals, inability to compete in international market, high cost of capital and high overheads among others. (Onugu, 2005; Al-Barwani et al. 2014; Lampadarios, E. 2016.; Vrande, et al. 2009; Zhao, J., et al. 2013).

VI. POPULATION AND SAMPLE

According to the acting CEO of the Public Authority for the Development of Small and Medium Enterprises (PADSME) there are over 100,000 SMEs in the country and those registered with the Authority is over 6000 SMEs only. So, the researchers have contacted Public Authority for the Development of Small & Medium Enterprises to get a list of the SMEs located in Al-Dhakhilia Governorate and received a list containing about 575 entrepreneurs. 300 out of 575 entrepreneurs are located in Bahla and Nizwa and only 113 of them have E-mails. Both primary and secondary data were chosen to collect and analyse the data based on the research topic. Primary data were obtained through survey specifies to respondents, while secondary data were gathered through journals, articles and internet.

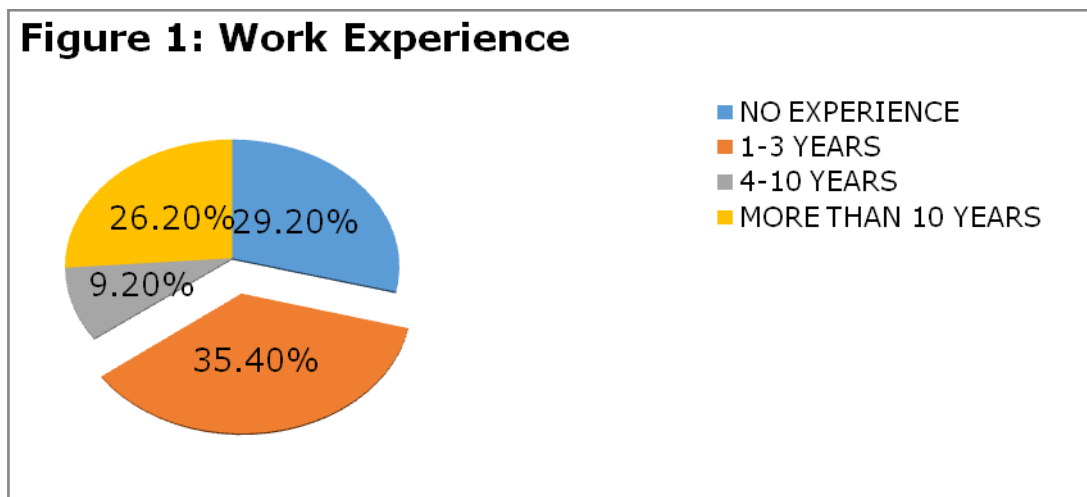
Out of all these copies distributed only 65 SMEs have answered the questionnaire as follows:

- 7 out of 113 have been distributed via e-mails.
- 10 out of 40 copies have been distributed in Nizwa Industrial Estates.
- 48 out of 70 have been disrupted among small shops.

VII. DATA ANALYSIS

7.1 Before Starting The Business

The survey shows that over 35% of the entrepreneurs have work experience from one to three years, about 29% with no experience and over 9% with four to ten years.



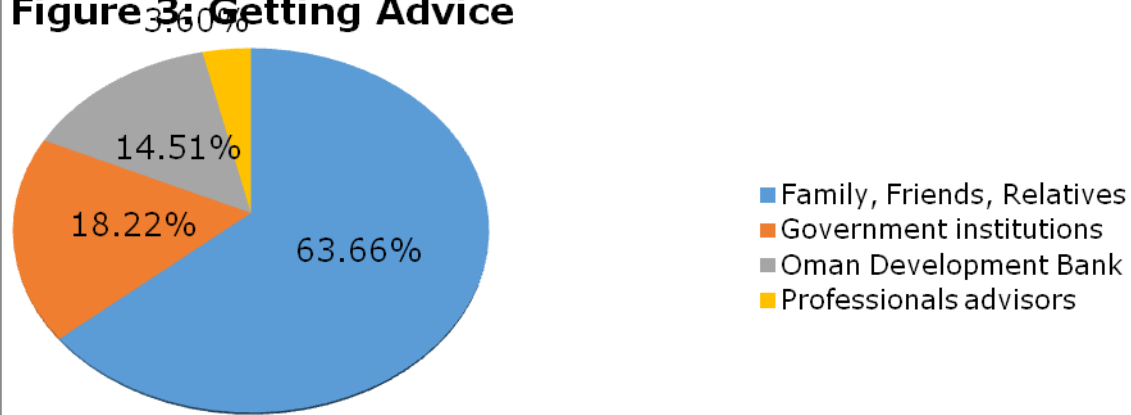
The survey shows that 36% of entrepreneurs have obtain financial or business training prior or during establishment of their business while about 64% have not.

Figure 2: Obtaining Business Administration Training



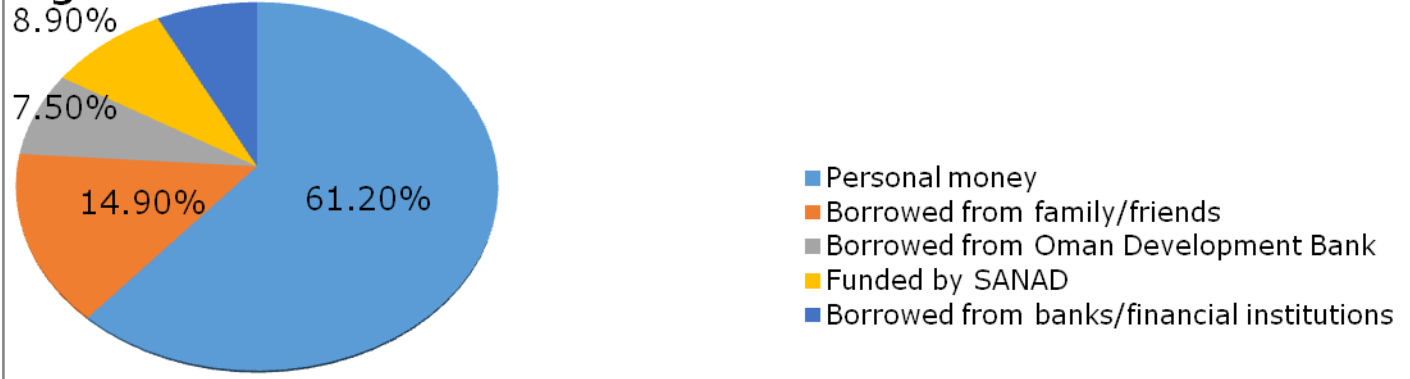
Based on the survey, over 67% of the entrepreneurs have obtain professional advice and about 33% have not. Besides that, bout 64% of the entrepreneurs have obtained the advice from their families and friends followed by over 18% from government institutions and only about 4% from professional advisors.

Figure 3: Getting Advice



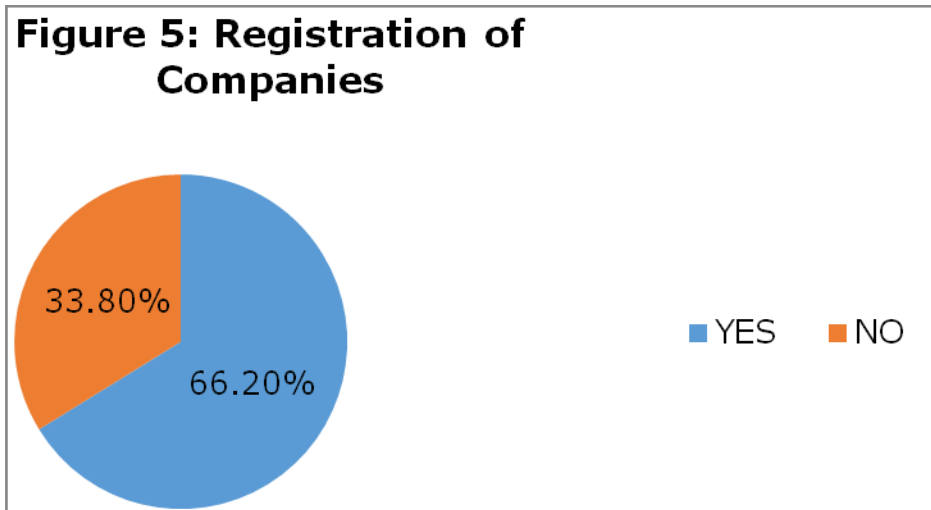
The survey shows that over 61% of entrepreneurs have used their own money or family money as a source for financing their projects, followed by about 15% have borrowed from their families and friends while only about 8% have borrowed from banks and financial institutions.

Figure 4: Sources of Finance



Over 66% of entrepreneurs have agreed that the registration of companies is complicated, while about 34% have said its easy.

Figure 5: Registration of Companies



Q1: Work experience before starting current business?	NUMBER	PERCENTAGE
	65	100
- No experience	19	29.2
- From 1 year to 3 years	23	35.4
- From 4 years to 10 years	6	9.2
- More than 10 years	17	26.2

Q2: Did you undergo any financial or business administration training prior to establishing this business?	NUMBER	PERCENTAGE
	64	100
-yes	23	36
-no	41	64
Q3: Did you take professional help to establish your business?	NUMBER	PERCENTAGE
	64	100
-yes	43	67.2
-no	21	32.8
Q4: If yes, from whom?	NUMBER	PERCENTAGE
	55	100
- Family, Friends, Relatives	35	63.6
- Government institutions	10	18.2
- Oman Development Bank	8	14.5
- Professionals advisors	2	3.6
- Other (Please specify)	0	
Q5: How did you finance your current business?	NUMBER	PERCENTAGE
	67	100

- self financing,	41	61.2
- borrowings from family and friends	10	14.9
- Borrowed from family/friends,	5	7.5
- Borrowed from Oman Development Bank,	6	8.9
- Funded by SANAD	5	7.5
- borrowing from banks and other financial institutions		
- Any Other (Specify)		
Q6: Is the registration of companies complicated?	NUMBER	PERCENTAGE
	65	100
-yes	43	66.2
-no	22	33.8

Table 1: Scenario Before starting the business

Summary:

From the above table we can see the followings:

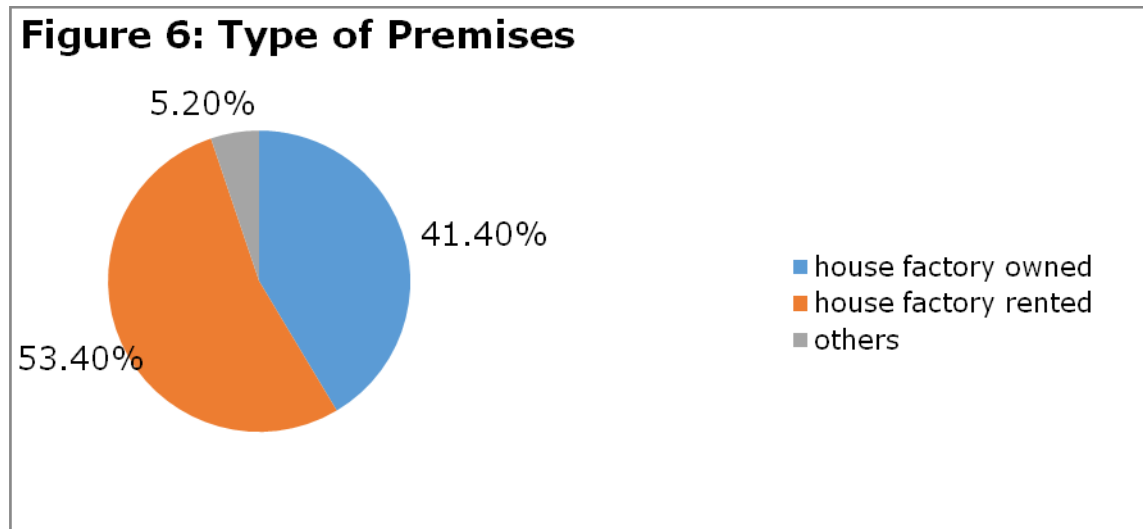
- over 35% of entrepreneurs have a work experience from one to three years.
- 64% of them have not obtain financial or business training prior or during establishment of their business.
- about 67% of the entrepreneurs have obtain professional advice and most of them obtained this advice from their families and friends.
- over 61% of entrepreneurs have used their own money or family money as a source for financing their projects.
- Over 66% of entrepreneurs have agreed that the registration of companies is complicated.

7.2 Infrastructure

Q1: Business Operation by-	NUMBER	PERCENTAGE
	58	100
- self owned premises	24	41.4
- Rented premises	31	53.4
- Any Other form (please specify)	3	5.2

Table 2: Type of premises

The survey shows that over 53% are operating from rented premises , while over 5% are operating from other pre-mises.



Q2: Did you get a commercial or industrial land from the government?	NUMBER	PERCENTAGE
	63	100
-yes	22	35
-no	41	65

Q3: If No, Did you apply for a commercial or industrial land from the government?	NUMBER	PERCENTAGE
	49	100
-yes	32	65.3
-no	17	34.7

Table 3: Commercial/Industrial land from Govt.

Based on the survey, only 35% of entrepreneurs have got a commercial or industrial land from the government while 65% have not. Besides that, over 65% have applied for a commercial or industrial land from the government, while about 35% have not.

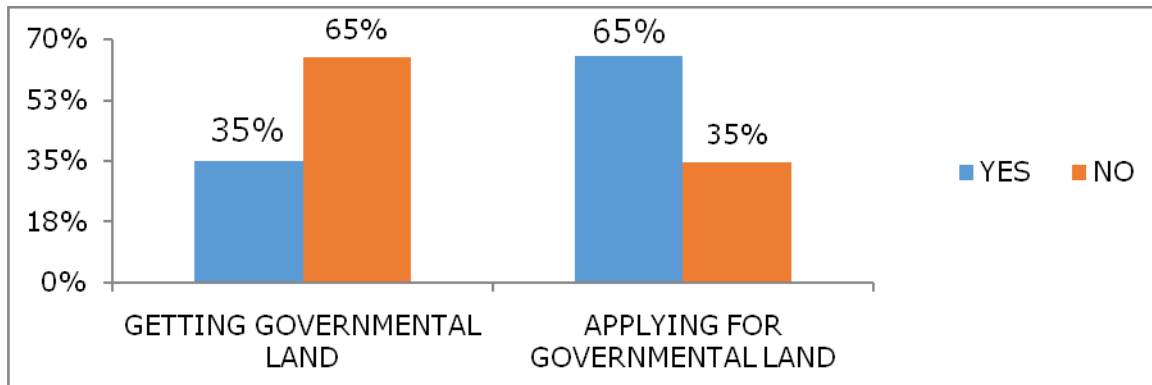


Figure 7: getting govt. land

Q4: Is water , electricity and roads are available in your location?	NUMBER	PERCENTAGE
	62	100
-yes	53	85.5
-no	9	14.5

Table 4: Utilities

The survey shows that about 86% of entrepreneurs have said that the utilities are available in their location while about 14% of them said it's not available.

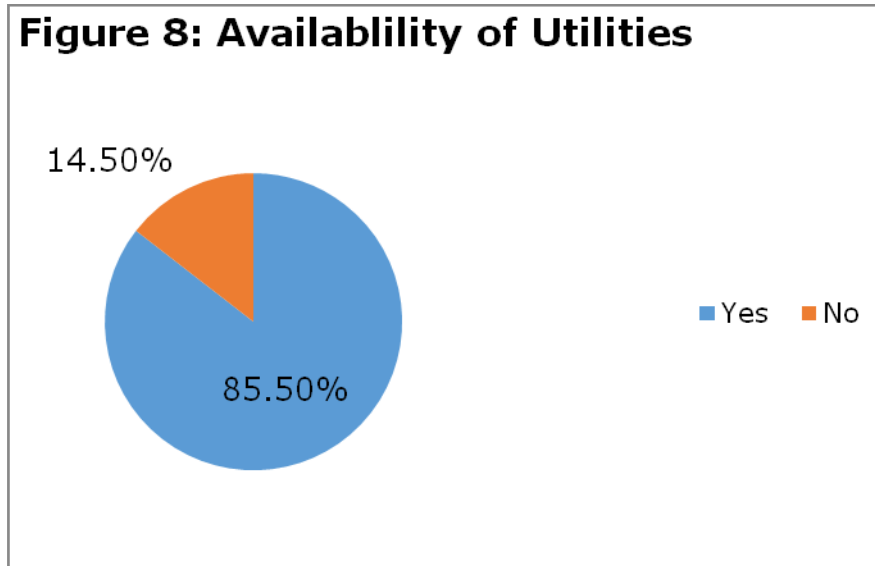


Figure 8: Utilities

Q5: do you think that the existence of business incubators in the governo- rate will enhance your work and encourage more people to start their own business?	NUMBER	PERCENTAGE
	56	100
-yes	52	92.9
-no	4	7.1

Table 5: Business Incubator

Based on the survey, about 93% of the entrepreneurs think that the existence of business incubators in the governo- rate will enhance their work and encourage more people to start their own business while only 7% think it's not.

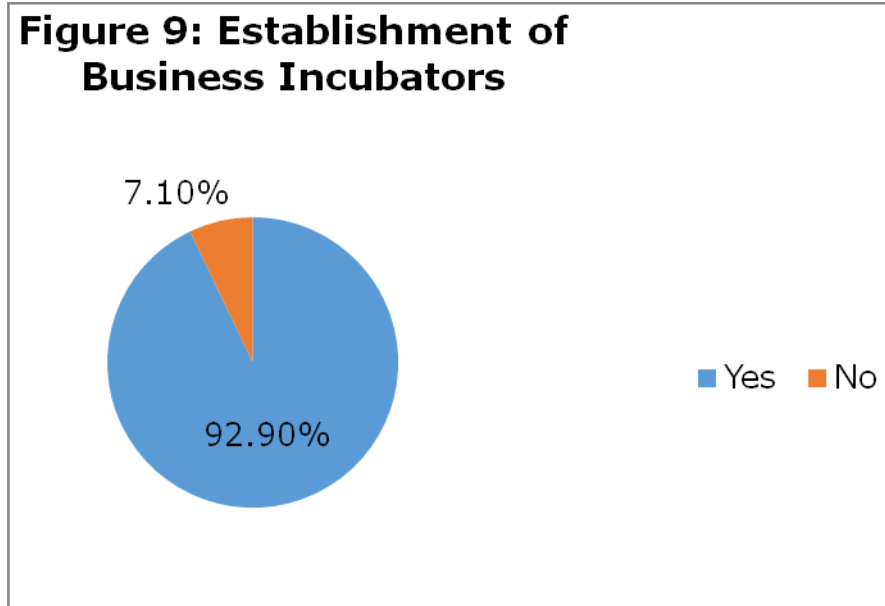


Figure 9: Establishment of Business Incubator

Q6: Arrangement of plant and equipment for the business-	NUMBER	PERCENTAGE
	58	100
Locally fabricated:		
-Yes	10	17.2
-No	25	
Imported:		
-Yes	48	82.8
-No	1	

Q7: availability of raw material for the business	NUMBER	PERCENTAGE
	54	100
Locally sourced:		
-Yes	20	37
-No	14	
Imported:		
-Yes	34	63
-No	5	
Q8: availability of workshop Spares and Parts for the business	NUMBER	PERCENTAGE
	47	100
Locally sourced:		
-Yes	13	27.7
-No	15	
Imported:		
-Yes	34	72.3
-No	6	

Table 6: Machinery and Raw Materials

Based on the survey, over 17% of the machines and plants used by the entrepreneurs are locally fabricated while about 83% are imported. Also, about 37% of the raw materials used are locally sourced while about 63% are imported. Besides that, about 28% of the spares and parts used are locally sourced, while over 72% were imported

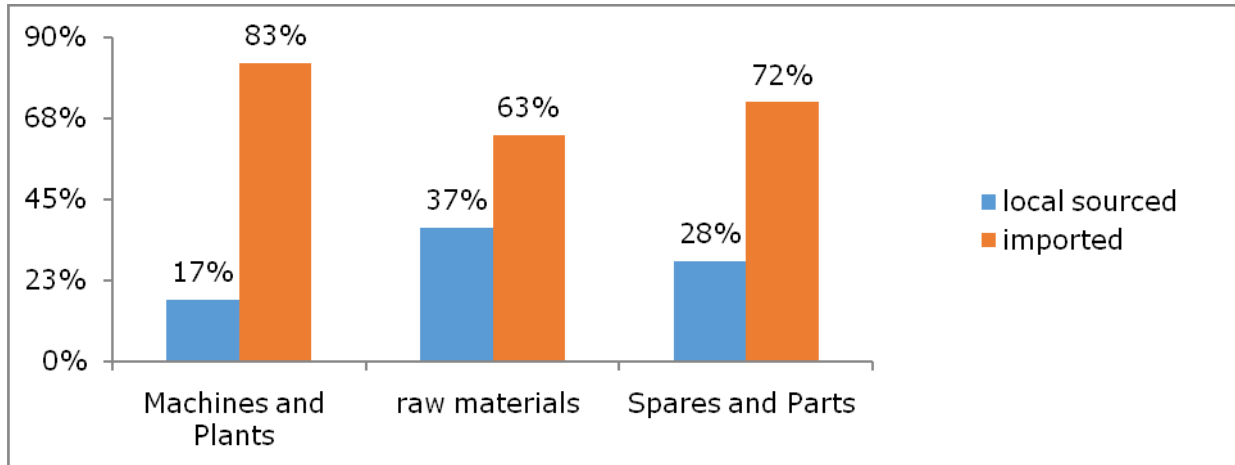


Figure 10: Machinery and Raw Materials

Q9: Are Products or Raw Materials available at the time you need them?	NUMBER	PERCENTAGE
	60	100
-yes	38	63.3
-no	22	36.7

Table 7: Availability of Raw Material

Based on the survey, over 63% of entrepreneurs said that products or raw materials are available at the time they need them while about 37% said it's not available on time.

From the above data and with regard to infrastructure we can find the following:

- over 53% of entrepreneurs are operating from rented premises.
- only 35% of entrepreneurs have got a commercial or industrial land from the government and over 65% have applied for a commercial or industrial land from the government.
- about 86% of entrepreneurs have said that the utilities are available in their location.
- about 93% of the entrepreneurs think that the existence of business incubators in the governorate will enhance their work and encourage more people to start their own business.
- only 17% of the machines and plants used by the entrepreneurs are locally fabricated while only 37% of the raw materials used are locally sourced. Besides that only 28% of the spares and parts used are locally sourced .
- over 63% of entrepreneurs said that products or raw materials are available at the time they need them.

VIII. CONCLUSION & RECOMMENDATION

Based on the findings we can see that in Aldakhliya region, it is the first generation of entrepreneurs who have a work experience from one to three years and most of them have not obtained financial or business training prior to establishment of their business. They have entered into this business only due to recommendation from family and friends and they also find the government registration process very complicated.

So in order to overcome these problems, it is recommended that a branch for the Public Authority for Development of Small and Medium Enterprises should be opened in all governorate in Oman. Policy reforms and training facilities must be provided to SMEs to encourage them. Strong infrastructure and professional help will be an added advantage. Proper guidance regarding assessing the viability of projects must be given. They must provide more facilities through Islamic banking since many people don't like traditional banking. Innovative financial support and technological advancement can help SMEs to sustain.

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