

# UNDERSTANDING THE PARADOXICAL DROP IN GROWTH OF SMALL AND MEDIUM ENTREPRENEURS- CAUSE, CHALLENGES AND CONCERNS

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## ABSTRACT

*Considering importance of small and medium enterprises (SMEs) in contribution to economic development of any country, many governments have paid attention to ensure their success and help lending support in case of crisis. Presently small and medium entrepreneurs from the Middle East nations face crucial challenges to sustain due to looming oil crisis and there have been reports of declining of SME's. A survey was conducted on n=147 Small and medium entrepreneurs in the Muscat city of Oman to understand the cause of drop in number of small and medium entrepreneurs and their challenges and concerns along with employment issues in the wake of deepening oil crisis. Their views are expressed in this study and after summarising their views it was found that there are many challenges that are required to overcome, including financial and marketing conditions before the smooth ride. Suggestions and directions for future research have also been incorporated in this study.*

**Keywords:** Small and Medium Enterprises, Oil Crisis.

## INTRODUCTION

Oman's ninth five year development plan 2016-2020 has laid emphasis for development of small and medium enterprises (Supreme Council for planning, 2018). There are at present 24,991 SME's in Oman out of which 17,448 are Micro industries, 6390 are small industries and 1153 are medium sized industries (Riyada, 2015). According to a report, in recent years there have been intensified efforts related to developing the financial sector, financing the private sector, improving investment climate and promoting Small and Medium Enterprises (Central Bank of Oman, 2016). Providing different kinds of support and facilitate all procedures and rules which are related to conducting of new business as well as providing all kinds of infrastructure have taken a top priority by the government and also by some of the reputed companies in the private sector. One example is issuing guidelines to all banks to allocate 5% of their total credits to small and medium enterprises (Central Bank of Oman, 2016). The government provides a very good technical and financial support and consulting service to youth entrepreneurs (Buhairi, 2014). For example The Fund for Development of Youth Projects, known as 'Sharakah' was established by a Royal Decree in the year 1998 and Al Raffd Fund was developed in the year 2013 which shows the on-going commitment and support of Oman government to entrepreneurs

(Sharakah, 1998 and Al Raffd, 2013). Moreover, the government has established a specific centre for providing consultancies and funding SMEs like Public Authority for Small and Medium Enterprises development Fund (SMEF) in the year 2014 and Public Authority for Small and Medium Enterprises development (RIYADA) in the year 2015 (SMEF, 2017 and Riyada, 2015). An article published by the Al Shabiba Newspaper on 5th February 2017 states that about 30,000 activities recorded as a small and medium enterprises representing almost 90% of the total business in Oman including the large companies (Buloushi, 2017). This shows that Oman Government has taken a lot of initiative to promote entrepreneurship in Oman. Despite all efforts to increase SME's, there have been reports that the growth of small and medium entrepreneurs have been declining, for instance according to Al Barwani (2014) there was a fall in the number of Small and Medium Enterprises (SMEs) in Oman in the first quarter of 2017, compared with the same period of last year. The number of SMEs in the Sultanate declined by 31.2% year-on-year in the first quarter of the current year, according to a recent report issued by the National Centre for Statistics and Information, Oman's premier statistical agency (NCSI, 2017). According to NCSI (2017), Muscat governorate had the highest number of SMEs at 930, but marked a 9.4% decline from the number of SMEs in the first quarter of last year, which stood at 1026, even Dhofar registered a significant 43.6% fall in SMEs at 167 as against 296 SMEs during the same period of 2016, while Musandam maintained the numbers at 12. NCSI (2017) further reported that Al Buraimi too witnessed a drastic 45.7% drop in the number of SMEs, which declined to 44 from last year's 81 and the trend continued in the governorates of Dhakhliyah and Al Batinah North, with the number of SMEs shrinking by 55.4% and 48.9% respectively to reach 379 and 399 SMEs by March-end. Dhahirah logged a 36% fall in SMEs at 174 as against last year's 272, while Sahrqiyah South and North saw SME numbers fall by 15% and 18.3% respectively to 164 and 178 as against last year's 193 and 218 SMEs in the first quarter (NCSI, 2017). Therefore this study was conducted as it was of utmost importance to find the cause of declining of SME's and understand concerns and challenges of small and medium entrepreneurs in Sultanate of Oman.

According to official statistics published by The General Authority for Manpower Register 2016, number of activated job seeker was around 42,000 Omani, and 75% of those were under 29 years of age, 67% of them were females (Rajab, 2017). In addition, the same statistic represented that the average waiting period for jobs was about 3.5 years (Rajab, 2017). Therefore this research also aimed to study the importance of small and medium enterprises to be as a source of recruitment for job seekers in Oman. This paper comprises of theoretical concepts and framework, what is an enterprise? definition of small and medium enterprises (SMEs), SME definition in Oman context, definition of unemployment, some institutional support for SMEs in Oman from Government Agencies-Ministry of Manpower (Sanad-Programme), Ministry of Commerce and Industry (Business Diagnostic Centre), Omani Women's Association and Private sector- Intilaaqah Programme, Grofin Oman, Bank Dhofar, Bank Muscat, Fund for Development of Youth Projects "*Sharakah*" and Oman International Bank. Literature Review has been done along with the objectives of the study, research methodology, research design, research questions asked from small and medium entrepreneurs, sampling design, data collection method(s), analysis of data: tools & techniques, results & discussions, statistical analysis-T-Test, data collected from the open-ended questions, like-What are the various challenges that you are facing in your business? How do you see Oman environment as place for SMEs growth and investment? How do you see competition in the market? What challenges do you face while recruiting Omanis? On your recommendation, what is the best solution to solve the main

challenges faced by the entrepreneurs? What should the new entrepreneur keep in mind before starting any business? And finally we discuss on findings of the study along with conclusion.

## **THEORETICAL CONCEPTS AND FRAMEWORK**

His Majesty of Oman during a meeting with leaders and seniors of the Interior and Central governorates at SaihA'Shamekhat mentioned The National Economy of a country is in fact based on small and medium industries ... these are the fundamentals, the foundations of all national economies, may God protect him (SMEF, 2017). In brief, Oman is one of the Arab countries and one of the GCC Countries, bordering by The Kingdom of Saudi Arabia and UAE from the west, Yemen from the south, from the north Oman Sea and from the east the Arabian Sea. It has a population of approximately 4.6 million as the last statistic published by the National Centre for Statistic and Information and the area covers 309,500 square kilometres. The official language of the country is Arabic and there are some other languages spoken by some people, like: English, Sawaheeli, Aurdom, Hindi and other small spoken languages. Economy is mostly dependent on hydrocarbons and there are other sources of income like tourism, fish, agriculture, foreign investment and other nature resources. In the last few years the government started to look for other resources to reduce dependence on oil and one of these resources is investment in small and medium enterprises. This is because of SME's importance in generating new jobs, developing local resources and playing an important complementary role to large firms. According to "*The Theory of Economic Development*", creation of new ventures is one of the factors affecting economic development (Schumpeter, 1912 and 1934). Currently Oman government is pursuing toward the policy of economic diversification to reduce its dependence on oil and gas and is moving steadily in the direction of developing entrepreneurship; therefore one can envisage higher growth in this sector. One may also believe that entrepreneurship has great potential for growth as it makes an effective contribution in economic development; therefore the government of Oman seeks to develop and take advantage of its geographical location. It has been witnessed during the past few years that several initiatives have been taken and facilities provided along with modification of several governmental regulations to encourage entrepreneurship in Oman. Even the government is welcoming foreign investors to exploit the facilities provided to them. During the couple of years, many small scale firms have been established which signifies optimism and a step in this direction shall also enable to provide employment to local citizens who can visualize their potential and future in this sector.

### **What is an enterprise?**

An enterprise has been defined in many different ways by many different researchers, because the term is very dynamic and could be different from one country to another country. This report uses the U.S. Census Bureau (Census) definition of an enterprise which is "*a business organization consisting of one or more domestic establishments under common ownership or control*" (Alexander, 2010). In addition, this research is using the terms (enterprises, business, firm, organisation, establishment and company) which are describing the same meaning /things and will be used interchangeably.

## Definition of Small and Medium Enterprises (SMEs)

The definition of SMEs differs from country to country according to selected criteria like number of employees, annual sales turnover, financial assets, and many more, however, the number of employees constitutes the main variation across national statistical systems (OECD, 2014). Here are some definitions given by some different countries.

In Canada the definition of SMEs refers to all establishments which have less than five hundred employees and less than 50 million dollar in gross revenue (Katua, 2014). In Egypt the SMEs definition is different from one entity to other according the usage, activities and objective. But all the definitions are mostly depending on the number of employees, capital size and the existence of certain legal or institutional conditions. The country has three main categories of SMEs: Micro Enterprises (1-4 workers), Small Enterprises (5-14 workers), and Medium Enterprises (15-49 workers) (Trade, 2003). In Dubai the government has defined SMEs as any enterprises which meet the thresholds of employee headcount and turnover and it is belong to which sector (service, manufacturing or trade). Further, small and medium enterprises classified in three categories, which are micro, small and medium (Dubai, 2017). According the European Union, most of the Europe countries defined SMEs as any enterprises that don't exceed 250 employees with annual sales turnover not exceeding €50 million as it shown in the following Table 1 and this is almost used by all the EU Countries (Ward, 2017).

Company category	Staff headcount	Turnover or Balance sheet total	
Medium-sized	<250	<250	≤ € 43 m
Small	<50	≤ € 10 m	≤ € 10 m
Micro	<10	≤ € 2 m	≤ € 2 m

In China SMEs definition varies by the type of industry, such as trade industry, manufacturing, transportation, accommodation, wholesaler, restaurant and catering, IT, real estate development and many else. The definition of SMEs in China doesn't consider only to the number of workers and sales turnover, but consider the type of industry with other factors (Ward, 2017). In U.S the definition of SMEs is mostly have the same characteristics of China, SMEs is different from one sector to another. The government have different definition according the type of business or the nature of sector, such as manufacturing, service and agricultural sector, but still the most measurable instruments are the number of workers and the total sales (Alexander, 2010).

In Oman SMEs is defined based on the number of employees and sales turnover, according to the Public Authority for Small and Medium Enterprises-Oman-SMEs are any establishment which has less than 100 workers and the sales turnover less than 3 million RO. In addition, SMEs in Oman is divided in three categories as explained in the following Figure (SMEF, 2017).

## SME Definition in Oman Context

The number of workers is determined according to workers registration in the Ministry of the manpower and the number of Omani registers in the Social Insurance and the numbers including all full time and part time employees.

Sales turnover determined according the latest final audited report for a ready existing establishment, and according to the initial estimation for the new establishment.

## Definition of Unemployment

According to Oman business law, unemployment defined as “*the number of people that don’t have job and they are job seeker and legally are ready to work*”. That’s mean unemployment doesn’t include people who are not looking for work, children, and the retired people. (The World Bank, 2017). SME in Sultanate of Oman like many other developed countries is considered as a source of income and social development in case of providing and creating more jobs for citizens. The country has developed many rules and regulations for providing many kinds of supports to ensure its success. The government has started many programs like Intelaqah, Sharakah program and some of Banks also provide financial support. The Authority like RIYADA aims to achieve overall development of the SME sector, to strengthen its role in providing more employment opportunities, reinforcing competition between established SMEs as well as assisting them in adding value to the economy and economic diversification (Muscatdaily, 2013).

## Some Institutional support for SMEs in Oman

Support provided to SMEs in Oman in Table 2.

Government Agencies	Private sector
Ministry of Manpower (Sanad -Programme)	Intilaaqah Programme, Grofin Oman, Bank Dhofar, Bank Muscat, Fund for Development of Youth Projects “Sharakah”, Oman International Bank
Ministry of Commerce and Industry (Business Diagnostic Centre), Omani Women’s Association	

## LITERATURE REVIEW

There are many previous studies that support the importance of small and medium enterprises in solving unemployment problems, due to these enterprises are creating many jobs and it is a source of employment in any country around the world (Alexandru, 2010). Here are some of these empirical literatures which show the roles of SMEs in employment and jobs creation.

A study conducted by Alexandru (2010) titled “*SMEs Contribution to Employment in The Public of Moldova*” found that SMEs creates many jobs and is a very strong engine to develop the economy. Moreover, this research discussed the roles of SMEs mainly from three aspects, which is the dynamic of employment in SMEs, the responsibilities of small and medium

enterprises in increasing employment, and the dimension according to gender of the entrepreneur (Alexandru, 2010).

According to Hurley (2015) the research shows small and medium enterprises are an important contributor in jobs creation and solving unemployment crises. The research aims to identify the different kinds of SMEs and which type is more or less dynamic job creators and determine the most challenges for job creation (Hurley, 2015).

A research conducted by Hidayet (2010) from the Suleyman Demirel University, Isparta/Turkey about the importance of SMEs in developing economies. The research briefly defined and discussed the definition of small and medium enterprises with support of some reputed institutions definition in Europe. Moreover, it discussed some advantages and disadvantages of SMEs, with more explanation and comparison between the small firms and large firms (Hidayet, 2010).

According to Katua (2014) SMEs are defined by the number of workers and the annual sales turnover and the study support that there is no one definition stable for small and medium enterprises. The definition may different from country to country depends to its law and regulations. Katua (2014) confirms that SMEs has huge responsibilities to support other sectors in creation different kinds of jobs and help innovations. In addition, he mentioned that SMEs may face many challenges and difficulties and he recorded some recommendations and solutions for that challenges (Thomas, 2014).

According one study conducted by three researchers (Mirela et al., 2014) from the Bucharest University of Economic Studies. A study was about the roles of SMEs in contribution of employment in Romania. The main objective of this study is to determine how much can be SMEs as a solution for unemployment and to solve some problems of economic crises and it focused on the impact of the crises on the active population of SMEs in Romania. They support and confirm that small and medium enterprises have multiple functions on unemployment and the economic growth (Mirela et al., 2014).

A study conducted by (Al Barwani, 2014) supported by the Central Bank of Oman on the small and medium enterprises sector in Oman. The study defined SMEs as it is defined according to Oman law with comparison with some other law definitions. Moreover, the research describes and discussed the main contribution of small and medium enterprises for both employment and the economy growth, and briefly discussed the challenges which faced by SMEs to recruit national manpower (Al Barwani, 2014).

According to article published by Muscat Daily (2013), small and business enterprises have a good contribution in jobs creation in the Sultanate and the country developed many strategies and policies to support entrepreneurs. The article mentioned that more than 90 per cent of the total business in Oman is contributed by the small and medium enterprises. According to same article, Mr. Khalifa Al Abri- CEO of the public authority for SMEs development-said that SMEs are the backbone of the private sector, where they provide the majority of jobs (Muscat Daily, 2013).

An article published by the Oman Economic Review (OER) on November 21, 2015, mentioned that Oman Government have taken many exemplary priorities to ensure the success of SMEs and providing the required environment in the recent years. The same articles have confirmed that 90 per cent of the total business in Oman is contributed by the SMEs and become a priority sector for the government, which is giving the much-needed push to create self-employment opportunities for the youth (OER, 2015).

According to research conducted by Frederick (2013) about the roles of SMEs contribution in jobs creation and economic growth, confirms that all small and medium enterprises play strong roles in providing the required jobs for the youth. Moreover, the research mentioned that many countries around the world have taken priorities to support this sector.

A study conducted by the U.S International Trade commission in 2010 about SMEs found that SMEs have a very positive impact on job creation and social development for society. (Alexander, 2010). To conclude, all studies where ever around the world confirm the roles of small and medium enterprises in jobs creation and helping to solve unemployment crises for any particular county but many of the firms fail during the start-ups or in the midst of their operation.

According to Vesper (1990) start-ups fail in the very early stages and less than one third of them turn into companies. Núñez (2007) state that failure occurs due to several reasons, such as lack of finance, team management problems, lack of enough business knowledge and technology lag. Therefore, this paper attempts to explain the paradoxical drop in growth of small and medium entrepreneurs- cause, challenges and concerns.

### **Objectives of the Study**

The main objective of this study was to understand the cause of decline in growth of small and medium enterprises, their challenges and concerns apart from SME's contribution in creating employment.

## **RESEARCH METHODOLOGY**

### **Research Design**

An open-ended and closed-ended questionnaire was prepared for the present SME's to determine the decline in growth of small and medium enterprises in Oman. It was assumed that the answers given by these SME's would provide us information about the cause of decline in growth of SME's. The questionnaire was designed according to the Likert scale (1-5). Content validity was used for validation in this study. The questionnaire included 20 questions that focused on the challenges to sustain and roles of SMEs in solving unemployment problems in Oman. The data gathered was then analysed using SPSS software. Therefore, t test was used for testing the research hypotheses, and to rank them. In this research coefficient, Cronbach's (alpha) was 0.860 which was calculated by SPSS software based on a randomly selected sample of 20 questionnaires. The questionnaire were distributed to reach maximum number of target participants like SME owners, General manager of SMEs or anyone who was involved in decision making in the firm. Apart from collecting the filled questionnaire, the views given by them in Arabic language were recorded and then were translated into English language to get more insights about the problem. Data were collected and analysed based on the respondent's answers.

### **Following Were the Research Questions Asked From Small and Medium Entrepreneurs**

1. What are the various challenges that you are facing in your business?
2. How do you see Oman environment as place for SMEs growth and investment?
3. How do you see competition in the market?
4. What challenges do you face while recruiting Omanis?

5. What best solution would you recommend to solve the main challenges faced by the entrepreneurs?
6. What should the new entrepreneur keep in mind before starting any business?

### **Sampling Design**

The total number of population is between 160,000 SMEs and 170,000 SMEs (Baloushi, 2017) but approximately 24,991 are only active. The population for our study was based on the total SMEs in Muscat city which were registered with the Public Authority for Small and Medium Enterprises, Oman. The population of our study was Muscat area that had approximately 1026 SME's. Out of total 1026 SME's operating in Muscat, our sample size was 147 SMEs. 160 questionnaires were distributed to these SMEs than we received responses from 147 respondents, which represent about 92% of the response rate which deemed to be impressive for this study.

### **Data Collection Method(s)**

Both secondary and primary data were used to collect the right, accurate and required information. These data were analysed statistically. Secondary data were obtained from the official statistical data published by the government sources, Newspapers and related magazine, the official site SMEs Sultanate of Oman. Primary data were obtained from the Questionnaires, Interview method and observation.

### **Analysis of Data: Tools & Techniques**

The data were analysed by using the procedures in the following points:  
Data screening and analyse based on statistical tools analysis, such as using graphs, charts and other tools and using SPSS for statistical analysis and reporting.

## **RESULTS AND DISCUSSIONS**

Most of the respondents were male 65.3%, and the female respondents were 34.7%. Majority of the respondents were in the third category between (30-34) years which represented 34.4% of the total respondents, and this percentage shows that youths are having a good job opportunity in this industry (SMEs). The lowest category is between (20-24) years old which represented only 2.7%. According to an article published by Shabiba Newspaper in the year 2017 thirty thousand were entrepreneurs in Oman and 30 % were free for their own establishment but had entrepreneurship card with them (Baloushi, 2017). Most of the respondents (32%) were in construction establishments as compared to others tourism establishments, transportation, service, food service which represented around 29.3% of the total respondents. The lowest percentage of SME's (9.5%) were involved in agriculture related business. Most of the respondents (68.7%) were involved in small establishments and the lowest number into micro enterprises (19%). Moreover, most of enterprises had total employees less than 10 employees and the majority of them was Omani, due to most of these firm controls and managed by the same owner. All this confirms that SMEs can be as a solution for solving unemployment problem in the country.

Survey found that majority of the respondents (39.5%) were involved in limited partnership followed general partnership (28.6%). The percentage of SME involved in sole



ownership was (25.9%). The lowest percentage of the respondents (2%) were involved in Shareholding company. Due to, the limited partnership and sole ownership are more suitable for a business as small and medium enterprises.

### STATISTICAL ANALYSIS

For reliability of closed ended questionnaire, Chronbah Alpha was conducted; its value was found to be 0.860. This indicated that the scale of questionnaire was reliable. ANOVA was conducted to analyse the differences between the SME's group and within the SME's group. Result showed that the highest value of Mean Square (4.032) was found between items of within the SME's followed by Mean square of 3.235 between the SME's. Total grand mean for all the items was found to be 2.9130 which can be described as high interval consistency. The significant level reported as  $p=0.000$  is less than 0.05. It was inferred based on the significance value that the linear relationship exists between the challenges faced by SME and solving unemployment problems. One sample T-Test was conducted to find whether SME's came from a population with a known mean. The result showed positive response.

#### T-Test

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error Mean</b>
How long your firm registered	147	2.3265	1.1175	0.09217
I would like to employ more hands in the future	147	2.7483	0.94248	0.07773
Omani workers requests more salary and incentives, which leads me to face financial problems	147	2.8776	0.96442	0.07954
I believe that small and medium enterprises can create jobs for Omani youths	147	2.8639	1.10812	0.0914
I face challenges in recruiting Omani workers	147	2.9184	1.17339	0.09678
Government rules and regulation is encouraging entrepreneurs to recruit national manpower	147	2.8503	1.0939	0.09022
I face high employee's turnover in my enterprises, due to Omani workers always looking for other firms which can pay more salary	147	3.0408	1.08462	0.08946
National manpower technical skills are one the most challenges facing SMEs in recruiting Omanis	147	3	1.17041	0.09653
I think Omani youth are not interested to work in SMEs at all, due to many reasons	147	2.8912	1.05421	0.08695
SMEs in Oman still doesn't have the suitable environment to attract Omanis youths to work in	147	2.9184	1.05018	0.08662
Labor regulation in Oman and tax regulation are problems facing Omani	147	2.9388	1.07413	0.08859

entrepreneurs				
Omanization system is suitable for SMEs and helping SMEs to success and grow	147	3.0068	1.10104	0.09081
financing	146	3.0479	1.14067	0.0944
Loan	147	2.9184	1.00349	0.08277
do you have any financing problems	147	3.0544	1.11517	0.09198
obstacles type	147	2.9048	1.1665	0.09621
do you consider any partner	147	2.9388	1.16586	0.09616
what are the financing problems	147	3.0748	1.18835	0.09801
would you consider having a partner that would provide for your support and help	147	3.1088	1.11729	0.09215
what are the nationality of your employees	147	2.8707	1.08079	0.08914

From the previous T-Test Table 3, it can be seen that all the variables have a significant difference between mean scores of all of them. The highest mean score for the variable (would you consider having a partner that would provide for your support and help) is=3.1088 and the lowest mean score is for (How long your firm registered) is=2.3265. In addition, the highest standard deviation is for the variable (what are the financing problems) is=1.18835 and the lowest standard deviation is for the variable (I would like to employ more hands in the future) is=0.94248

### Data Collected From the Open-Ended Questions

In addition to the multiple-choice questions there were open-ended questions in the questionnaire that were asked to the respondents. The answers of these questions gave much information which is as follows:

#### 1. What is the Various Challenges That You Are Facing in Your Business?

Majority of the respondents described the challenges as follows:-

##### 1.1 Financial challenges

Majority of the respondents mentioned that they are facing challenges in getting the suitable funds or the enough financial support which may help them to start and run their business. Some of them confirmed that there are some institutional supports for funding, but the rules and regulation to get those funds require much time and efforts. They claimed that governmental and private institution do not trust their business because they think that they are unable to pay back a loan at a due data, especially in the case of short-term debts due to a shortage of working capital of a business. Due to long-term debts to SME's these are quite risky for the financial institutions due to which they avoid giving loans to SME's in Oman.

Challenges of getting financial support from Banks:-

1. Limited branch network in some cities in the country.
2. Most of the SME activities are conducted in headquarter of the banks which are mostly located in Muscat. So, every one if he/she want to get it must travel to that bank situated in Muscat.
3. They are required to pay High rate of interest.

4. Lack of established and efficient information network for tracking defaulters.
5. Bank's inability or lack of capacity to appraise the creditworthiness of SMEs.

Our findings support the findings of Colombo and Piva, (2008); Tanha et al., (2011); Salamzadeh, (2015 a, b) and Salamzadeh et al., (2015) who state that any start-up would face financial issues and problems for several reasons and in different stages of entrepreneurship.

**Marketing challenges:** Moreover, the majority of the respondents confirmed that they may not have the required marketing skills to run their own business, especially for the micro and small enterprises. Marketing is very important for any business, to give the right and required knowledge for customers. Because if the entrepreneur doesn't have the marketing skills to promote his/her business, then they may face such challenges and may lead the business to close and many other problems. They explained that they don't have enough budgets for establishing marketing department or hire qualified person in this area. In addition, the respondents informed that they do not have enough skills for the Research and Development to identify new markets and new products just like the large companies but, it is only a single way to expand or grow a business. So, they have claimed that marketing management constraints are biggest challenge and issues for growth strategies of SMEs (Baloushi, 2017). In addition, most of the interviewees highlighted that they don't have the right place to show their products or service, they may face such problems related to expensive rent payment or may don't find cheap place for their products to be shown. They confirm that the most important of any business is choosing the right place to establish and show their products or service. Many of them are using social media which they seem is a very successful tool in the recent years to sale and promote their products and many of them are happy for participating in exhibitions which mostly conducted by the government.

**Administrative challenges:** Many SME owners expressed their dissatisfaction over the stringent Governmental rules and regulations and the time taken for Registration process. Some of the respondents expressed their concern over biasness in terms of subsidies, incentives provided to them and tax breaks as compared to larger establishments. They also expressed their concerns over the lack of administrative and managerial skills to handle the business. SME owners mentioned that they themselves handle all issues right from selecting the raw materials, understanding the raw material quality, purchasing of items, production and manufacturing, doing sales, conducting marketing activities, Human Resource related issues and all other issues related to business because of which they found it difficult to handle.

**Technological challenges:** Many SME owners believed that they lacked technical knowhow to tackle the business especially in the manufacturing sector. They expressed their concern over the lack of infrastructure development in terms of providing consultancies in technical area. Though they claimed that Government has opened new agencies like Public Authority for small and medium and enterprises development (RIYADA) but were not satisfied about their divergent technical knowhow.

## **2. How Do You See Oman Environment As Place For SMEs Growth and Investment?**

Most of the SME owners expressed that Oman has a good environment and opportunity for small and medium enterprises to establish business and growth as well. The government has given a good attention to facilitate and provide suitable environment for SMEs. Majority of the

interviewees were not happy about the rules and regulation which according to them must be required to establish small and medium enterprise. They highlighted that the registration process takes too much time and efforts, and required to get approve from many different ministries and authorities which may not be in one place. In addition, if anyone want to get financial support from the government institutions for establish his business, they may not get it any help if he/ she working in any place, he/ she required to be free for his business only and leave the work if want. But the question, what about if this entrepreneur lost and lead his business to close or if he/ she doesn't get the right share from the market as planned before, especially after the oil price increased. Many small and medium enterprises are facing such challenges. So, how a person cans get financial supports form the government repaid this fund if his business is closed or facing any problems out of his control, because he cannot work anywhere.

### **3. How do you see competition in the market?**

Almost all the respondents answered this question, saying that there is strong competition in the market and they are required to be smart and creative to face the challenge.

### **4. What challenges do you face while recruiting Omanis?**

Majority of the respondents answered that they faced challenges related mostly to the employee turnover, technical skills and hiring of local manpower because of their demand for higher salaries. Some specific questions were asked to them like whether they preferred to recruit locals or the expatriate, they responded that locals lacked technical knowhow and experience and also demanded higher salaries, whereas while recruiting expatriates, they faced problems from Ministry of Manpower related to Omanization. Omanization is the process of “*replacing expatriates with trained Omani personnel*” and has been in operation since 1988 (Omanuna, 1988).

### **5. On your recommendation, what is the best solution to solve the main challenges faced by the entrepreneurs?**

Majority of the respondents gave their suggestions and recommendations to resolve the main challenges which are as follows: the entrepreneur should have patience if he/she faces any challenges because he/she may not be successful at the start, so they need to try many times and must not give up. In addition, the entrepreneurs should have some marketing and managerial skills to control his/her business. They mentioned that Government need to provide more infrastructural support for the development of SME's especially in terms of training and development in their required and related areas. They also mentioned that terms and conditions for financing need to be more liberal. Development of SME owners administrative and managerial skills need to be developed by providing them education in this area.

### **6. What should the new entrepreneur keep in mind before starting any business?**

Majority of the respondents answered this question in three important points which are as follows:

1. An entrepreneur should have the required financial support before starting business

2. The idea of business should at least be new and has some things novice in it.
3. An entrepreneur should have the required skills to perform his business successfully and for this he/she may undertake some courses or training or even consult to the government body like Riyada, Intilaaqah, etc. before starting the venture.

## **DISCUSSIONS ON FINDINGS OF THE STUDY**

The major aim of this project was to highlight the main challenges being faced by small and medium enterprises, causes of their decline and the role of SMEs in solving unemployment problems in Oman. Most of the SMEs are face such challenges that is were discussed previously, such as Financial challenges, Marketing management challenges, Operation and technical skills, Lack of education and training, Governmental rules and regulations (registration process), Place to show their products or service (show-room). All these variables affected the progress of SME's and because of which they had to be dependent to each other. In order to understand the problems in greater depth, data were analysed by using qualitative and quantitative method. Questionnaire method was used to collect the quantitative data and interview was conducted with some small and medium enterprises owners and entrepreneurs to collect the qualitative data. All data were analysed using SPSS and presented with explanation and analysis.

From the qualitative data assessment method it was found that that many SME's were facing such problems after the world financial crises (oil price). The oil price affected many SMEs, due to decrease in prices of petrol and Diesel, especially in the construction companies where cars or trucks are used on daily business. In addition, some SMEs were depending to have some work contract with governmental sector or with large companies, and after the decrease in oil price there were limited projects in the country, which directly affected their business. From the collection and analysis of data, it was found that majority of SMEs faced challenges in recruiting the national manpower due to their demand for higher salary which they could not afford to pay due to limited income. In addition, some small jobs in SMEs required some technical skills which were not available with the local manpower, and most of the youths preferred governmental jobs or large companies. Survey found that most of them were not interested to work in SMEs therefore all the factors increased the turnover in small and medium enterprises. From the SME's owners point of view, it was found that though they were able to create jobs for those whose wanted to work in small and medium enterprises, but they were unable to recruit who had Bachelor or diploma degrees with them, as they required higher salaries which was unaffordable by them. The data collected was very useful as it helped to achieve the aim of the project. Much information were shared and analysed.

We are of the view that if the above challenges of small and medium entrepreneurs are addressed, declining of small and medium entrepreneurs may stop and there would be positive trend in their growth.

## **CONCLUSION**

SMEs are the best choice the country to have another source of income rather than depending on the oil industry. Moreover, these enterprises can create many jobs which help to solve the unemployment problems which Oman is facing at present. The role of small and medium enterprises is known worldwide. It has a huge contribution in the economy development and jobs creation. Oman government as well as private sectors are paying huge attention to help all kinds of enterprises to establish and grow. Many facilities have been provided and many

financing institutions are supporting entrepreneurs. So, there is no surprise that the political strategists have often thought that the SMEs can become the “seed” of economic revival (Savlovschi, 2011). Nevertheless, the Omani youths are still hesitant to enter into this field, due to many reasons. It seems this sector requires more and more significant reforms in order to grow and be attractive and be competitive and dynamic to achieve its goals and objective and add value to the country economy and social development.

This study highlighted the main challenges being faced by most of SME entrepreneurs in Oman. It highlighted most important constraints and difficulties that entrepreneurs faced during establishing their business. The main challenges as it discussed are financial supports, marketing difficulties, educational problems, and registration process and entrepreneurial knowledge. The study mostly highlighted these issues through primary data which was collected by distributing questionnaire and by direct interview with entrepreneurs.

The study also highlighted the challenges while recruiting national manpower, and how can the SMEs provide solution to unemployment problems in Oman. There are many challenges being faced by SMEs in recruiting Omani, due to the limited income of these companies. We are of the view that if these challenges are addressed there would be positive trend in SME's growth.

## **SUGGESTIONS & DIRECTION FOR FUTURE RESEARCH**

### **Suggestions**

In this section some suggestions are provided which were found during surveys of SME's. Some questions were asked to the interviewees and respondents to share their suggestions and solution which they may see it helpful to solve challenges faced by small and medium enterprises. Here are some of the suggestions and recommendations.

### **Suggestions for Entrepreneurs (SMEs Owner)**

The success of any business comes from the efficiency and competitiveness of the management, SMEs owner must have sufficient knowledge before starting their own business and should also have some knowledge about different factors affecting success their business directly or indirectly, for example, the nature of business he/she is going to invest in, the uniqueness and practicality of the idea, sufficient knowledge about the competitors, location of the business and basic knowledge and creativity the entrepreneur should have.

Marketing is one of the important factors that leads business to successful therefore it is of utmost importance for SMES's to have some knowledge about how to market the business, how to have some competitive advantages as compared to other competitors. Now a days, social media is very effective tool for marketing, it very good idea to use it by SMEs to promote their products and service. It is quite an inexpensive tool and easy to attract many customers.

Training provided to employees and giving some kind of incentives and benefits will reduce the employee turnover, which most of the small and medium enterprises face. From SME's owners point of view, though recruiting the local manpower is a challenge for them, but this problem may be solved by providing them training and development and good environment to work and grow.

There are many financial institutions that can support small and medium enterprises in Oman. What is required by the small and medium entrepreneurs that they should see their suitability in terms of interest rate and the repayment period along with considering other factors.

SME's should try have a track of their company and evaluate their business frequently.

Always look for the right place to establish your business, it is very important to be attractive and accessible to your customers, and if you rent show room try to get expensive one. In addition, use different tools of sales like, electronic or sales through internet, sales through social media.

Be patient, you may lose or you may not be successful from first time, but you have to try don't stop from one time.

Try to learn from other experience, have some advisory service, and share your experience as well.

Try to participate in any exhibition, seminars, workshops or any other training programme which related to the small and medium enterprises.

### **Suggestions for Government**

SMEs is an engine for the country economy and social development, and every government knows well that bringing economic diversification in a country is a key to economic and social success and growth. So, the government should give more attention to promote this sector and keep it much more attractive for citizen to invest and work in.

SMEs creating too many jobs for citizens if the government give more support and try to make the registration process easier and provide more facilities for entrepreneurs.

The small and medium exhibitions are very important for the entrepreneurs to show and promote their own products or services. The government should to conduct more exhibitions and located in most of the region not only in Muscat.

Providing training and education for SMEs owner before they start their business and as well after they start, and provide some kind of advisory service.

Must be some coordination between the government and the educational institution like, universities, colleges and private institutions, to provide some special programme in entrepreneurship to give the right knowledge for those who are interested in this industry.

The short-term loan is not attractive for the citizens to start their own business, so the government should give and provide long term loan with advisory service. It should be based on developing managerial skills and opportunities to expand and grow the business.

### **LIMITATIONS TO THE STUDY**

The findings and data are solely based on respondents' views, therefore biasness may not be ruled out. Secondly their state of mind to provide correct answers to the questions may also pose some error. Thirdly there were limited secondary data publications in case of small and medium entrepreneurs in Sultanate of Oman and since most of the participants could not speak English language which was the language of questionnaire, so we had to translate the questionnaire in Arabic and spend too much time explaining them and understanding their concerns and challenges. We had to record their views in Arabic and then got them translated in English. This was quite time consuming.

## DIRECTIONS FOR FUTURE RESEARCH

There is ample room for future research. Since total population of SME'S in Oman were 24,991 according to data published in Riyadh (2015), future research may involve more sample size from different SMEs location and comparison between these companies based on location and the type of business undertaken. It may help policy makers and SME owners to understand the real cause of decline of small and medium enterprises, their concerns and challenges and share the right knowledge of how small and medium enterprises are performing in different parts of Oman. Additionally, future research may collect information regarding the total number of Omani's who are associated with SMEs. It could provide right direction in designing and interpreting the strategies for recruitment of employees in small and medium enterprises.

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